

**Subject: Record Note of discussion of the meeting of the Empowered Institution held on 19.12.2005**

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The second meeting of the Empowered Institution (EI) was held on 19.12.2005 at 3.00 PM in Room No.131-A. The list of participants is annexed. Initiating the discussion, AS, DEA gave a brief outline of the scheme of Viability Gap Funding (VGF) as approved by the Cabinet Committee on Economic Affairs (CCEA). JS (FT) explained that the EI in its first meeting had approved an appraisal format for seeking proposals from the project authorities and so for 8 proposals in the prescribed format has been received. Elaborating on the proposed appraisal mechanism, he explained that the proposals will undergo a two-stage review where in the initial stage, it would be ascertained whether the project can be supported under the VGF scheme and an 'in-principle' approval given. Based on the same, the project authorities will come back with the detailed documentation, selection of the implementing authority etc. for the final approval, which will then be followed by actual disbursement.

2. AS (Expenditure) enquired the role of the various constituents of the EI besides the line Ministries i.e. DEA, Deptt. of Expenditure and Planning Commission. He stated that there was lack of clarity as to the division of the roles assigned to each of these constituents and in the circumstances, there could be substantial overlapping in the task undertaken by these organizations in the review of the proposals. The representative from Planning Commission stated that the parameters for the review of proposals would also need to be detailed, as no such guidelines are available at present.

3. Responding to the above, JS (FT) stated that the role of each organisation in the project appraisal is expected to evolve overtime and it may not be in the best interests to categorize and compartmentalize the role of individual organisation at this stage. In the process, if there is any overlapping, the same should not be a problem. It was further agreed that as regards the parameters for review, the guidelines applicable for the PIB projects would be broadly adopted in the case of PPP projects also. For these projects, a financial IR of 12% and discount rate of 12% would be adopted as a threshold to determine the viability of the proposed projects. The Planning Commission would undertake a detailed appraisal of the projects and prepare an appraisal note. The initial division of work within the Planning Commission for undertaking this appraisal would be finalized by the Planning Commission. However, a detailed appraisal as undertaken in the case of PIB/EFC projects is not required in this case since the VGF will be determined through a competitive bidding process and the exposure of GOI to these projects is limited only to the VGF.

4. The Planning Commission reiterated that since the competitive criteria play such a crucial role in the determination of VGF and the financial exposure of GOI, it may be necessary to define the parameters for competitive bidding. It was decided that the said parameters would be evolved by the EI and communicated to the project authorities. Further, in each project proposal, the approval could also be a subject to certain additional criteria that would need to be followed in seeking bids.

5. JS (Shipping) stated that to review those project proposals, which are not based on a Model Concession Agreement (MCA) or are not typical projects like the Ro Ro Ferry

received from GIDB, some basic guidelines need to be firmed up. Like the term of the Concession Agreement, return on equity and debt, the tariff to be charged etc. which are the important determinants for the resultant VGF. It was agreed that these issues will also be crystallized in due process.

6. JS (FT) stated that in future a preliminary appraisal will be done by DEA on receipt of a project proposal based on the conformity of the proposal with the provisions of the scheme and relevant documents forwarded to the line Ministries and other constituents of EI within 7 days and the proposal will be considered in a meeting of the EI 4 weeks hence.

7. AS (Expenditure) reiterated that receipt of comments from the line Ministries and other constituents of EI should not be made mandatory prior to the meeting of EI. It was agreed that while the comments could be forwarded and the same would be circulated by DEA to each constituent of EI, though respective organizations would be free to express their views in the meeting

8. It was also agreed that henceforth the project authorities may be requested to forward the draft Concession Agreement alongwith their project proposal which will facilitate the appraisal process.

9. For the proposed appraisal of project proposals, it was agreed that DEA and Planning Commission will retain consultants and the process for hiring of consultants will be finalized internally. JS (FT) indicated that grant from World Bank has already been sought for providing consultancy services in this regard.

10. AS, DEA concluded the decisions taken so far as follows:

- (i) The project authorities will be asked to submit the Concession Agreement along with their proposals ;
- (ii) Guidelines for appraisal will be finalised by Planning Commission. A Financial IRR of 12% and a discount rate of 12% will be adopted for such an appraisal.
- (iii) The parameters for competitive bidding process will be finalized and notified.
- (iv) Consultants will be engaged for undertaking the appraisal.

11. It was then decided to take up individual proposals. JS (FT) indicated that out of 7 projects to be considered by EI, one project proposal does not conform to the guidelines, but it is the only project which is in a position to disburse fund in the current financial year for which an amount of Rs. 50 crore has been retained in the Budget. JS (FT) proposed that it is for EI to consider this as a stand-alone case. JS (FT) stated that the decision to consider this for discretionary approval was taken since the project was received under the earlier scheme of VGF and based on an “in-principle” approval by GOI, the project authorities had gone ahead with their construction and to deny this assistance now is to penalise the project authorities which would be unreasonable. JS (Expenditure) indicated that as per his recollection, the project was not approved by the earlier Committee since it was felt that GOI should not provide equity support. He enquired whether the present proposal is also of equity shortfall. It was agreed that the necessary information relating to the earlier approval and present proposal will be communicated to him for records.

12. Shri Sameer Vyas was then requested to make a presentation on the project proposal. He indicated that there is an equity gap and till this is met, the lenders have refused to make

further disbursement. The project is at a very critical stage and if the said funds under the VGF are not approved the construction and completion of the project will get adversely impacted. JS (Expenditure) noted that the project had an IRR of 20% and thus may not qualify for VGF. Shri Sameer Vyas stated that IRR would result only if this initial hitch in fund availability is met and as of now, there is a Viability Gap issue constraining the project implementation.

13. It was agreed that the project proposal will be put up for the consideration of FM as a discretionary stand alone proposal.

14. It was noted that besides the VGF scheme, the other Central Ministries have schemes to fund infrastructure projects. It was agreed that the VGF will not be clubbed with other centrally sponsored schemes for available assistance and if a project is covered under the Centrally sponsored scheme, then it will be disqualified for consideration under the VGF.

15. The representative from Ministry of Road, Transport and Highways stated that the project proposal received from GIDB on the 2 highway projects did not confirm to central guidelines. It was agreed that the said sector projects are not bound by the central guidelines or need to follow the MCA of GOI. If they follow the MCA, the approval will be on a fast track basis. Thus the project proposals will not be disqualified in case they are not based on central guidelines.

16. Shri O.P. Agarwal, from MoUD stated that the bidding for the metro projects need to be technology neutral. In response, JS (FT) stated that having a Concession Agreement on these terms may be very difficult and such a requirement could make such project a non-starter.

17. Shri D.K. Mittal from ILFS was then requested to make the presentation on the 2 garbage disposal projects proposed by ILFS. JS (Expenditure) noted that in the case of Andhra projects that were similar to these proposals, soft loan was used for funding and the need for VGF in the present proposal need to be examined. It was reiterated that garbage problem was a major problem faced by Delhi Government which makes the present proposal very pertinent. JS (Expenditure) reiterated that given the benefit that the Govt. of Delhi gets from this project, there should be funding by Government of Delhi and reasons for VGF would need to be examined. Shri Mittal was requested to forward the Concession Agreement for these two projects.

18. The project authorities for Ro Ro Ferry project in the Gulf of Cambay were then invited for discussion. It was explained to them that a Concession Agreement would need to be forwarded before the project can be processed further. The project authorities were also requested to indicate the tariff fixation modalities in this regard.

19. It was agreed that GIDB would be requested to forward the draft concession agreement for the highway projects to enable further processing of the case.

20. The meeting ended with thanks to the Chair.