F. No. 3B/3/2014-PPP
Government of India
Ministry of Finance
Department of Economic Affairs
(PPP Cell)

New Delhi the, January 7, 2015

OFFICE MEMORANDUM

Subject: Record of Discussions of the 23rd Meeting of the Empowered Committee (EC) for the Scheme for Financial Support to PPPs in Infrastructure (Viability Gap Funding Scheme).

The Record of Discussions of the 23rd Meeting of the Empowered Committee (EC) for the Scheme for Financial Support to PPPs in Infrastructure (Viability Gap Funding Scheme), held on **December 26, 2014**, under the **Chairmanship of Finance Secretary**, is enclosed. Further, necessary action for compliance of the decision of EC may please be initiated by the project authority, where applicable, to enable obtaining the approval of the competent authority.

Encl: as stated

7/01/2015

(V. Srikanth)
Deputy Director (PPP)
Phone No. 2309 3404

1. Secretary, Department of Expenditure, North Block, New Delhi.
2. Secretary, NITI Aayog, Yojana Bhawan, New Delhi.
3. Secretary, Ministry of Shipping, Transport Bhavan, New Delhi.
4. Shri E.K. Bharat Bhushan, Chief Secretary, Government of Kerala, Thiruvananthapuram.

Copy also to:

1. PSO to Finance Secretary
2. Sr. PPS to AS (EA)
3. Sr. PS to JS (Infra.)
4. PS to Director (PPP).

F. No. 3(B)/3/2014-PPP
Government of India
Ministry of Finance
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Empowered Committee for the 'Scheme and Guidelines for Financial Support to Public Private Partnerships in Infrastructure'

23rd Meeting on December 26, 2014

Record Note of Discussions

The 23rd (twenty third) meeting of the Empowered Committee (EC), chaired by Finance Secretary & Secretary, Department of Economic Affairs (DEA) was held on December 26, 2014. The list of participants is attached at Annex-1.

The EC noted that the meeting was being held to re-consider the proposal of Government of Kerala (GoK) in the minor port sector for in-principle approval of the Viability Gap Funding (VGF) under the "Scheme and Guidelines for Financial Support to Public Private Partnerships in Infrastructure" (VGF Scheme). The EC took note of Chief Secretary , GoK's letter dated November 24, 2014, (Copy attached at Annex-2) to Finance Secretary **in which the GoK has requested to revise the earlier decision taken in the 21st meeting of the EC held on October 29, 2014 in the light of responses received from likely investors in the project in a pre-bid conference held by te GoK.** (Copy of RoD of 21st EC at Annex-3).

The EC noted that the 'VGF Scheme' prescribes that VGF up to Rs. 100 crore for each project may be sanctioned by the EI, proposals for VGF up to Rs. 200 crore may be sanctioned by the EC, and amounts exceeding Rs. 200 crore may be sanctioned by the EC, with the approval of the Finance Minister.

Agenda: Proposal from Government of Kerala (GoK) for grant of in-principle approval, with the Implementing Agency as Vizhinjam International Seaport Limited (VISL): Development of a minor sea Port at Vizhinjam on DBFOT basis to handle upto 18,000 TEU container ships and rated annual capacity of the Port shall be 10 lakh TEUs in the State of Kerala

Total berth length: 800m for two berths ; Total Project Cost: Rs. 3930 crore; Concession Period: 40 years and extendable by another 10 years including 4 years of construction period for Phase 1. (As approved by the EC at its 21st Meeting)

VGF sought: Maximum VGF as admissible under this scheme from Government of India and Government of Kerala as construction grant, as per the EI Memo sent by GoK.

Article 25 of the project's DCA: Article 25 of the project's DCA states that "Equity Support shall not exceed the sum specified in the Bid and as accepted by the Authority, but shall in no case be greater than 150% (one hundred and fifty per cent) of the Equity, and shall be further restricted to a sum not exceeding 30%.

Major development works/ structures: Proposed capacity is to handle upto 18,000 TEU container ships and rated annual capacity of the Port of 6 lakh at COD and 10 lakh TEUs on or at 10th year from COD, and development in two phases- 1; Construct total 800 m of berthing length; Wharf, 60 m wide, quay length of 800 m & 10 lakh TEU annual rated capacity; Dredging of the access channel (20.8 m of CD), navigational channel and at berths (18.4 m of CD); Reclamation of 53 Ha.; Buildings such administrative buildings, yard operations, port marine operations, crane maintenance and O&M, etc.; Utilities and services including power backup, port navigation aids, Sewage/effluent treatment plant, air conditioning etc.; Road (external roads providing connection to NH-47 bypass & internal roads); Project equipments such as RMGC, RMQC etc.

1. The Chief Secretary of GoK at the outset informed the Chair that the GoK held a pre-bid conference where the modifications approved by the earlier EC decision were discussed. He felt that the response to the calling for bids is likely to be poor, if the earlier decision was not revised. In particular, there were six issues that required reconsideration: These are: inclusion of Capital Dredging and Reclamation costs in the TPC, Concession Period (CP), Tariff, Port Estate Development, and Revenue share after 15 years and Trigger for Capacity Augmentation.

2. The main issues discussed were as follows:

2.1 Inclusion of Capital Dredging and Reclamation in the Total Project Cost (TPC): Chief Secretary, GoK requested the EC to reconsider and include the cost of Dredging and Reclamation in Total Project Cost (TPC) instead of breakwater construction costs since that would increase the financial burden and risk of the Concessionaire. The breakwater investment precedes other construction and the GoK is willing to bear the cost of construction of breakwater. The cost of dredging and reclamation is about Rs. 583 crores and the cost of breakwater construction is about Rs. 952 crores. Since capital dredging cost is lower than the breakwater component and since the breakwater has to be constructed before dredging, the EC agreed with the proposal of the GoK to include capital dredging cost in the TPC in place of breakwater, which would now be financed by the GoK as a funded work.

(Action: GoK/VISL)

2.2 Concession Period: Though at the 21st Meeting of EC, it was agreed to have a 40 years Concession Period extendable by 10 Years, the GoK has now requested that the original proposal be reconsidered i.e. a concession period of 40 Years extendable by 20 years on capacity augmentation. It was argued that Vizhinjam port is a Greenfield project that will handle transhipment operations that will grow over time, and a longer Concession Period is necessary to ensure the viability of the project. It was stated that the GoK has based the Concession Period on the Planning Commission's document on State Ports which GoK has adopted. The EC drew attention to the VGF Guidelines which require the state government to certify that the project term cannot be increased for reducing the VGF. On assurance by the GoK that there has been no artificial lengthening of the Concession period to reduce VGF requirement, the EC agreed with the GoK's proposal regarding the Concession Period for the project be 40 years extendable by 20 years on the Concessionaire's request.

2.3 Tariff: VGF guidelines require pre-determination of tariff and that the specified upfront reference tariff is the basis for financial calculations. Pre-determination of the tariff and the revenue streams of the concessionaire will also have a bearing on the Port Estate Development being proposed in the project. Cash flows, including estimated returns to the Concessionaire, which affect the length of concession period and the quantum of the VGF, need a reference rate and this cannot be left open ended, EC asked that GoK must fix a ceiling for tariff with annual escalation. This is necessary to ensure that the cash flows are correctly assessed by the bidder to seek the least VGF and prevent any possibility of windfall profits in the future on account of higher-than-accounted for tariff-fixation in any given year during the concession period. Chief Secretary, GoK, explained that it may be difficult to fix the tariff at this juncture, however if the requirement is for calculating the likely revenues, a reference tariff rate can be provided. The Chair stated that the tariff fixation should not be arbitrary and unrealistic because the projection of revenue streams would depend on this factor. It was agreed that GoK would fix the maximum tariff upfront by referencing any Indian Port or any Asian port. GoK would also give an undertaking that this rate cannot be increased to reduce the VGF, as per VGF Eligibility conditions (para 3.iii and iv of the VGF Guidelines).

(Action: GoK/VISL)

2.4 **Port Estate Development:** The EC at its 21st meeting had stated that the Port Estate Development activities should be restricted to only port related commercial activities and that the revenue streams are required to be determined upfront and capped so that any revenues accruing over and above the calculated Equity IRR based upon the base financial model would accrue to the Government. Restricting the port estate development only to commercial port related activities and capping the revenues is required to ensure that there are no windfall gains to the Concessionaire by exploiting the commercial port estate development activities. The GoK representative stated that both commercial and residential activities proposed under Port Estate Development were an integral part of the project requirements, and the extent of Port Estate Development had been capped to 30% of the port area of which not more than one-third can be used for residential purposes. The Chair stated that GoK may certify that all activities proposed in Port Estate Development are port related and subject to this, EC agreed to the request of GoK.

(Action: GoK/VISL)

2.5 **Bid Parameter and Revenue share in the event of grant:** The EC at its 21st Meeting held on 29.10.2014 had suggested a single Bid Parameter. The GoK representative stated that the Draft Concession Agreement (DCA) stipulates that a concessionaire who seeks VGF will pay premium equal to 1% of total realisable fee commencing on 15th anniversary of COD, and it will be increased by an additional 1% per annum in each year thereafter till it reaches 40 %. The EC, at its 21st Meeting, had disallowed increase and indicated flat rate of 1% on the rationale that adding of an element of revenue share to a project that seeks VGF grant would only increase the grant requirements instead of enhancing the commercial viability. Further, revenue share is not justified in a case where VGF is being sought, VGF would increase if revenue share is stipulated in early years of concession period. The GoK representative stated that lenders typically finance the debt component of infrastructure projects for tenure of about 15 years. Since the GoK is making huge investment of Rs. 2500 crore and is prepared to forgo any revenue share for the first 15 years, it expects some revenue inflows thereafter. The Chair stated that since 20% of the TPC is estimated to be provided as VGF by Government of India, the GoK would share 20% of the revenues that come to GoK after 15 years, until the entire GoI contribution of 'Grant' under VGF Scheme is repaid (NPV terms). An agreement to this effect needs to be signed.

(Action: GoK/VISL)

2.6 **Capacity Augmentation:** GoK has revised the trigger milestone to 75% capacity breach for 3 consecutive years with the Concessionaire required to undertake this capacity augmentation within 5 years after the year in which this trigger occurs. The EC had agreed to the provision made by GoK. The issue did not appear to be pending.

3. Since the estimated VGF amount is greater than Rs. 200 crore, the proposal requires sanction by the EC and approval of FM. GoK is required to submit the revised Total Project Cost (TPC) including the cost of dredging and excluding the cost of Breakwater.

4. **The EC reconsidered the proposal as requested by Chief Secretary, GoK in his letter dated November 24, 2014 as discussed above and recommended grant of in-principle approval of the VGF and to recommend the proposal to the Finance Minister. GoK is required to submit necessary documentation with respect to TPC (including the costs of dredging and excluding the costs of breakwater), Port Estate Development, Tariff, Arrangement for Revenue Share between GoI and GoK under Article 26 of DCA as discussed above.**

(Action: GoK/VISL)

Annex-1

F. No. 3(B)/3/2014-PPP
Government of India
Ministry of Finance
Department of Economic Affairs
PPP Cell

Empowered Committee for the 'Scheme and Guidelines for Financial Support to Public Private Partnerships in Infrastructure'

23rd Meeting on December 26, 2014

List of Participants

I. Department of Economic Affairs

1. Shri Rajiv Mehrishi, Finance Secretary **(In Chair)**
2. Shri Dinesh Sharma, Additional Secretary (EA)
3. Smt. Abhilasha Mahapatra, Director
4. Shri V. Srikanth, Deputy Director

II. Planning Commission

5. Shri Praveen Mahto, Advisor (Infra)
6. Kum. Gayatri Nair, Deputy Adviser (Infra)
7. Shri K. Reddy, Planning Commission
8. Shri C.P.S Reddy, Director, Planning Commission

III. Ministry of Shipping

9. Shri Muruganandam, Joint Secretary

IV. Government of Kerala

10. Shri E. K. Bharat Bhushan, Chief Secretary
11. Shri James Varghese, Principal Secretary, LSGD & Ports
12. Shri Suresh Babu A.S., Managing Director, VISL
13. Shri Sunil Kumar A, Project Manager, VISL
14. Shri Gajendra Haldea, Advisor to GoK

F.No.3D(2)/1/2014-PPP(Vol-III)
Government of India
Ministry of Finance
Department of Economic Affairs
PPP Cell
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North Block, New Delhi 110 001
Dated February 03, 2015

Shri James Varghese,
Principal Secretary (Ports),
Government of Kerala,
Government Secretariat,
Thiruvananthapuram 695 001.

Sub: Proposal for In-Principle Approval of VGF for Vizhinjam International Deepwater Multipurpose Seaport on DBFOT Basis.

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Sir,

Please refer to your letter No. VISL/VGF/2014/53 dated January 13, 2015 on the subject mentioned above, addressed to Secretary, Department of Economic Affairs and to the Record of Discussions of the 23rd meeting of the Empowered Committee held on December 26, 2014.

2. I am directed to convey that the 'In Principle' approval of the Finance Minister to the above mentioned project proposal with a revised Total Project Cost of Rs.4,089 crore and the applicable Viability Gap Fund (VGF) , as per the extant Government of India, Department of Economic Affairs 's Scheme and Guidelines for Financial Support to Public Private Partnership in Infrastructure.

3. The Agreement on Revenue Share with Department of Economic Affairs, Government of India (GoI) , should explicitly contain the provision that the revenue will be shared until the entire GoI contribution of "Grant" under the Government of India, Department of Economic Affairs' Scheme and Guidelines for Financial Support to Public Private Partnership in Infrastructure (DEA's VGF Scheme) is repaid in Net Present Value (NPV) terms. The Draft Agreement may please be furnished to DEA before submitting application for Final Approval.

(Abhilasha Mahapatra)
Director (PPP)
3/2/2015

Copy to :
1. Secretary, Department of Expenditure, North Block, New Delhi.
2. Secretary, NITI Aayog, Yojana Bhawan, New Delhi.
3. Secretary, Ministry of Shipping, Transport Bhavan, New Delhi.