Viability gap funding for Infrastructure

9.116 Infrastructure projects have long gestation periods and, in most cases, are not financially viable on their own. It may not be possible to fund the very large investment requirements of these projects fully from the budgetary resources of the Government of India alone. In order to remove this shortcoming and to bring in private sector resources and techno-managerial efficiencies, the Government is promoting Public Private Partnerships (PPP) in infrastructure development through a special facility envisaging support to PPP projects through 'viability gap funding'. Primarily, this facility is meant to reduce capital cost of the projects by credit enhancement, and to make them viable and attractive for private investments through supplementary grant funding. Provisions for this facility is made on an year to year basis.

Criteria

9.117 The criteria for eligibility for funding are:

(i) The project must be implemented, i.e. constructed, maintained and operated during the project term, by an entity with at least 40 per cent private equity.

(ii) The project must belong to one of the following sectors:

a. Roads, railways, seaports, airports;
b. Power;
c. Water supply, sewerage and solid waste disposal in urban areas and
d. International convention centers.

(iii) The projects should have been vetted/ endorsed by the concerned line ministries in the Government India.

(iv) All central projects should have received requisite Government approval at the appropriate level.

(v) The total Government support required by the project, including support from the Government of India under this facility, or any other sources of the Government of India and its agencies, must not exceed twenty per cent of the total project cost as estimated in the preliminary project appraisal, or the actual project cost, whichever is lower.

(vi) The implementing agency must be selected through a transparent and open competitive process. The main criterion for selection will be the extent of viability gap funding required by the private partner to successfully implement the project. The extent of viability gap funding shall be determined on the basis of the net present value of the actual viability gap funding required. For this purpose and for all calculations under these guidelines, the rate of discount shall be the rate of interest on 10-year gilts on the date of submission of the bid.

Funding

9.118 Viability gap funding can take various forms, including but not limited to capital grant, subordinated loans, O&M support grants or interest subsidy. A mix of capital and revenue support may also be considered.

— The funding is to be disbursed contingent on agreed milestones, preferably physical, and performance levels being achieved, as detailed in funding agreements.

— The funding is to be provided in installments, preferably in the form of annuities, and with at least 15 per cent of the funding to be disbursed only after the project is fully functional.

— In the first year of the facility, funding is to be allocated to projects on a first-come, first served basis subject to meeting the eligibility criteria.

Appraisal and approval procedures

9.119 An Empowered Committee has been set up in the Department of Economic Affairs under the Additional Secretary (EA) to consider and authorize sanction of funds up to Rs. 50 crore beyond which approval of the Finance Minster will be required. The projects may be posed by any (a) public agency at the center, state or urban local body which owns the underlying assets; (b)

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private agency, with sponsorship from the relevant central or state government agency. Project proposals must be accompanied by a preliminary project appraisal (covering (a) techno-economic viability of the project, (b) financial appraisal and project financing arrangements, and (c) extent and nature of viability gap funding proposed) and a commitment letter on behalf of the lending institutions. After approval of the project by the Committee within 30 days of submission, the project will be put to bid by the public agency concerned through transparent and open competitive bidding indicating the extent of viability gap funding that is actually required. The lead financial institution will present its detailed appraisal of the technical and economic viability of the project as proposed by the successful bidder, for the consideration of the Committee. The transfer of viability gap funds and the schedule of such transfers will be approved by the Committee. The lead financial institution will undertake regular monitoring and evaluation of project compliance with agreed milestones and performance levels.