

# Standing Committee Report Summary

## Infrastructure Lending in Road Sector

- The Standing Committee on Transport, Tourism and Culture (Chair: Dr. Kanwar Deep Singh) submitted a report on infrastructure lending in road sector on August 8, 2016. Key observations and recommendations of the Committee include:
  - **Long-term loans:** The Committee observed that several of the long-term loans disbursed for the road sector are turning into non-performing assets (NPAs). Projects bids are often made without proper study, and projects are awarded in a hurry. This results in stalling of projects, and concessionaires leave mid-way. The Committee recommended that banks should take due diligence while disbursing loans to concessionaires. It also suggested that NPAs may be supported by government allocation. Further, banks could be empowered to recover the bad debts. The Committee also suggested that the Reserve Bank of India (RBI) may reduce the threshold limit for long-term loans from Rs 500 crore to about Rs 200 crore so that some more projects would be covered.
  - **Long-term bonds:** The Committee recommended long term bonds as a way of financing infrastructure projects. It suggested that the government should look at bonds for a period of 20 to 25 years.
  - **Infrastructure lending:** With regard to financing of road projects, the Committee noted that promoters of several infrastructure projects are smaller companies which results in insufficient equity. It also leads to situations where financial institutions refuse to finance such projects. The Committee recommended that the government allocation for projects should be increased and the bank NPAs may be supported by government allocations.
  - The Committee also noted that when projects are terminated due to various reasons the banks are not given an opportunity or any guarantee that the pending loan is repaid. It recommended that Model Concession Agreement may be revised based on feedback received from banks and financial institutions. Further, the recovery of bad debts should be made easier by empowering banks adequately.
  - **Vigilance:** The Committee observed that with regard to financing NPAs, banks work under the fear of scrutiny by the Central Bureau of Investigation and the Central Vigilance Commission. It recommended that NPAs should be financed through the banks' discretion, and within their capacity. If decisions are taken in a transparent manner, there should not be any fear of investigation.
- **Project delays:** Highway projects get delayed due to delays in acquiring land and environmental clearances, and rehabilitation issues. These delays also increase the cost of the projects. The Committee recommended that the Ministry of Road Transport and Highways should obtain all these clearances before awarding the projects to concessionaires. It also recommended that the National Highways Authority of India should (i) technically examine, (ii) estimate costs, and (iii) ensure all clearances (statutory, environment, railways, etc.) before awarding any project to concessionaires.
- The Committee also noted that lack of dispute resolution is one of the major hurdles in clearing stressed or delayed projects. It recommended that the government should set up a dispute redressal mechanism for road projects.
- **Role of central government:** The Committee observed that while the Ministry of Road Transport and Highways invests in the construction of roads, its only source of revenue is budgetary support from the central government. The Committee recommended that the RBI and Ministry of Finance may help the Ministry of Road Transport to set up its own dedicated financial institutions to generate funds for development of the road sector. It also recommended that Ministry of Road Transport should monitor toll collection and channelise the surplus money towards stressed projects.
- The Committee also noted that while the central government has allocated a huge budget for the road sector, this cannot sustain over a long term. It suggested that the government should devise ways and establish appropriate financial institutions and models to encourage the return of private investment to the road sector.
- **Safety:** The Committee observed that about 4.5 lakh road accidents occur annually in India, causing 1.4 lakh deaths and 4.8 lakh injuries. It noted that faulty design of roads, pot holes, absence of signage and speed breakers, and blind turns usually cause accidents. It recommended that road design and maintenance may be given top priority. Further, utilising a part of petrol and diesel cess on road safety may be considered.

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