


# VGF Guidelines

**Government of the Punjab, 2019**

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## **VIABILITY GAP FUND GUIDELINES**

### **1. INTRODUCTION**

- 1.1. The Government of the Punjab (the “Government”) is committed to inclusive social development and sustainable economic growth in the province. The Government aims to use public private partnerships (“PPPs”) as a means of delivering physical and social infrastructure to the Province of Punjab and to improve efficiency.
- 1.2. Some projects which are suitable for implementation under PPP mode having strong economic and social justification may not be financially viable. The government has established a Viability Gap Fund (VGF) to bridge the financial viability gap in such projects.
- 1.3. The VGF is established pursuant to the Punjab Public Private Partnership Act, 2014 (the “PPP Act”).
- 1.4. These Guidelines outline the eligibility criteria for VGF support, the processes of VGF request, approval and disbursement, along with VGF monitoring, reporting and auditing requirements.

### **2. RATIONALE**

- 2.1. In line with the spirit and requirements of PPP Act, 2014, VGF has been established for the purpose of providing financial assistance to the private parties in PPP projects for bridging the viability gap as per the terms of the respective concession agreements.
- 2.2. VGF may take any form of support as approved by the PPP Steering Committee, in accordance with the law / PPP Act 2014, subject to prior approval of the Government where necessary as per Para 6.2 of these guidelines.

### **3. SOURCES OF VGF FUNDING**

- 3.1 The VGF may be funded, with prior approval of the Government, through the following:
  - a) Government budgetary allocation
  - b) Loans, grants from Development Partners
  - c) Profit share received from PPP projects
  - d) VGF loan repayments; and
  - e) Any other means deemed appropriate by the PPP Steering Committee



All the money(s) meant for VGF fund shall be received / allocated in the following manner:

**3.2 MONEY(S) PROVIDED BY FOREIGN DONORS/LENDERS:**

- i. The money(s) (grant / loan) from foreign donors for the purpose of VGF, will be received by the Punjab Government in Assignment Account sanctioned for the purpose in accordance with the Punjab Financial Rules.
- ii. The Administrative Department will ensure budgetary cover against such funds received from foreign donors. However, if the money(s) is received during the currency of the financial year, budgetary cover will be provided through technical supplementary grant, the request for which shall be initiated by Administrative Department in consultation with P&D Board.
- iii. P&D Board and Finance Department will ensure availability of the unutilized part of these funds during the next financial year in the following manner:
  - a) By 30<sup>th</sup> April each Financial Year, PPP Cell will communicate an estimate of unutilized funds by the end of the financial year to the P&D Board and Finance Department for providing budgetary cover to such funds during the next financial year.
  - b) The allocation mentioned above will form part of the ADP proposals for the upcoming fiscal year.
  - c) P&D Board and Finance Department shall provide budgetary cover to the funds in the budget estimates of ADP during next financial year and release the funds accordingly, thereby ensuring their availability from the first day of the new fiscal year. These funds, however, will be released only to the extent of actual amount lapsed at the end of the previous fiscal year.

**3.3 ALLOCATIONS FOR THE PURPOSE OF VGF FUND BY GOVERNMENT OF PUNJAB:**

The request for allocations by GoPb for the purpose of VGF fund shall be initiated by the concerned Administrative Department/Government Agency, and submitted to PPP Cell, which shall review the same and obtain RMU's input on the matter before forwarding the final requirement to P&D Department for budgetary allocation. The budgetary allocations shall be made through the Annual Development Program in accordance with the applicable laws, rules and procedures.

**3.4 PROFIT SHARE RECEIVED FROM PPP PROJECTS:**

The amount of profit/Govt. share received from a PPP project shall be deposited in Provincial Consolidated Fund of the Government. Funds equivalent to the amount of profit, deposited in the Consolidated Fund in a year, would be released to the VGF account from the budgetary allocation made in the ADP for the said purpose. The said funds would be provided through a supplementary grant if the budgetary allocation has already been utilized during the year. While making the budgetary allocation for the financial year the estimated amount of profit share from PPP projects estimated to be accrued shall also be taken into account.

#### **4. ELIGIBILITY**

- 4.1 In line with the PPP Act, 2014 the Steering Committee may consider a project for financial assistance from the viability gap fund, for projects which are economically and socially viable, but may not be financially attractive enough for investment.

#### **5. REQUIRED SUPPORTING ANALYSES**

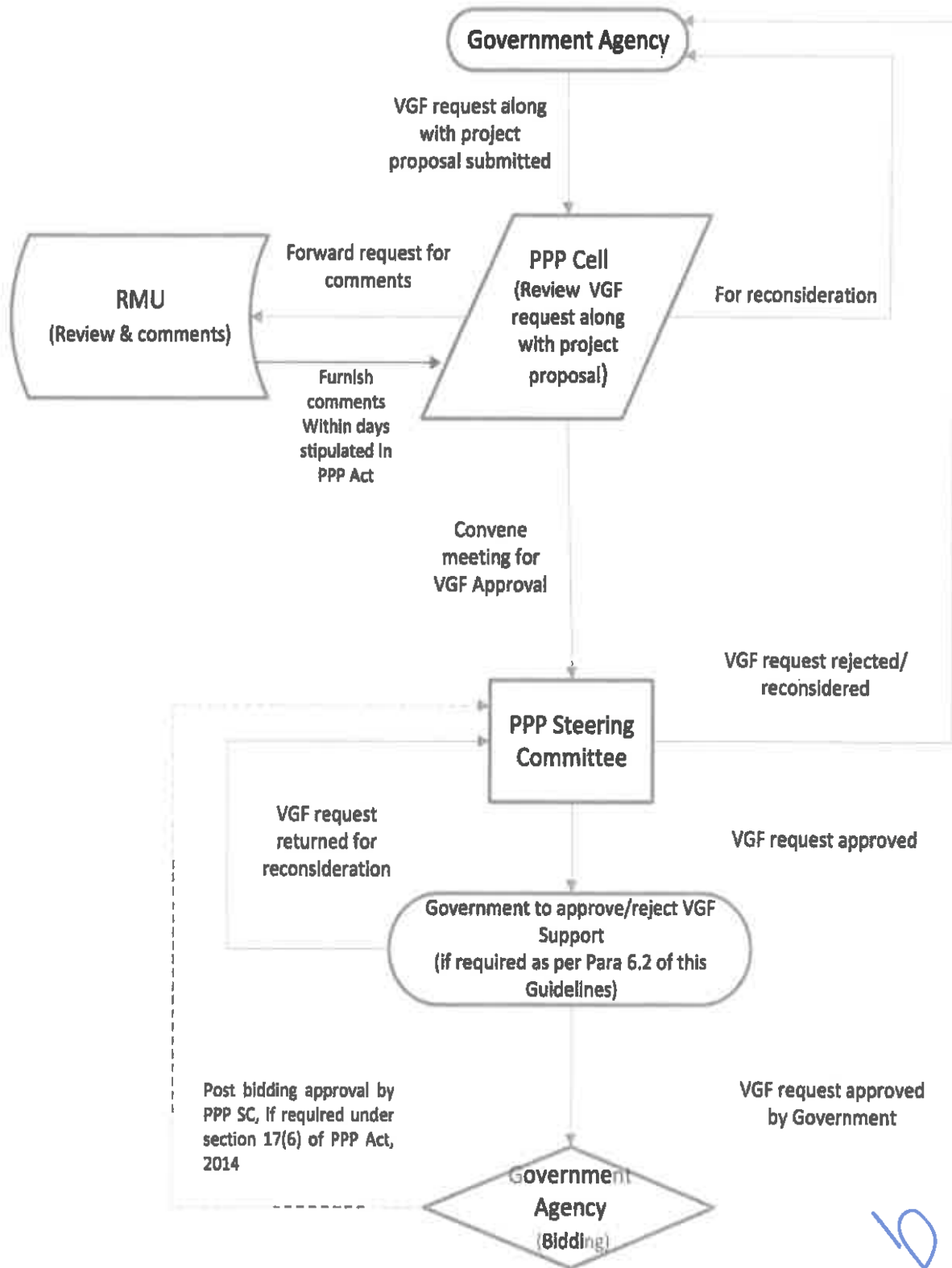
- 5.1 Request for VGF support shall include the following:
- a) project viability analysis backed by Demand and Sector Analyses;
  - b) an assessment of tariff/user charge affordability;
  - c) recommendations for the optimal concession period given the viability gap assessment;
  - d) financial model providing NPV, IRR (project and equity), and Economic IRR with detailed assumptions and sensitivity analysis;
  - e) Benefit Cost Ratio (BCR) and Value for Money Analysis (VfM);
  - f) financial viability gap and the amount required from VGF;
  - g) nature and form of VGF support for example upfront subsidy or annual revenue support or any other mechanism of addressing the financial viability gap.
  - h) environment and social safeguards analysis, as required.
  - i) an assessment of opportunity cost of capital and required return on investment inter alia based on other projects with similar structures, risk profile, and industry.
- 5.2 Pursuant to the PPP Act, the PPP Steering Committee may, with the approval of the Provincial Cabinet, identify critical sectors where there appears to be a supply side constraint, leading to no competition or little room for competition. These sectors will be given priority by the PPP Steering Committee when determining projects' eligibility for VGF support. If there are projects under consideration relating to critical sectors then PPP Steering Committee shall, before deciding on the approval of VGF projects pertaining to non-critical sectors, take the decision on the approval of VGF projects pertaining to critical sectors.
- 5.3 No project shall receive upfront VGF support amounting to more than 40% of the capital expenditure during construction phase of the project, unless the PPP Steering Committee is satisfied with the justification to go beyond the aforementioned percentage and records its reasons in writing.



**6. PROJECT APPROVAL PROCESS**

- 6.1 The process for identifying, requesting and approving VGF support shall be as follows:
- (a) The Government Agency shall submit the Project Proposal along with VGF Request to PPP Cell. The PPP Cell shall review the Project Proposal (along with the VGF request) and also forward the same to RMU for comments.
  - (b) The relevant Government agency shall provide its estimates of the maximum as well as the expected VGF support that the project may require over its life.
  - (c) The RMU shall forward its comments / recommendations to PPP Cell within the time limit stipulated by the PPP Act 2014.
  - (d) PPP Cell shall convene a Steering Committee meeting and present the project proposal along with PPP Cell and RMU recommendations. The PPP Steering Committee may approve (with or without modifications), reject, or send back the project proposal and/or the VGF request for reconsideration.





- 6.2 The PPP Steering Committee shall determine the structure of VGF financing for the PPP project, as well as the maximum VGF support that the project may receive over its life. If the PPP Steering Committee is satisfied with the Project Proposal, including the mode and quantum of VGF support, such that the VGF support is only upfront and has no liabilities, contingent or otherwise, going beyond the ongoing fiscal year, it shall approve the VGF support remaining within the budgetary allocation for the said fiscal year.

Provided that where the VGF support includes payments other than upfront payments, or has liabilities, contingent or otherwise, going beyond the ongoing fiscal year, the Sponsoring Agency shall obtain the approval of the Government for the VGF support before approval of the project by the Steering Committee.

- 6.3 Where VGF support is approved for a project, it shall be reflected in the bidding documents with or without disclosing the extent of financing available (as appropriate on case to case basis) and may form part of bidding criteria.
- 6.4 Pursuant to Section 17(6) of the PPP Act, 2014, if required, the PPP project shall again be submitted to the Committee for approval after the bidding process.
- 6.5 Once the project is approved, along with VGF amount, by the PPP Steering Committee, the Government shall make necessary arrangements for the availability of VGF funds during the project life cycle as per these Guidelines.
- 6.6 Where the Government has paid any amount on account of direct financial assistance / VGF support for a PPP project out of its own sources, it may recover/recoup that amount through Retroactive Financing, if so provided under the agreements signed with the development partners/lenders.
- 6.7 The term "Retroactive Financing" refers to reimbursement of project expenditures incurred and paid by the Government's own sources.

## **7. DISBURSEMENT FROM VIABILITY GAP FUND**

- 7.1 VGF request shall be initiated by the concessionaire, duly endorsed by the Independent Auditor and/or independent engineer and the Administrative Department / Government Agency, relating to the PPP project. The VGF Disbursement Request (VDR), shall be submitted by the Administrative Department / Government Agency to PPP Cell.
- 7.2 Upon receipt of VDR, the PPP Cell will review/evaluate the request in terms of its completeness. In case PPP Cell is of the opinion that further documents or explanations

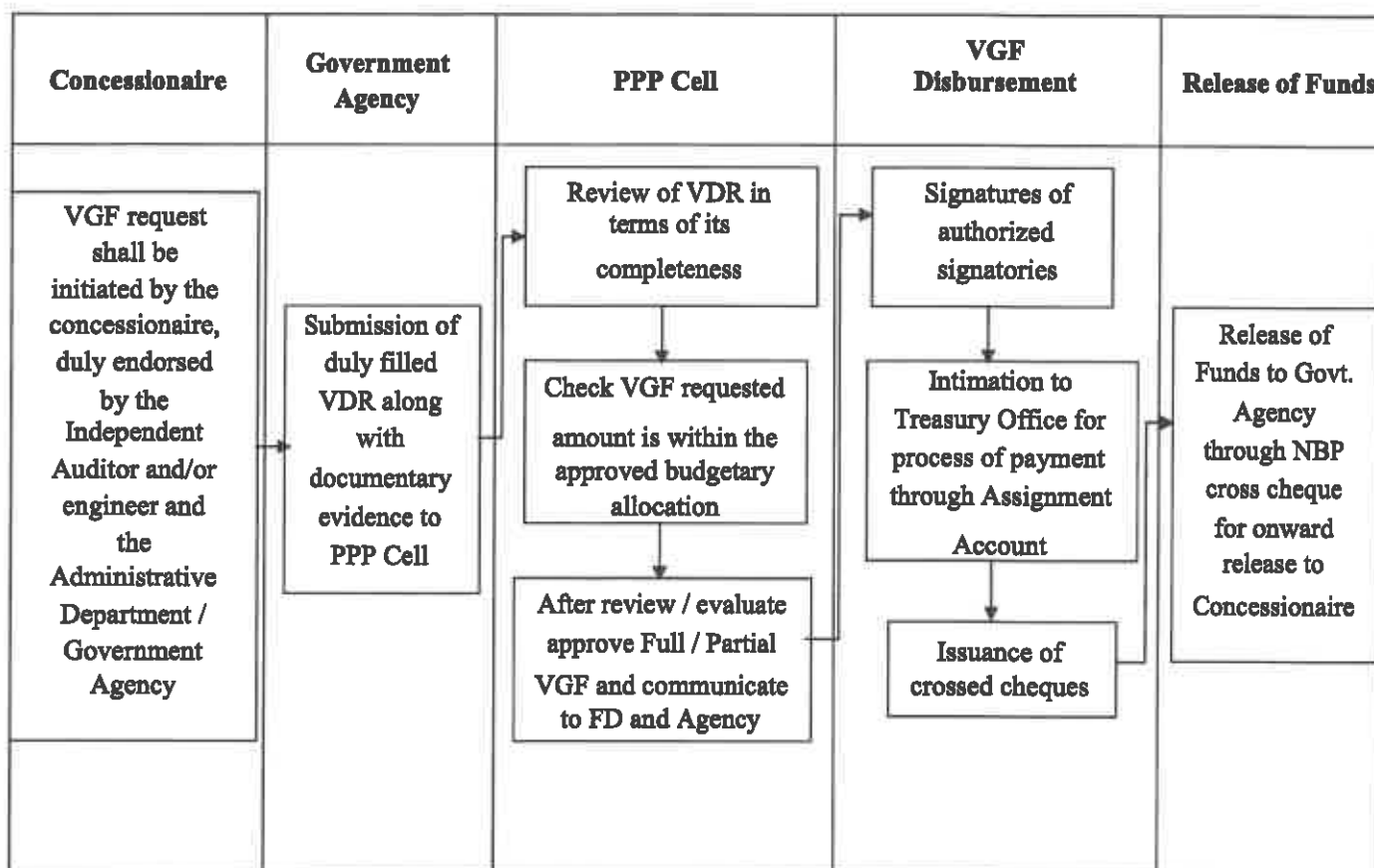


are needed to evaluate the VDR, it shall require the Administrative Department / Government Agency to provide/arrange those documents and explanations. The Administrative Department / Government Agency shall provide/arrange the documents or explanation, as the case may be, within a reasonable time.

- 7.3 PPP Cell will also verify that the amount requested on account of VGF against a specific project is within the VGF support approved by the PPP Steering Committee and the budgetary allocations approved by the Government for this purpose.
- 7.4 After reviewing/evaluating the VDR, the PPP Cell shall decide whether to approve (fully or partially) or reject the VDR. PPP Cell shall not decide to partially approve or reject the VDR without giving the Government Agency and the relevant Project Company an opportunity of being heard.
- 7.5 The decision of PPP Cell shall be communicated to, Finance Department and relevant Government Agency.
- 7.6 In cases where VGF payments are sanctioned by PPP Cell, P&D Department shall follow the process for release of such payments, through Assignment Account, in accordance with the stipulated financial procedures of the Government.
- 7.7 VGF Payment(s) from said Assignment Account will be made through crossed cheque(s) signed by the authorized signatories, to the Administrative Department under intimation to the Treasury Officer, Lahore.
- 7.8 Notwithstanding anything contained in the provisions above, the VGF shall be disbursed:
  - a) in accordance with the terms and conditions set out in the Concession Agreement, which may link disbursement to the achievement of KPIs by the private party and duly verified by independent auditor and/or independent engineer;
  - b) in case of upfront VGF support, not before the private party has invested their equity as per the terms of Concession Agreement and achieved financial close; and
  - c) after following due process laid in these guidelines, once the Government agency submits a duly signed VGF Disbursement Request (VDR), along with supporting documentary evidence (**Annexure-A**) to the PPP Cell.



7.9 Disbursement flow diagram is given below:



## 8. MONITORING AND REPORTING OF THE VIABILITY GAP FUND

- 8.1. In line with the provision 3.3 of these Guidelines, the RMU shall assist the P&D Board and Finance Department in preparing the budgetary estimates of VGF related allocations in the Annual Development Program, including those for contingent liabilities.
- 8.2. Within three months of the beginning of each Financial Year, RMU shall prepare an *Annual VGF Monitoring and Review Report* containing and analyzing the trends in contingent Government support, estimated vs. actually paid on account of PPP projects in previous years, with a particular focus on the most recent financial year.
- 8.3. PPP Cell shall prepare report detailing VGF payments made to various projects, balance amounts available against each project and cushion available for new projects requiring VGF support. The allocation required for future years shall be identified separately.

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- 8.4. PPP Cell will maintain quarterly, semi-annual and annual accounts of the VGF.
- 8.5. In addition to Statutory Audit of VGF accounts, independent annual audit shall also be conducted through a Chartered Accountant firm (preferably Category A, as classified by the State Bank of Pakistan).
- 8.6. Quarterly accounts of Viability Gap Fund will be presented to the PPP Steering Committee by the PPP Cell. In addition, the Audited annual accounts of the Viability Gap Fund will also be presented to the PPP Steering Committee.
- 8.7. The PPP Cell and Administrative Department / Government Agency shall respectively maintain all accounts, records, data and documents of the VGF, separately for each project, in hard copies, in accordance with the relevant Government rules. The data shall also be maintained in soft form on permanent basis.



## GLOSSARY

**“Government”** refers to the Government of Punjab;

**“Government Agency”** means a department, attached department of the Government, a local government, or a body corporate owned or controlled by the Government or a local government;

**“KPI”** means key performance indicator;

**“PPP Act”** refers to the Punjab Public Private Partnership Act 2014, as amended from time to time;

**“Private party”** refers to a person who enters into a PPP agreement with a Government Agency pursuant to the PPP Act;

**“Public Private Partnership” or “PPP”** means a commercial agreement between a Government Agency and a private party pursuant to which the private party:

- (i) undertakes to perform a public function, provides a public service or develops use of a public property on behalf of a Government Agency by, amongst other things, designing, constructing, financing, operating, marketing or maintaining such public property; and
- (ii) assumes substantial financial, technical, operational or environmental risks in connection with the performance of such a public function or provision of such public services or use of such a public property;

**“PPP agreement”** means a contract between the public sector represented by a Government Agency and a private party for the provision of an infrastructure facility or service through a project and includes a contract described in Second Schedule of the PPP Act;

**“PPP Cell”** means the cell established under the PPP Act;

**“Project”** means a public project implemented on PPP basis;

**“Risk Management Unit” or “RMU”** means the Risk Management Unit established under the PPP Act;

**“Steering Committee”** means the PPP Steering Committee established under the PPP Act;

**“Viability Gap Fund” or “VGF”** refers to the fund established by the Government for the purpose of compensating, with the approval of the PPP Steering Committee, the private party in PPP projects which meet certain criteria for any revenue shortfalls, through loans, grants, equity, subsidies, guarantees or any other mode decided by PPP Steering Committee; and

**“Retroactive Financing”** means as defined at 6.7



**VGF Disbursement Request (VDR) Form**  
PPP Cell, P&D Department, Government of the Punjab, Lahore

<b>Application No.:</b>		<b>Date:</b>	
(To be filled by PPP Cell)			
<b>1. Type of VGF:</b>			
<input type="checkbox"/> Loan	<input type="checkbox"/> Equity	<input type="checkbox"/> Guarantee	<input type="checkbox"/> Other, Please specify
<b>2. Amount of VGF Requested</b> <span style="float: right;">(Rs. In Million)</span>			
Amount (In digits)		Amount (In words)	
<b>3. Title of Account:</b>			
<b>4. Project Details:</b>			
(I) Name of Project			
(II) Government Agency			
(III) Sponsoring Agency			
(IV) Project Cost (Rs. Million)			
(V) Approved VGF (Rs. Million)			
<b>5. Payment Mode:</b>			
<input type="checkbox"/> Full Payment	<input type="checkbox"/> Partial Payment		
<b>6. Nature of VGF Support (e.g. upfront, annual revenue shortfall etc):</b>			
<b>7. This Application is Supported by:</b>			
<input type="checkbox"/>	Copies of signed Concession Agreement, minutes of PPP SC, bidding documents, etc.		
<input type="checkbox"/>	Proof of Financial Close, if debt is to be raised		
<input type="checkbox"/>	Any other document (Please specify)		
<b>8. The VDR Application ensures:</b>			
(i) Bidding process followed as per PPP Act, 2014.	<input type="checkbox"/>	<input type="checkbox"/>	<b>YES NO</b>
(ii) KPIs achieved as per Concession Agreement.	<input type="checkbox"/>	<input type="checkbox"/>	
(iii) Private party has invested their equity as per Concession Agreement.	<input type="checkbox"/>	<input type="checkbox"/>	
<b>9. The Undersigned Certify (ies) and Agree (s) as follows:</b>			
This VDR application is submitted in accordance with signed Concession Agreement, and all documents related to the expenditures covered by this application are available for examination by Auditors upon request.			
Name of Independent Auditor: _____			
Date & Signature of Independent Auditor: _____			
Name of Independent Engineer: _____			
Date & Signature of Independent Engineer: _____			
Name of Government Agency as per Concession Agreement			
Name & Signature of Authorized Person(s) as per Concession Agreement			
Date			