

## **16 road projects under PPP mode to be announced in Dec.; plans to roll out 100 projects next year; PPP now a viable model: Nitin Gadkari**

**NEW DELHI, October 27, 2015.** The government is set to announce 15-16 road infrastructure projects under the Public-Private Partnership (PPP) mode in December this year and plans to roll out 100 projects next year. In the past, PPP was not seen as a feasible proposition but with the amendments in regulations, PPP has emerged as a viable model. But there was a need for capacity building in the government and increase the number of contractors and investors in the sector to fast-track projects in PPP mode, said **Mr. Nitin Gadkari, Union Minister for Road Transport, Highways and Shipping**, here today at the fourth edition of **FICCI's 'India PPP Summit'**.

Mr. Gadkari said that the government has taken decisive action to promote the hybrid model of PPP for encouraging investments by the private sector. According to the new norms, 40% project cost would be funded by the government and the necessary land acquisition and environment clearances would be handed over to the private contractor prior to the commencement of the project. The private player would need to invest 60% in the project, of which 30% would come from banks and financial institutions. Also, the toll on the infrastructure project would be collected by the government and a fixed annuity with a profit margin would be given to the private partner.

The Minister said that lack of contractors could be attributed to stringent regulatory framework and assured industry that the government was committed to liberalizing regulations without compromising on quality to allow more private investors to enter the sector. He urged FICCI to play an active role and encourage investors to look at infrastructure as a profitable sector.

Mr. Gadkari said that besides creating a network of national highways, the government was revamping the entire transport sector by giving a facelift to rail linkages, inland waterways, and ports. The government was working towards developing dry and satellite ports as well to provide better connectivity for moving cargo efficiently.

Speaking about the issues related to infrastructure sector, Mr. Gadkari said that the government was trying to resolve the litigation issues with mutual consent to save time, money and move the projects ahead rapidly. He added that to maintain an ecological balance, a Green Highways Policy has been evolved to promote greening of highway corridors with participation of the community, farmers, private sector, NGOs, and government institutions. One per cent of the total project cost as plantation fund will be kept in a separate account with NHAI.

**Mr. Vijay Chhibber, Secretary, Ministry of Road Transport and Highways**, in his address, pointed out that 90 per cent of passengers and 70 per cent of all freight in the country was transported by road and this skewed overdependence on the road sector was getting enlarged. The one corrective measure that needs to be done is to seriously look at inland waterways as a means of transportation, he added.

He said that the government proposes to award 12,000 kms of national highway construction next year, of which it hopes to complete 7000-7500 kms in the next three years. This year it awarded 10000 kms, of which 6000 kms are getting completed.

The government was also proposing monetization of highway projects, he said and added that three or four projects would be tested out this year under the hybrid PPP model. Subject to approvals, the developers would also be

entitled to compensation if delays were attributed to the authorities for languishing projects, he said.

As for other opportunities under the PPP project mode, Mr. Chhibber said wayside amenities were being rolled out, while on the transport side, steps were afoot to set up training facilities, automated vehicle testing centres and upgradation of bus stations in prime locations in cities.

**Dr. Jyotsna Suri, President, FICCI**, said adequate investment in infrastructure creation is a pre-requisite for higher economic growth. Due to low investment in infrastructure development, India suffers from a huge deficit in this area. According to Mckinsey & Company, average infrastructure investment in India in 1992-2010 was 4.7% of GDP, as against over 7.3% in countries like China, Indonesia and Vietnam.

The Government has embarked on a policy of promoting PPP as a means of augmenting investment in infrastructure. While measures have been taken since the mid-1990s, PPPs gained momentum during the Tenth and Eleventh Plan periods. PPP projects are facing various difficulties. Some of the factors leading to delays in PPP projects include land acquisition, environmental and forest clearances, change of scope, statutory clearances, equity crunch, delays in tie-up for project financing, etc. “We recognize that the Government has been working towards expediting completion of the stalled projects and revival of the PPP projects. And there are positive developments – for example, participation of the private sector in PPP highway projects has started showing signs of recovery,” she added.

**Mr. Harish Mathur, CEO, IL&FS Transportation Networks Ltd**, in his remarks, said the critical role of PPP model for creation of infrastructure in the country is well recognized. Besides bridging the deficit in financing of infra-projects, PPPs also bring new and cost-effective technology. They improve efficiency for operation and maintenance of the infrastructure assets.

He said that India has taken a number of initiatives towards creating a PPP eco-system involving institutions, developers, financiers, equity providers, etc. In recent years the trends in PPP projects have fallen short of expectations, and they have not achieved all-round success. However, as many experts have pointed out, this is not the complete picture; there has been significant success in roads, ports and airports.

He said the important steps taken by the government include: innovative models like hybrid annuity; one-time capital infusion to salvage the stalled national highway projects; exit policy for concessionaires; emphasis on better project preparation & land acquisition; simplified procedures for appraisal; amicable settlement of disputes; and amendments to the model concession agreement. The Government has set up the Kelkar Committee to review the existing PPP policy framework and suggest measures to revitalize the PPP mode and “We eagerly await the report and recommendations of this Committee, particularly in the area of optimal risk-sharing mechanism between private investors and the government agencies.”

**Mr. Shrinivas Kowligi, Partner-Infrastructure & PPP, E&Y LLP**, made the theme presentation at the summit. According to the E&Y Knowledge paper, ‘Restoring the momentum and reviving PPPs in India’, Indian PPP markets and regulatory practices are going through evolution and moving towards the next level of maturity. This phenomenon is evinced by noteworthy events such as development of new PPP modalities in the highway sector, liberal exit policies for highway assets, one time fund infusion for languishing projects, modernization of stations among others.

However, there are some key over-arching issues on account of lack of buy-in from core ministries resulting in cascading inconsistencies which need to be addressed for successful PPPs going forward.

The government has taken some initiatives like 3P India; several cabinet committees to accelerate infrastructure investments; and the establishment of bodies such as PPP

Appraisal Committee (PPPAC), Empowered Institution/Committee (EI/EC) to expedite the approval procedures. Towards financial robustness, Government initiative such as creation of NIIF and financial innovation in infrastructure financing are very encouraging and serve as a breather to the sector.

The Paper suggests that the Government's initiative of Ease of Doing Business should be ramped up to cover all sectors. The need of the hour is increased responsiveness and Government participation for creating a pipeline of investable projects and selection of quality technical consultants on Quality cum Cost Basis. Government handholding from procurement till operations phase will be instrumental in improving the quality of deliverables of consultants and concessionaires alike.

The Government has adopted a multi-pronged approach adopted to build robust infrastructure, in collaboration with private sector through steps such as corporatization of major ports, streamlining the PPP process, pushing for higher investments, expanding capacity and improving connectivity civil aviation policy, Bharat Mala, Sagar Mala, 101 Waterways, new PPP modalities among others. There are several upcoming opportunities for the private sector across roads, ports, airports and railways. Some of the noteworthy opportunities such as new PPP structures being adopted in the roads sector such as modified annuity, toll operate transfer, which should be extended to other sectors.

The Viability Gap Funding (VGF) limits could be relooked at from the present 40% level. There is a dire need to incentivize innovation for financial support to PPP Projects as long as the spirit of PPP is safeguarded. For instance, there is a current no-go in case State Governments are willing to extend capital support beyond the threshold 40% in form of innovative structures such as Deemed Shadow Toll, EPC for funded Works, in light of improving the project economics, these initiatives could be revisited. Also, the basis of calculation of viability gap funding should be as per market rates and not as per schedule of rates.

In order to actualize India's infrastructure needs, a dedicated PPP policy and access to long-term funds are long overdue. The government should undertake integrated infrastructure planning, robust dispute resolution mechanism besides looking beyond the L1 bidding mechanism to disincentivize private sector bid aggressively. Moreover, there is a need to introduce robust contract renegotiation and rebalancing framework to manage project risk over long-term concession, without deteriorating lenders' confidence in the sector.

**Capt. B V J K Sharma, Co-Chairman, FICCI National Committee on Infrastructure and Joint MD & CEO, JSW Infrastructure Ltd.** made the concluding remarks and gave a vote of thanks.

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