Chapter 6

Policy Initiatives in NHDP

6.1 National Highways Policy Initiatives

The government has adopted a road development policy setting out the guidelines for investment in highways. In order to meet the huge investment requirements in the sector, the government has taken a number of measures to attract private sector participation.[102]

- The government has permitted 100 per cent foreign equity in construction and maintenance of roads, highways, tunnels etc.
- Grant upto 40% of project cost to make project viable.
- 100% tax exemption in any 10 consecutive years within a period of 20 years after completion of construction provided the project involves addition of new lanes.
- Agreements to avoid double taxation with a large number of countries
- Concession period upto 30 years
- Right to charge tolls on certain (toll) projects.
- These tolls are indexed to a formula linked with the wholesale price index.
- The government permits duty free import of high capacity equipment required for highway construction.
- Government support for land acquisition, resettlement and rehabilitation.
- Simplified procedure for Land Acquisition
- MCA for BOT (Annuity)
- New rules for collection of fee for use of sections of national highway, permanent bridges, bypasses and tunnels have been put into place.

[102] Government of India, MoRTH (2012), *Guidelines for Investment in Road Sector*, New Delhi: MoRTH

- Declaration of the road sector as an industry;
- Easier external commercial borrowing norms;

The Government will carry out all preparatory works for the projects identified for private investment and meet the cost of following items:

- Detailed Feasibility Study
- Land for right-of-way and enroute facilities
- Clearance of the right-of-way land: Relocation of utility services, cutting of trees, resettlement and rehabilitation of the affected establishments
- Environment Clearances
- Clearance from Indian Railways to allow construction of Rail-Over-Bridges under their supervision
- Where design is left to the enterprise, giving details of standards and bore holes logs at bridge sites etc.

6.2 Policy initiatives to promote private participation

The Government has taken a number of initiatives to promote the development of infrastructure in general and private participation in particular. Some of these initiatives are outlined below.[103]

6.2.1 The Committee on Infrastructure (CoI)

The Committee on Infrastructure (CoI) was constituted on August 31, 2004 under the chairmanship of the Prime Minister. Its members include the Finance Minister, the Deputy Chairman, Planning Commission and the Ministers in-charge of infrastructure ministries. The objective of CoI is to initiate

[103] Government of India, Planning Commission (January, 2010), *Private Participation in Infrastructure*, New Delhi: The Secretariat for the Committee on Infrastructure

policies that would ensure time-bound creation of world class infrastructure, develop structures that maximise the role of PPPs, and monitor the progress of key infrastructure projects to ensure that established targets are realised. The CoI has held several meetings and given direction to the entire policy framework for accelerating the growth in infrastructure sectors. It has also initiated institutional, regulatory and procedural reforms. The CoI is serviced by the Planning Commission through the Secretariat for CoI.

6.2.2 Cabinet Committee on Infrastructure (CCI)

The Cabinet Committee on Infrastructure (CCI) was constituted under the chairmanship of the Prime Minister on July 6, 2009. CCI approves and reviews policies and projects across infrastructure sectors. It considers and decides financial, institutional and legal measures required to enhance investment in the infrastructure sectors. It lays down annual parameters and targets for performance of all infrastructure sectors and reviews their progress.

6.2.3 Public Private Partnership Appraisal Committee (PPPAC)

With a view to streamlining and simplifying the appraisal and approval process for PPP projects, a Public Private Partnership Appraisal Committee (PPPAC) has been constituted consisting of Secretary, Department of Economic Affairs as its chairman and Secretaries of Planning Commission, Department of Expenditure, Department of Legal Affairs and the concerned Administrative Department as its members. The project proposals are appraised by the Planning Commission and approved by the PPPAC.

6.2.4 Empowered Committee/Institution (EC/EI)

An institutional framework comprising an inter-ministerial Empowered Committee has been established for the purpose of appraising and approving projects for availing the VGF grant of upto 20 per cent of the cost of infrastructure projects undertaken through PPP.

The Empowered Institution sanctions projects for VGF upto INR100 crore (USD 20 million) for each eligible project subject to the budgetary ceiling indicated by the Finance Ministry. The Empowered Institution also considers other proposals and places them before the Empowered Committee. Funding upto 20% of the project cost is provided. If required, an additional 20% can be made available by the sponsoring Ministry/agency.

Proposals up to INR 200 Crore (USD 40 million) will be sanctioned by the Empowered Committee and amounts exceeding INR 200 Crore will be sanctioned by the Empowered Committee with the approval of Finance Minister.

Capital grant for all infrastructure projects under the VGF scheme is restricted to a maximum of 40% of the project cost (for projects upwards of INR 200 Crore).

6.2.5 Viability Gap Funding (VGF)

Recognising that the extenalities engendered by infrastructure projects cannot always be captured by project sponsors, a Viability Gap Funding (VGF) Scheme was notified in 2006 to enhance the financial viability of competitively bid infrastructure projects which are justified by economic returns, but do not pass the standard thresholds of financial returns. Under the scheme, grant assistance of upto 20 per cent of capital costs is provided by the Central Government to PPP projects undertaken any Central Ministry, State Govenment, statutory entity or local body, thus leveraging budgetary resources to access a larger pool of private capital. An additional grant of up to 20 per cent of project costs can be provided by the sponsoring Ministry, State Government or project authority. In the case of national highway projects, the entire VFG is provided by NHAI from the cess revenues transferred to it by the Govenment. The aforesaid VGF support for each project is determined through competitive bidding.

6.2.6 India Infrastructure Finance Company Limited (IIFCL)

India Infrastructure Finance Company Limited (IIFCL) was set up as a non-banking company for providing long-term loans for financing infrastructure projects that typically involve long gestation periods. IIFCL provides financial assistance of up to 20 per cent of the project costs, both through direct lending to project companies and by refinancing banks and financial institutions. Upto one-half of the lending by IIFCL can also be in the form of subordinated debt, which often serves as quasi-equity. IIFCL raises funds from domestic and overseas markets on the strength of Government guarantees.

Recognising that some infrastructure projects undertaken through the PPP mode may be experiencing difficulty in reaching financial closure, the Government authorised IIFCL to raise Rs. 10,000 crore through tax-free bonds to help reliance bank lending of longer maturity to eligible infrastructure projects, particularly in highways and ports sectors. Depending upon the need, IIFCL would be permitted to raise further resources for supporting a PPP programme of Rs. 1,00,000 crore in the highways and port sectors.

6.2.7 Advisory Services

Implementation of PPP projects requires appropriate advisory services in terms of preparation of project agreements, structuring of projects, etc. Planning Commission has operationalised a scheme for technical assistance to project authorities by providing consultants for projects. Ministry of Finance has also created an India Infrastructure Project Development Fund (IIPDF) to provide loans for meeting the development expenses, including the cost of engaging consultants for PPP projects.

6.2.8 Tax Exemption

The Government has provided several incentives such as tax exemption and duty free imports of road building equipment and machinery to encourage private sector participation. Also, 100 per cent exemption on income tax is available to eligible infrastructure projects for a period of 10 years.

6.2.9 Model Documents

PPP projects typically involve transfer or lease of public assets, delegation of governmental authority for recovery of user charges, operation and/or control of public utilities/services in a monopolistic environment and sharing of risk and contingent liabilities by the Government. The terms of the project agreements as well as the bidding process for award of concessions are usually complex because of the nature of risks and involvement of many stakeholders such as project sponsors, lenders, government agencies, users and regulatory authorities.[104]

The use of standard documents streamlines and expedites decision-making by the authorities in a manner that is fair, transparent and competitive. The adoption of model documents such as concession agreements and other bid documents for award of PPP projects has, therefore, been mandated as the preferred approach. All projects that are based on model documents benefit from fast-track appraisal and approval.

[104] Government of India, Planning Commission (January, 2010), *Private Participation in Infrastructure,* New Delhi: The Secretariat for the Committee on Infrastructure

Standardised guidelines and model documents that incorporate key principles and best practices relating to the bid process for PPP projects have also been developed. Guidelines for the pre-qualification of bidders along with a Model Request for Qualification (RFQ) document have been approved by the Committee on Infrastructure and issued by the Ministry of Finance for application to all PPP projects. Guidelines for inviting financial bids on the basis of a Model Request for Proposal (RFP) document have also been published. Similar model documents for procuring the services of consultants and advisers have also been published.

The MCAs specify the Standards and Specifications to which the projects should be constructed and maintained. These are contained in Manuals for Standards and Speciications. Planning Commission has published Manuals of Specifications and Standards for Two-Laning of Highways and for Four-Laning of Highways through PPPs.

The entire effort has been towards creation of an enabling framework within which PPP projects can be awarded and implemented smoothly without compromising on government and user interests.

6.3 Major Initiatives Taken:

The major initiatives taken by Ministry of Road Transport and Highways are:[105]

1) In order to improve transparency and accountability, Ministry has switched over to e-procurement and e-tendering for all types of projects including BOT since July, 2011.

105 Government of India, MoRTH (2012), *Annual Report (2011-12)*, New Delhi: MoRTH

2) Public grievance redressal system of Ministry made interactive with the help of user - friendly social networking site, viz, Face Book (available at http://www.facebook.com/pages/MinistryofRoadTransportandHighways)

3) To upgrade the existing Assets Management System by using it on web-based Geographical Information System (GIS) for the purposes of planning, construction and operation & maintenance of NHs, global tenders have been invited for 15000 kms of stretches have been identified for this on both BOT and EPC projects to cater to both asset management and project management.

4) All concession agreement documents between Ministry and concessionaire are now available on NHAI website at http://www.nhai.org /concessionagreement cj.asp.

5) CVs of key personnel of the Independent Engineers overseeing the BOT projects are being uploaded in phases on the NHAI website.

6) With a view to implement the recommendations of BK Chaturvedi Committee on NHDP, NHAI has adopted annual pre-qualification of bidders during the year 2011. It has already completed the process of annual pre-qualification and prequalified about 100 applicants / bidders. These applicants are not required to submit voluminous documents at project specific RFQ. They will only submit the prequalification letter issued by NHAI.