

CCEA Approves New Exit Policy for BOT Concessionaires and Developers

AUTHOR Shrishail Kittad

PUBLISHED 29 August 2015

In a significant move to unlock the potentials of Public Private Partnership (“PPP”) model, the Cabinet Committee on Economic Affairs [“CCEA”] has approved the New Policy (“New Policy”) for Concessionaire/ Developers undertaking BOT (Build-Operate-Transfer) Projects.

New Exit Policy for Developers[1]

Under the current policy, the Developers are allowed to exit the project 2 years after the completion of construction cutting-short the earlier obligation upon them to retain 26% equity in the project even after the completion of the project. However, the complete exit gateway was made open only for the projects signed post-2009. The current Policy extends this option to the projects which were signed before 2009 also.

The reason why CCEA has proposed such a change-cum-respite in the Exit Policy is because the New Projects or the projects which are in their final stage are facing funds crunch. Substantial amount of money is locked in the already completed projects. In addition to this, concessionaires are facing difficulties in terms of not being able to get the right valuation if they want to exit the project once it is completed. It is further expected by the Authorities that the unlocked funds could be reinvested in the new projects and would result in the development of the Infrastructure Sector at par.

This extension is expected to unlock around Rs. 4,500 crores that are stuck in already completed projects as equity to be retained during the concession period awarded to the projects. The changes in the Exit Policy are expected to benefit about 1500 km of new highways proposed to be constructed in the PPP model.

NHAI Funding for Languishing Projects[2]

Another key takeaway of the New Policy is the proposal for NHAI funding for languishing project. CCEA approved a special intervention for the projects that are in the advanced stage of completion but are stuck due to either lack of additional equity or lender's inability to disburse further. NHAI has been authorized to provide funds to such projects from within its overall budget/corpus on a loan basis at a predetermined rate of return. This loan is to be recovered along with interest as the first charge from the toll receipts immediately after completion of construction. NHAI has been directed to develop a strong policy in this regard.

Conclusion

Development of infrastructure is the baseline for economic growth of the country. Even though the current Government and previous Governments have emphasized on PPP model for infrastructure development, the sector slowed down considerably mainly due to policy issues. During the last few years, PPP projects have failed to attract bids. The changes in the Exit Policy are expected to bring the much required capital for the sector.

[1]<http://pib.nic.in/newsite/pmreleases.aspx?mincode=63>

[2]<http://pib.nic.in/newsite/pmreleases.aspx?mincode=63>

Related Practice Areas

Infrastructure