

Cabinet authorized National Highways Authority of India to monetize public funded national highway projects

The Cabinet Committee on Economic Affairs, chaired by the Prime Minister Shri Narendra Modi has authorized National Highways Authority of India (NHAI) to monetize public funded National Highway (NH) projects which are operational and are generating toll revenues for at least two years after the Commercial Operations Date (COD) through the Toll Operate Transfer (TOT) Model. The monetization will be subject to approval of the Competent Authority in Ministry of Road Transport and Highways (MoRTH) / NHAI on a case to case basis.

Around 75 operational NH projects completed under public funding have been preliminarily identified for potential monetization using the TOT Model.

This Model would provide an efficient Operation and Maintenance (O&M) framework requiring reduced involvement of NHAI in projects post construction completion. Further, the corpus generated from proceeds of such project monetization could be utilized by the Government to meet its fund requirements regarding future development and O&M of highways in the country. This could address development/strengthening of highways in unviable geographies. The Model would facilitate efficient toll realization through private sector. It would also create new business opportunities for the following:

- a. A new vertical of developers who specialize in O&M of highways,
- b. Category of investors (Institutional Investors including Pension & Insurance Funds, Sovereign Funds, etc.) which is averse to taking construction risks but is adequately equipped for making long term investments in road infrastructure.

This approval would ensure better O&M of public funded NH stretches resulting in enhanced quality of service for highway users across the country. Further, the fund generated from such monetization shall be utilized for development/O&M of highways in the country, which would benefit highway users throughout the country.

Background:

For the traditional public funded NH projects i.e. projects constructed under erstwhile Item Rate Contracts or the current Engineering, Procurement, Construction (EPC) lump -sum contracts, after completion of construction and completion of defects liability period of up to four years, the contractors exit the completed projects and the entire responsibility of regular and periodic maintenance and day - to - day operations including toll collection comes on to NHAI. NHAI generally outsources such services through various vendors and contractors. With continuous growth of the sector, number of public funded operational highway projects is likely to increase over time. Such completed and operational public funded projects in some cases have been bid out under the Operate, Maintain and Transfer (OMT) contracts wherein the selected concessionaire is required to take care of the project O&M for a period of around 6-9 years depending on when the major periodic maintenance is due. The OMT model has only been partially successful. Limitations of the model include relatively short tenure of O&M obligations for the concessionaire and participation mostly being restricted to contractors and developers only.

Monetization of public funded NH roads is expected to create a framework for attracting long term institutional investment on the strength of future toll receivables. Market feedback indicates that certain institutional investors from outside the country have a long term investment appetite and are keen to participate in operational highway projects with stable toll revenue outlook. These investors generally hesitate from taking construction risk but are willing to look at de-risked Brownfield road assets.

Accordingly, the Model for monetization of public funded, operational NH projects has been developed to address above needs. Under this Model, also referred to as the TOT Model, the right of collection of user fee (toll) in respect of selected operational NH stretches constructed through public funding is proposed to be assigned for a specific time period, to developers/investors against upfront payment of a lump-sum amount to the Government. Further, during the tenure of the contract, the O&M responsibility would remain with the assigned developer/investor.
