

**Press Information Bureau
Government of India**

**DEBTS OF INFRASTRUCTURE PROJECTS BEING IMPLEMENTED UNDER PPP
MODE AND HAVING MODEL CONCESSION AGREEMENTS TO BE TREATED AS
SECURED LENDING**

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On 18th March 2013, Reserve Bank of India (RBI) has eased the norms for treating bank loans as secured finance by notifying that the debt due to the lenders in case of Public Private Partnership (PPP) projects may be considered as secured by the respective Banks to the extent assured by the Project Authority in terms of the Concession Agreement, subject to certain conditions. The conditions include that the user charges, toll or tariff payments, are kept in an escrow account where senior lenders have priority over withdrawals by the concessionaire and there is sufficient risk mitigation, such as pre-determined increase in user charges or increase in concession period, in case project revenues are lower than anticipated. In addition, lenders are required to have a right of substitution in case of concessionaire default and also to trigger termination in case of default in debt service. The lenders should also have a right to trigger termination in case of default in debt service and upon termination; the Project Authority has an obligation of compulsory buy-out and repayment of debt due in a pre-determined manner.

This implies that the debts of infrastructure projects being implemented under PPP mode and having model concession agreements will now be treated as secured lending. The earlier notification of RBI dated 17th April 2009 provides that the rights, licenses, authorization, etc., charged to the banks as collateral in respect of projects (including infrastructure projects) should not be reckoned as tangible security.

This move is aimed at boosting infrastructure financing, especially for the projects in roads and power sector as debt to such projects were currently not only costly but also considered risky and unsecured. Therefore, the new projects based on BOT basis will be immediate beneficiary as Banks will find these infrastructure projects more comfortable and attractive for financing.
