PROCEEDINGS OF THE GOVERNMENT OF KARNATAKA

Subject : Amendments to the Karnataka Infrastructure Policy, 2007

Read :
1. Govt. Order No. IDD 01 UIP 1997, dated 26.12.1997.
2. Govt. Order No. IDD 32 IDM 2003, dated 16.07.2007.
3. Corrigendum Order No. IDD 59 ITS 2009, dated 31.05.2010 and 16.08.2010.
4. Govt. Notification No. IDD 59 ITS 2009, dated 01.06.2010 and 02.06.2010
5. Govt. Order No. IDD 07 ITS 2010, dated 08.08.2011.
6. Govt. Notification No. IDD 59 ITS 2009 dated 19.05.2012

Preamble:

Government of Karnataka brought out an Infrastructure Policy during 1997 vide Government Order read at [1] above. At the Government Order read at [2] above, the policy was revised during 2007, aiming to meet the growing needs of industrial and agricultural sectors by private investment and adopting an integrated approach to infrastructure development. The policy provided certain incentives and concessions for infrastructure projects. At the Government orders read at [3] above, threshold limits were prescribed besides giving certain clarifications for the three sectors eligible under Swiss challenge mode. In the Government Notifications read at [4] above, operational guidelines and further clarifications were provided under the Swiss challenge mode. In the Government Order read at [5] above, clarification on the computation of the exemption of entry tax was provided. In the Government Notification read at [6] above, some clauses of the guidelines pertaining to the Swiss Challenge mode were modified.

2. However, with the efflux of time, there have been changes in formulation of Government of India’s Policy of Public Private Partnership (PPP) in infrastructure projects and the concept of Viability Gap Fund (VGF), special status to Hyderabad Karnataka Region, etc. have necessitated certain modifications in the infrastructure policy, 2007. Hence, Infrastructure Development Department proposed the necessary changes and obtained the suggestions of various Departments.

Hence the following order.

GOVERNMENT ORDER No. IDD 07 ITS 2013, BANGALORE DATED 30.10.2015

1. Under the circumstances explained in the preamble, the Government of Karnataka is pleased to make the following amendments to the Infrastructure Policy, 2007.

2. The following 14[fourteen] sectors and sub-sectors are now covered under the policy:

Infrastructure Sectors	Existing Sub-sectors/Sectors as in the Infrastructure Policy 2007	Addition to the existing Sectors / Sub-sectors
1. Agri-infrastructure	1. Agriculture and horticulture markets. 2. Floriculture parks and markets. 3. Agro-food processing and allied infrastructure (including common-user cold storage facilities).	1. Agriculture and horticulture infrastructure: a. Terminal storage b. Post-harvest storage infrastructure c. Logistics parks d. Warehouses 2. Animal Husbandry Parks and Dairy infrastructure
2. Education	Infrastructure and facilities for educational institutions, not on a purely commercial basis, but which satisfy a public need.	1. Knowledge City 2. Vocational Training 3. Skill Development 4. Science & Technology Parks 5. e-Libraries
3. Energy	1. Power generation, including captive power generation, as per provision of the Electricity Act 2003, and co-generation projects, transmission, distribution and power trading services. 2. Oil and Gas (origination, terminals, transmission and gas works). 3. Renewable and non-conventional energy sources (Wind, Hydro, Solar, Tidal, Biomass and Municipal Solid Wastes[MSW]).	No change
4. Healthcare	Infrastructure and facilities for healthcare, not on a purely commercial basis, but which satisfy a public need.	1. Infrastructure and facilities for healthcare a. Primary b. Secondary c. Tertiary 2. Diagnostic centres

Infrastructure Sectors	Existing Sub-sectors/Sectors as in the Infrastructure Policy 2007	Addition to the existing Sectors / Sub-sectors
		3. Trauma and Rescue centres 4. Rehabilitation and training centers for specially abled persons 5. Geriatrics centres 6. Medical education infrastructure
5. Industrial Infrastructure	1. Industrial Parks (including Biotechnology, Information Technology parks). 2. Special Economic / Free Trade and Export Promotion Zones. Industrial Estates and Industrial Townships.	1. Marine Parks 2. Food Parks 3. Special Investment Regions 4. Development of Specific Zones like National Investment and Manufacturing Zones 5. Corridor Development a. Industrial Corridors b. Infrastructure Corridors c. Freight Corridors 6. IT Services
6. Irrigation	Canals, Dams and Weirs	No change
7. Public Markets	Infrastructure and facilities for Public Markets, not on a purely commercial basis, but which satisfy a public need.	Markets to promote handicrafts and other items produced by women and specially abled persons
8. Tourism	1. Amusement, Entertainment, Theme Park. 2. Hotels/ Resorts. 3. Convention and Exhibition Centres. 4. Trade Fairs. 5. Cultural Centres	1. Golf Courses 2. Hospitality Districts 3. Special Tourism Region 4. Interpretation Centre and Cultural heritage 5. Wellness/Eco/ Wild life Tourism 6. Museum 7. Sports, Adventure related infrastructure
9. Transportation and Logistics	1. Roads (including bridges, interchanges and flyovers). 2. Railways 3. Urban transport system: MRTS, LRTS, Monorail, High-Capacity bus systems. 4. Airports and Airstrips. 5. Minor Ports and Harbours. 6. Inland Water Transport. 7. Bus/ Truck/ Urban Transport Terminals and associated public facilities such as Public Amenities Centres. 8. Warehousing infrastructure (including container freight	1. Railways a. Tunnels b. Viaducts c. Bridges d. Terminals 2. Urban Transport System-High Speed Rail System 3. Transport Terminals a. Inter-modal Transit Centres b. Traffic Management Centres 4. Parking Facilities a. Surface Parking b. Underground public parking facilities

Infrastructure Sectors	Existing Sub-sectors/Sectors as in the Infrastructure Policy 2007	Addition to the existing Sectors / Sub-sectors
	stations, container depots, cold storage facilities and tank farms). 9. Mechanised and Multi-storey Parking Facilities.	
10. Urban and Municipal Infrastructure	1. Township Development. 2. Commercial development with common-user facilities. 3. Water Supply and Sewerage. 4. Desalination. 5. Wastewater recycling and reuse. 6. Underground drainage. 7. Solid Waste / Bio-Medical Waste/ Hazardous Waste: Collection, transportation, treatment and disposal facilities.	1. Energy Efficiency in a. Street Lighting b. Intelligent Traffic Management 2. Signage 3. Abattoirs 4. e-waste management
11. Sports and Youth Services	**New Sector added**	1. Sports Infrastructure 2. Art & Culture Theatres 3. Play grounds/ courts/stadiums 4. Hostels/quarters in the games villages 5. Sports training centres and Gyms
12. Housing	**New Sector added**	1. Low cost / EWS housing 2. Affordable housing 3. Old-age homes 4. Working Women Houses/ hostels
13. Rural Development	**New Sector added**	1. Rural Roads 2. Waste to energy (agri-waste) 3. Rural drinking water projects
14. Tele-communications	**New Sector added**	1. Telecommunication - Fixed network Optic fibre/cable networks which provide broadband/internet 2. Telecommunication Towers

3. In order to improve the infrastructure facilities on priority basis in the Hyderabad Karnataka Region, the following measures are proposed:

   a. Prepare an Infrastructure Strategic Action Plan for the region that would address key social and economic infrastructure such as roads and bridges, health care, educational, drinking water supply, minor irrigation, animal husbandry, sericulture, forestry and urban development.

   b. Create a PPP cell in the Hyderabad-Karnataka Area Development Board (HKADB) which will be equipped to:
      i. Identify potential PPP projects that can be undertaken in the region
      ii. Facilitate selection of private developers for implementation of various projects
      iii. Oversee performance of these projects

   c. A committee under the Chairmanship of the Principal Secretary, Infrastructure Development would be formed to monitor the progress of PPP projects on a quarterly basis. All projects being implemented on PPP mode would be fast tracked to ensure faster delivery of services.

   d. Undertake specific capacity building programs for the officers in the region to understand the need and benefits of PPP.

4. For monitoring PPP projects, a two-tier mechanism shall be introduced wherein the PPP Cells within each department shall have a Project Monitoring Unit (PMU), which monitors the projects through a reporting mechanism and the State Level Performance Review Unit (PRU) would review the reports submitted by the different PMUs.

5. Government of India has brought out several model bid documents for various sectors. The State will adopt them for PPP projects undertaken in the State. The State will consider policies and rules on PPP as and when formulated by Government of India.

6. To promote innovative projects by maximising competition & transparency, the private sector participant can submit the proposal under Swiss Challenge/suo-moto route for projects in all the 14 [fourteen] sectors mentioned under para [2] above. An important condition for the Swiss Challenge or Suo-moto proposals is that it must be an innovative proposal. An “Innovative proposal” means an infrastructure proposal submitted by a private sector participant that has innovation in technology that is unique and legally owned or authorised to be used by the Proposal Initiator that could result in increased value addition; it may refer to incremental, emergent or revolutionary changes in products, services and/or process. The proposal should not only be suo-moto but also innovative and with the prescribed threshold limits. The scheme will be operated as per the operational guidelines issued earlier with the following threshold limits:

Infrastructure Sectors	Threshold Limits
1. Agri-infrastructure	Projects costing Rs.25 crore and above.
2. Education	Projects costing Rs.25 crore and above.
3. Energy	Projects costing Rs.50 crore and above.
4. Healthcare	Projects costing Rs.50 crore and above.
5. Industrial Infrastructure	Projects costing Rs.100 crore and above.
6. Irrigation	Projects costing Rs. 500 crore and above for **major irrigation** projects; and Projects costing Rs.200 crore and above for **minor irrigation** projects.
7. Public Markets	Projects costing Rs.25 crore and above.
8. Tourism	Projects costing Rs.50 crore and above.
9. Transportation and Logistics	Projects costing Rs.500 crore and above.
10. Urban and Municipal Infrastructure	Projects costing Rs.50 crore and above.
11. Sports and Youth Services	Projects costing Rs.50 crore and above.
12. Housing	Projects costing Rs.50 crore and above.
13. Rural Development	Projects costing Rs.25 crore and above.
14. Tele-communications	Projects costing Rs.100 crore and above.

7. The Single Window Agency for PPP constituted earlier under the Chairmanship of the Chief Secretary with Additional Chief Secretaries and other Principal Secretaries / Secretaries as members will continue to facilitate, co-ordinate and promote infrastructure projects on PPP basis, in addition to approving the PPP projects upto Rs. 50 crore. The High Level Committee constituted under the Chairmanship of the Chief Minister under the Section 3 of the Karnataka Industries (Facilitation) Act, 2002 will continue to approve the PPP projects exceeding Rs. 50 crore investments.

8. All other provisions in the Infrastructure Policy, 2007 will continue except for the above modifications.

9. This order is issued with the concurrence of Finance Department vide Note FD 670 EXP-I-2014 dated 07.11.2014 and Note No. FD 750 EXP-I-2015 dated 24.08.2015.

By order and in the name of the
Governor of Karnataka

Venkatesh Murthy.M.
[M. Venkatesh Murthy]
Under Secretary to Government
Infrastructure Development Department
Tel: 080 22034063

To

The Compiler, Karnataka Gazette, Bangalore – for publication in the EXTRA ORDINARY GAZETTE and to supply 500 copies.

Copy to:

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2. The Principal Accountant General (E&RSA), Karnataka, New Building, 'Audit Bhawan', Post Box No. 5398, Bangalore-01.
3. The Principal Accountant General (A&E), Karnataka, Park House Road, Post Box No. 5329, Bangalore-01.
4. The Chief Secretary to Government, Vidhana Soudha, Bangalore-01.
5. The Additional Chief Secretary to Government, Vidhana Soudha, Bangalore

6. The Additional Chief Secretary to Government and Development Commissioner, Vidhana Soudha, Bangalore
7. All Additional Chief Secretaries/Principal Secretaries/Secretaries to Government
8. The Commissioner, Bruhat Bangalore Mahanagara Palike[BBMP], NR Square, Bangalore
9. The Commissioner, Directorate of Urban Land Transport[DULT], BMTC TTMC, 'B' Block, 4th floor, KH Road, Shanthinagar, Bangalore.
10. The Commissioner & Director, DMA, 9th Floor, Visveswaraya Main Tower, Dr Ambedkar Road, Bangalore
11. The Commissioner for Industrial Development and Director of Industries & Commerce, Khanija Bhavan, No. 49, Race Course Road, Bangalore
12. The Commissioner, Bangalore Development Authority[BDA], Kumara Park, Bangalore.
13. The Commissioner, Health & Family Welfare Dept, Ananda Rao Circle, Bangalore
14. The Managing Director, Karnataka State Finance Corporation Ltd[KSFC], KSFC Bhavan, Thimmaiah Road, Bangalore
15. The Managing Director, Karnataka Power Transmisson Corporation Ltd[KPTCL], Cauvery Bhavan, Bangalore
16. The Managing Director, Karnataka Power Corporation Ltd[KPCL], Shakti Bhavan, Race Course Road, Bangalore
17. The Managing Director, Karnataka Renewable Energy Development Ltd[KREDL], No. 39, Shanthi Gruha, Bharat Scouts and Guides Building, Palace Road, Bangalore
18. The Managing Director, Karnataka State Road Transport Corporation Ltd[KSRTC], KH Road, Shanthinagar, Bangalore.
19. The Managing Director, Bangalore Metropolitan Transport Corporation Ltd[BMTC], KH Road, Shanthinagar, Bangalore.
20. The Managing Director, Karnataka Road Development Corporation Ltd[KRDCL], No.16/J, Miller tank, Thimmaiah Road, Bangalore 560052.
21. The Managing Director, Karnataka State Tourism Development Corporation Ltd[KSTDC], Khanija Bhavan, Bangalore.
22. The Managing Director, Karnataka Urban Infrastructure Development & Finance Corporation Ltd[KUIDFC], "Nagarabhivridhi Bhavana", No. 22, 17th F Corss, Binnamangala 2nd stage, Old Madras Road, Indiranagar, Bangalore 560038
23. The Managing Director, Karnataka Urban Water Supply and Drainage Board [KUWSDB], #6, Jal Bhavan, Bannerghatta Road, Bangalore.

24. The Managing Director, Bangalore Water Supply and Drainage Board [BWSSB], Cauvery Bhavan, KG Road, Bangalore.
25. The Managing Director, Karnataka State Industrial & Infrastructure Development Corporation Ltd[KSIIDC], Khanija Bhavan, Bangalore
26. The Chief Project officer, Karnataka State Highways Improvement Project[KSHIP], PWD Annexe Building, K.R Circle, Bangalore.
27. The Chief Operating Officer, Karnataka Rural Road Development Authority, Ananda Rao Circle, Bangalore.
28. The CEO & Executive Member, Karnataka Industrial Areas Development Board[KIADB], Khanija Bhavana, Race Course Road, Bangalore.
29. The Managing Director, Karnataka Udyog Mitra [KUM], Khanija Bhavan, Bangalore
30. The Director, Ports & Inland Water Transport, Baithkol, Karwar.
31. The Director of Tourism, Khanija Bhavan, Bangalore
32. The Director, Agriculture Marketing Department, Raj Bhavan Road, B’lore
33. Director(Projects), Bangalore Airport Rail Link Ltd, KSFC Bhavan, Thimmaiah Road, Bangalore
34. The Chief Advisor and CEO, Technical Consultancy Services Organisation of Karnataka[TECSOK], Basava Bhavan, Sri Basaveswara Circle, Bangalore
35. All Deputy Commissioners of the Districts
36. All Chief Executive Officers of Zilla Panchayats
37. All Commissioners of City Municipal Corporations
38. All Commissioners of Urban Development Authorities
39. The Deputy Secretary to Government[Cabinet Section], Vidhana Soudha, Bangalore with reference to the Cabinet Subject No. C-488/2015 held on 03.10.2015
40. PS to Principal Secretary to Government, Infrastructure Devp Dept,
41. Section Guard File/Spare Copies.

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Infrastructure Policy-2007

for the State of Karnataka

Amended upto October 2015

Government of Karnataka

Infrastructure Development Department

VISION

The Government of Karnataka envisions building strong Public Private Partnerships in infrastructure, to achieve the twin objectives of high growth and equity;

By expanding, deepening, and developing private investment in infrastructure as the means to achieve that high growth; and

And establishing Karnataka as a role-model for infrastructure development, where governance is based on international best practices.

MAIN OBJECTIVE

To provide a fair and transparent policy frame work to help facilities and encourage Public Private Partnership (PPP) in developing infrastructure in the State.

TOUCHSTONE PRINCIPLES

- Effecient use of existing assets and optimal allocation of additional resources.
- Payment for services
- Equitable contractual structures
- Transparent process of procurement
- Fair regulatory framework
- Enabling institutional framework
- Sustainable incentives and concessions.

Contents

ABBREVIATIONS

BLT	Build-Lease-Transfer
BOLT	Build-Own-Lease-Transfer
BOO	Build-Own-Operate
BOOST	Build-Own-Operate-Share-Transfer
BOOT	Build-Own-Operate-Transfer
BOST	Build-Operate-Share-Transfer
BOT	Build-Operate-Transfer
BT	Build & Transfer
CA	Concession Agreement
EPC	Engineering Procurement Construction
FD	Finance Department, Government of Karnataka
GoI	Government of India
GoK	Government of Karnataka
HLC	High-Level Committee
IDC	Inter-Departmental Committee
IDD	Infrastructure Development Department, Government of Karnataka
iDeCK	Infrastructure Development Corporation (Karnataka) Ltd.
IIF	Infrastructure Initiative Fund
IT	Information Technology
K-RIDE	Rail Infrastructure Development Co. Karnataka Ltd.
KUIDFC	Karnataka Urban Infrastructure Development Finance Corporation Ltd.
LRTS	Light Rail Transit Systems
MRTS	Mass Rapid Transit Systems
MSW	Municipal Solid Waste
NGO	Non-Governmental Organizations
NSDP	Net State Domestic Product
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
O&M	Operation & Maintenance
PDF	Project Development Fund
PIF	Project Investment Fund
PPP	Public-Private Partnerships
PSP	Private Sector Participant
ROMT	Rehabilitate-Operate-Maintain-Transfer
SPV	Special Purpose Vehicle
SWA/SLSWA	State-level Single Window Agency
VGF	Viability Gap Fund

Definitions

Bidder	Any entity which has submitted a proposal to undertake an Infrastructure Project under Public-Private Partnership
Central Government	Government of India
Central Government Agency	Any department of the Central Government, any statutory authority of the Central Government, or body corporate, owned or controlled by the Central Government holding greater than 50% of the paid-up share capital in such entity.
Company	Any entity incorporated under the Companies Act 1956/2013
Developer	Any Private Sector Participant who has entered into a contract for an Infrastructure Project with the Government/ Government Agency
District PPP Committee	A committee constituted by Government at the District level to facilitate and co-ordinate infrastructure projects under the PPP route.
Government	Government of Karnataka
Government Agency	Any department of the Government, any statutory authority, urban local body, or body corporate, owned or controlled by the Government holding greater than 50% of the paid-up share capital in such entity.
High Level Committee	Committee constituted by Government under the chairmanship of Chief Minister under Section 3 of the Karnataka Industries (Facilitation) Act 2002.
Infrastructure	Any public work relating to facilities for utilization of natural resources or provision of services, by way of physical structures or systems
Infrastructure Project	A project in Infrastructure, in the sectors delineated in this Policy
PPP Cell	Special cell constituted by Government at the State level to facilitate and coordinate infrastructure projects under the PPP route.
Person	Any company or association or body of individuals, whether incorporated or not, that is a legal entity

Single Window Agency for PPP	Agency constituted by Government at the State level for approval of projects up to Rs.50 cr and for recommending projects beyond Rs.50 cr to the High Level Committee.
Private Sector Participant	Means any Person other than: a. Central Government or Central Government Agency b. Government or Government Agency c. Any joint ventures between Central Government, Central Government Agencies, Government, and/or Government Agency, where there is no shareholding from private/ retail investors
Public Need	Means a substantial or obvious community need for the proposed project based on all attendant circumstances as compared to a mere convenience. The determination of "Public Need" shall be taken by the relevant administrative department after considering (a) Common use and needs of the community; (b) Appropriateness of the project in relation to the development plans of the department; and (c) Possibility of the project otherwise not coming up.
Public Private Partnership	Construction/ Renovation/ Rehabilitation and Operation & Maintenance, or Operation & Maintenance of an Infrastructure Project of the Central Government or Government Agency for common use where a Private Sector Participant: a. has an investment; and b. is responsible for such construction/ renovation/ rehabilitation and operation & maintenance, or operation & maintenance for a period of not less than 3 years, in each case.

I PREAMBLE

1. Karnataka has been a forerunner of India’s economic growth. Between 1996-97 and 2005-06, the Gross State Domestic Product (GSDP) at constant prices grew at a compound rate of over 7% per annum, 16% higher than the national average of over 6.0%. Had many of the infrastructure constraints not existed, the growth rates could have been higher.

2. Clearly recognising the need to develop high quality infrastructure as a means to achieve rapid economic growth, the Government of Karnataka (GoK) had come out with an Infrastructure Policy in 1997. The Infrastructure Policy of 1997 was aimed at expanding and upgrading infrastructure to meet the growing needs of the industrial and agricultural sectors, inviting private investment in infrastructure, and adopting a co-ordinated and integrated approach to infrastructure development. The policy also had specific incentives and concessions for infrastructure projects. However, with the efflux of time, there have been changes in the tax and stamp duty regime, formulation of Government of India’s (GoI) policy of Public-Private-Partnership (PPP) in infrastructure projects, and the concept of the Viability Gap Fund (VGF). In line with these changes, Government has now resolved to formulate this new Infrastructure Policy.

3. Government has also set out several sectoral policies in the areas of Power (1997, 2001), Ports (1997, 2014), Tourism (1997, 2014), Information Technology (1997, 2013), and Roads (1998). Government has also revised the Industrial Policy in 2014, to take into account the developments and requirements in the industrial development scenario. These policies have been evolved with a view to augment and expedite infrastructure development through active private sector participation. Despite these initiatives, there has not been any significant increase in private investments, while public investment in project development has been increasing steadily during the same period. Many of the infrastructure constraints have remained, or even become more severe.

4. Government has sought to deal with some of these constraints by implementing various programmes and projects departmentally and through Government agencies. These are being financed through various sources including budgetary resources, grants and loans from GoI, and bilateral and multi-lateral agencies.

5. Government aims to achieve a high average growth rate in the coming years, across all sectors, including infrastructure. These targets are expected to be achieved by facilitating private sector investment and rapidly upgrading technology. Government recognises that high levels of economic and industrial growth can be achieved only if infrastructure develops at a commensurate pace. Government also recognizes that the private sector can play a substantial role in infrastructure development, and that given the right policies and frameworks, adequate private investment can become available. Government has already taken several initiatives in this regard, envisaging significant investments in projects in transportation (for airports, ports, railways and roads), tourism, power generation, urban infrastructure, etc.

II OBJECTIVES & BENEFITS OF THIS POLICY

6. The main objective of Government is to provide a fair and transparent policy framework to help facilitate this process and encourage Public-Private Partnerships (PPP) in the upgrading, expanding and development of infrastructure in the State.

7. Government, therefore, proposes to provide and facilitate an increasing role for PPP - both in creating new infrastructure assets, as well as in managing assets already created. By this, Government seeks to derive the following benefits, which would deliver better value-for-money to the user:
   a) Savings in costs due to innovative designs, timely project implementation and higher efficiencies in operations
   b) Enhanced quality of services to users due to better managerial practices & efficiencies
   c) Reduction in, and gradual elimination of, pricing constraints
   d) Enabling public funds to be earmarked for other commercially non-viable but socially justifiable projects
   e) Financial innovation and development of cost-effective solutions
   f) Greater employment opportunities in the infrastructure sector

8. PPP would be considered both in new Infrastructure Projects and in managing existing Infrastructure Projects. The specific option to be followed would be based on specific requirements, for which Government may seek recommendations from experts/ professional agencies. Where necessary, Government may also set up independent advisory group(s) to assist in the formulation of sector strategies and selection of suitable implementation options.

9. **As far as possible, for all new investments in infrastructure, the option of implementing the project through PPPs would be considered first. Government would directly invest in a project only after satisfying itself that the same cannot be implemented through a PPP. Exceptions would be projects in backward areas, or projects with high social relevance, but which are *prima-facie* not financially viable.** The following models would be considered, *inter-alia*, for PPPs:

   a) Project implementation by Government/Government Agency followed by a medium or long-tenure O&M contract to a private operator

   b) Project implementation by a Special Purpose Vehicle (SPV) set up by Government/Government Agency followed by divestiture to a private operator after stabilization of operations.

   c) Project Implementation by a private developer/operator or joint ventures with Government under a licence/concession structure.

10. Government recognizes that for some projects it may be necessary for Government of India or Government to extend financial support by way of equity participation, Viability Gap Fund[1], or other mechanisms in order to leverage the desired levels of private finance. It is envisaged that the incentives / financial support contemplated under this Policy are applicable:

    a) **For infrastructure projects where, in the opinion of the Government, the project is a public project set up for common use, where such infrastructure would otherwise not be created; and**

    b) **Only for bridging the viability gap for Infrastructure Projects on a PPP basis.**

11. Given the experiences with the reform process in the last decade, it is felt that a consistent approach needs to be followed in all infrastructure sectors, so that the process of development is both uniform and complementary. This Infrastructure Policy seeks to formulate the touchstone principles that would constitute the broad framework for the development of each infrastructure sector.

12. In order to achieve this consistency, Government would develop medium and long term strategies and implementation plans for each of the infrastructure sectors clearly setting out the role for PPP, which would allow for the provision of adequate and reliable infrastructure services of high quality at affordable prices to users.

[1] As per Guidelines on Support to Public Private Partnerships in Infrastructure issued by the Ministry of Finance, Department of Economic Affairs, Government of India

III APPLICABLE SECTORS[2]

13. The infrastructure sectors and facilities, which would be governed by this Policy, include the following:

Sectors	Sectors & Sub-sectors
1. Agri-infrastructure	1. Agriculture and horticulture markets. 2. Floriculture parks and markets. 3. Agro-food processing and allied infrastructure (including common-user cold storage facilities). 4. Agriculture and horticulture a. Terminal storage b. Post-harvest storage infrastructure c. Logistics parks d. Warehouses. 5. Animal Husbandry Parks and Dairy infrastructure
2. Education	1. Infrastructure and facilities for educational institutions, not on a purely commercial basis, but which satisfy a public need. 2. Knowledge City 3. Vocational Training 4. Skill Development 5. Science & Technology parks 6. E-Libraries
3. Energy	1. Power generation, including captive power generation, as per provisions of the Electricity Act 2003, and co-generation projects, transmission, distribution and power trading services. 2. Oil and Gas (origination, terminals, transmission and gas works). 3. Renewable and non-conventional energy sources (Wind, Hydro, Solar, Tidal, Biomass and MSW).
4. Healthcare	1. Infrastructure and facilities for healthcare, not on a purely commercial basis, but which satisfy a public need. 2. Infrastructure and facilities for healthcare a. Primary b. Secondary c. Tertiary 3. Diagnostic Centers 4. Trauma and Rescue centers 5. Rehabilitation and training centers for physically and mentally challenged persons. 6. Geriatric Centers 7. Medical Education Infrastructure
5. Industrial Infrastructure	1. Industrial Parks (including Biotechnology, Information Technology parks). 2. Special Economic / Free Trade and Export Promotion Zones.

[2] Vide Government Order No. IDD 07 ITS 2013 dated 30.10.2015

Sectors	Sectors & Sub-sectors
	3. Industrial Estates and Industrial Townships. 4. Marine Parks 5. Food Parks 6. Special Investment Regions 7. Development of Specific Zones like National Investment and Manufacturing Zones 8. Corridor Development a. Industrial Corridors b. Infrastructure Corridors c. Freight Corridors 9. IT Services
6. Irrigation	Canals, Dams and Weirs
7. Public Markets	1. Infrastructure and facilities for Public Markets, not on a purely commercial basis, but which satisfy a public need. 2. Markets to promote handicrafts and produces from women and specially abled persons
8. Tourism	1. Amusement, Entertainment, Theme Park. 2. Hotels/ Resorts. 3. Convention and Exhibition Centers. 4. Trade Fairs. 5. Cultural Centers. 6. Golf Courses 7. Hospitality Districts 8. Special Tourism Region 9. Interpretation Centre and Cultural heritage 10. Wellness /eco/ wild life Tourism 11. Museum 12. Sports, Adventure related infrastructure
9. Transportation and Logistics	1. Roads (including bridges, interchanges and flyovers). 2. Railway systems. a. Tunnels b. Viaducts c. Bridges d. Terminals 3. Urban transport system: MRTS, LRTS, Monorail, High-Capacity bus systems and High Speed Rail System 4. Airports and Airstrips. 5. Minor Ports and Harbours. 6. Inland Water Transport. 7. Bus/ Truck/ Urban Transport Terminals and associated public facilities such as Public Amenities Centers. 8. Warehousing infrastructure (including container freight stations, container depots, cold storage facilities and tank farms). 9. Mechanized and Multi-storey Parking Facilities.

Sectors	Sectors & Sub-sectors
	10. Transport Terminals a. Inter-modal Transit Centers b. Traffic Management Centers 11. Parking Facilities a. Surface Parking. b. Underground public parking facilities
10. Urban and Municipal Infrastructure	1. Township Development. 2. Commercial development with common-user facilities. 3. Water Supply and Sewerage. 4. Desalination. 5. Wastewater recycling and reuse. 6. Underground drainage. 7. Solid Waste / Bio-Medical Waste/ Hazardous Waste: collection, transportation, treatment and disposal facilities. 8. Energy Efficiency in a. Street Lighting b. Traffic signal management 9. Signage 10. Abattoirs 11. e-waste management
11. Sports and Youth Services	1. Sports Infrastructure 2. Art & Culture Theaters 3. Playgrounds/sports/stadiums 4. Hostels/quarters in the Games villages. 5. Sports training centers and Gyms
12. Housing	1. Low cost / EWS housing 2. Affordable housing 3. Old-age homes, 4. Working Women Houses/Hostels
13. Rural Development	1. Rural Roads 2. Waste to energy (agri-waste) 3. Rural Drinking Water projects
14. Tele communications	1. Telecommunication - Fixed network: Optic fibre/cable networks which provide broadband/internet. 2. Telecommunication Towers

In all cases, it is envisaged that the incentives/ financial support contemplated under this Policy are applicable only if the conditions under Para 10 are met.

The sectors/areas in the ambit of the Policy would be modified as and when appropriate.

IV TOUCHSTONE PRINCIPLES

14. The Infrastructure Policy has been developed around the following main principles:
   a) Efficient use of existing assets and optimal allocation of additional resources
   b) Payment for services
   c) Equitable contractual structures
   d) Transparent process of procurement
   e) Fair regulatory framework
   f) Enabling institutional frameworks
   g) Sustainable incentives and concessions

A. EFFICIENT USE OF ASSETS AND ALLOCATION OF RESOURCES

15. Government recognises that efficiency in allocation of resources can be achieved by prioritisation of projects in an objective and unbiased manner. To this end, Government would first look at the option of better utilization of existing assets before new investments are proposed. Priority would be accorded to those projects where development of critical linkages provide significant network or linkage benefits, as in the case of a transportation link interfacing railways, roads and ports, or a power project in the vicinity of a consumption centre.

16. Government would develop projects based on considerations of both social need and economic viability, the focus being integrated infrastructure development. Government, however, recognises that “social” projects may not offer sufficient commercial incentive for PPP. In such cases, Government would use other compensation mechanisms like provision of VGF, or annuity payments. As an alternative, Government (or Government Agency) may implement such projects upfront and eventually transfer management of services to a Private Sector Participant (PSP), where feasible.

17. Government would also develop objective criteria for rationalization of investments for expanding, upgrading and/or development of Infrastructure. Typically, project identification and prioritisation would be governed by the following considerations:

   a) Magnitude of gap between demand and supply for the Infrastructure;

b) Focus on balanced regional development[3], especially with regard to provision of basic infrastructure;
c) Development of physical/inter-sectoral linkages where significant economic gains can be realized.

18. Since Government would actively promote PPP in infrastructure projects, a larger share of investable public funds could be used for identified social needs that may not otherwise be amenable to private finance initiatives. In order to create a sustainable source of Government funds for long-term infrastructure financing, Government would leverage internal and extra-budgetary resources under various schemes such as the Infrastructure Initiative Fund (IIF), ASIDE (Assistance to States for Infrastructure Development for Exports), National Urban Renewal Mission (NURM), Viability Gap Fund (VGF), and resources from iDeCK (PDF & PIF), KUIDFC, and bilateral and multilateral agencies.

B. PAYMENT FOR SERVICES

19. Government recognizes that in a system where pricing of services is not economically sustainable, users would have no incentive to economise on their use of resources, and service providers would have no incentive to become more efficient. Government believes that the inculcation of the "provider-charges" and the "user-pays" principles is fundamental to the success of PPPs. To this end, Government would, where necessary and appropriate, consider levy of user charges (tolls, fees, tariffs, cesses etc.) to meet the following objectives:
a) Create a stable and dedicated financial source for construction/ redevelopment/ rehabilitation/ replacement of project assets and their ongoing operations and maintenance in order to provide efficient, sustainable and high quality services at affordable prices to users.
b) Manage demand
c) Encourage PPP
d) Cover costs of service provision
e) Recognising that economically weaker sections may require certain subsidies in user charges, provide explicitly for such subsidies to the project, to ensure that the project remains economically viable.

20. The levy of user charges would be based on one or more of the following criteria:
a) Savings to users

[3] In line with the report of the Dr D M Nanjundappa Committee on addressing the regional imbalances

b) Willingness to Pay
c) Need for explicit subsidies
d) Uniformity between various projects
e) Cost Recovery
f) Debt service & Equity returns

C. CONTRACTUAL STRUCTURES

21. Government would set in place appropriate contractual arrangements to give effect to the process of project implementation. Government's endeavour would be to develop contractual frameworks that would allow for equitable allocation of risks between the contracting parties, taking into account the legitimate concerns of private investors. The attempt would be to allocate risks to the party best suited to bear the risks. A matrix of typical project risks and risk mitigation measures is set out in **Schedule I.**

22. **EXISTING ASSETS**: The contractual/ implementation structures used would include the following:

a) Management of the whole or part of the assets by private operators through
   i. Operations and Maintenance (O&M) contracts for pre-determined periods;
   ii. Lease of assets;
   iii. Rehabilitate, Operate, Maintain and Transfer (ROMT) contracts.

b) Sale of whole or part of the assets
c) Partial or full divestiture of the Undertaking

23. **New Assets**: Depending on the nature of the project, the contractual structures/ agreements used for new projects would include, *inter-alia*:

a) Build & Transfer (BT)
b) Build-Lease-Transfer (BLT)
c) Build-Transfer-Operate (BTO)
d) Build-Operate-Transfer (BOT)
e) Build-Own-Operate-Transfer (BOOT)
f) Build-Own-Operate (BOO)
g) Build-Operate-Share-Transfer (BOST)
h) Build-Own-Operate-Share-Transfer (BOOST)
i) Build-Own-Lease-Transfer (BOLT)

24. **SPECIAL PURPOSE VEHICLES**: Where appropriate, Government/ Government Agencies may participate in the equity structure of any SPV for

the development and implementation of infrastructure projects. The selection of the PSP for participating in the SPV would follow the procurement process set out in section 27. The equity structure of the SPV would be decided on a case-to-case basis.

25. The Infrastructure Development Corporation (Karnataka) Limited (iDeCK) has been assisting Government in the preparation of documents for Infrastructure Projects, incorporating the touchstone principles set out in this document. iDeCK would co-ordinate with the Infrastructure Development Department (IDD) in providing assistance to concerned departments in the preparation of sectoral strategies and action plans for the successful implementation of projects under the ambit of PPPs. iDeCK would also assist these departments in the project development and procurement process, where such assistance is requested. Alternatively, these services could be procured from independent third party consultants as may be suitably identified and selected by the concerned project development agencies/ departments for this purpose.

26. Government recognizes that creation of Infrastructure under the PPP model requires that there be reasonable assurance that competing facilities would not be created that would materially adversely affect the technical and financial viability of the project.

D. PROCUREMENT PROCESS

27. All contracts would be awarded on the basis of a transparent process, under the ambit of the Karnataka Transparency in Public Procurement Act (Act 29 of 2000), or under a “Swiss Challenge” format as set out in para 29. In all cases, the award criteria would be spelt out upfront. The stages in the procurement process could be single-stage or multi-stage, depending on the size or level of complexity of the project. For this purpose, Government may use the services of suitably qualified independent advisers with the requisite technical knowledge. Generally, the stages in the procurement process would include:

a) Expressions of interest (EOI)
b) Request for Qualifications (RFQ)
c) Request for Proposals (RFP)
d) Technical and financial evaluation
e) Signing of Agreements

28. The criteria used for selection would include objective technical/ financial parameters, such as:

a) Level of service, quality of assets offered;

b) Lowest present value of Viability Grant support;
c) Lowest quantum of land;
d) Lowest present value of asset based support from the Government;
e) Highest share (or present value of) of revenue;
f) Lowest unit value or present value of payments by Government;
g) Highest upfront payment (or present value of upfront payments);
h) Highest present value of future payments;
i) Lowest concession period;
j) Lowest unit value or present value of user fees;
k) Highest premium on (or present value of) equity shares offered.

29. **Swiss challenge or Suo-moto proposals to promote innovative projects by maximising competition & transparency[4]:** A Private Sector Participant (Proposal Initiator) may submit a *suo-moto* and innovative proposal (Original Proposal) to Government / Government Agency for setting up an Infrastructure Project containing the following:

a) Articulation of the public need for the project;
b) Requisite technical details, i.e., details of alignment/site, estimates of cost, etc.;
c) Cost incurred by the Proposal Initiator for the development studies related to the project.

[i] **In respect of Suo-moto and innovative proposals:**

1. Only such proposal that has innovation in technology, that is unique and legally owned or authorised to be used by the Proposal Initiator that could result in increased value addition; it may refer to incremental, emergent or revolutionary changes in products, services and/or process. The proposal should not only be suo-moto but also innovative.
2. Only such of the projects which do not require any financial support from the Government, shall be considered.
3. Such of projects which would result in monopoly and exclusive rights shall not be considered.
4. The requirement of land, if any, for the project would be considered for acquisition / allotment at the market rates / KIADB allotment rates wherever required. Under no circumstances, no land will be made available at concessional rates.
5. The following sectors are considered with the threshold limits of the project costs as indicated hereunder. The detailed operational guidelines will be issued separately.

[4] Vide Government Order No. IDD 07 ITS 2013 dated 30.10.2015

Infrastructure Sectors	Threshold Limits
1. Agri-infrastructure	Projects costing Rs.25 crore and above.
2. Education	Projects costing Rs.25 crore and above.
3. Energy	Projects costing Rs.50 crore and above.
4. Healthcare	Projects costing Rs.50 crore and above.
5. Industrial Infrastructure	Projects costing Rs.100 crore and above.
6. Irrigation	Projects costing Rs. 500 crore and above for **major irrigation** projects; and Projects costing Rs.200 crore and above for **minor irrigation** projects.
7. Public Markets	Projects costing Rs.25 crore and above.
8. Tourism	Projects costing Rs.50 crore and above.
9. Transportation and Logistics	Projects costing Rs.500 crore and above.
10. Urban and Municipal Infrastructure	Projects costing Rs.50 crore and above.
11. Sports and Youth Services	Projects costing Rs.50 crore and above.
12. Housing	Projects costing Rs.50 crore and above.
13. Rural Development	Projects costing Rs.25 crore and above.
14. Tele-communications	Projects costing Rs.100 crore and above.

6. No VGF assistance would be available.
7. A maximum of 4 months[5] shall be made available to the project proponent from the day of clearance by the SLSWA to submit final proposals is along with DPR / PFR/ Feasibility report to enable to go ahead inviting competitive bidding for counter proposals.

[ii] Government would, in the first instance, assess the public need for the Infrastructure Project. In case the Infrastructure Project is found to satisfy a public need, Government would assess the technical feasibility/ suitability of the Original Proposal and modify the same, if required. Government may carry out additional studies for the project, if required.

[iii] After evaluating the proposal and considering it suitable, Government would, put up competitive bidding for counter proposals ("Swiss Challenge"). The Original Proposal (except proprietary information and details of the financial proposal) and contract principles of the Original Proposal would be made available to any interested applicants. If the competitive bidding process results in a superior proposal, the Proposal Initiator would be given an opportunity to match the competing counter proposal within a stipulated time-frame, and be selected as the project concessionaire only if he is with 15% of

[5] Revised to 4 months vide corrigendum order No. IDD 59 ITS 2009 dated 16.08.2010

the superior bid value. If the Proposal Initiator declines to match the superior counter proposal, then the applicant who has made the superior proposal would be selected as the concessionaire. Upon such selection, Government/ Government Agency concerned shall cause/ arrange to reimburse to the Proposal Initiator, a part or the whole of the project development costs, as determined upfront and declared in the bidding documents, and may recover the same from the successful bidder. In order to encourage competition in the bidding process, the superior bidder, in the event the project is not offered to him would be reimbursed/ compensated to an extent an amount not exceeding 0.10% of the cost of the project, or, Rs.20.00 lakhs, whichever is less.

30. Government would evaluate all proposals received for any Infrastructure Project. Government may also choose to appoint suitable external advisors or consultants, where necessary, for the purposes of evaluation.

31. In order to facilitate expeditious project implementation, Government would endeavour to conclude the evaluation process for all Infrastructure Projects within 90 days from the date of submission of the final proposals. In the case of suo-moto proposals, Government would decide to proceed with the bidding process within 180 days of their submission. In any event, Government would endeavour to provide all necessary State-level clearances and enable implementation of any Infrastructure Project being taken up through Public Private Partnerships within 180 days from the date of submission of the final proposals for such project.

E. REGULATORY FRAMEWORK

32. Given that availability of unencumbered land in a time-bound manner is a critical pre-requisite for most Infrastructure Projects, Government intends to set in place suitable mechanisms, for facilitating expeditious acquisition of land for such projects. If found necessary, Government would also consider promulgating a specific legislation for expeditious acquisition of land for infrastructure projects covered under this Policy.

33. Since many infrastructure facilities and services have natural monopoly characteristics, independent regulation may be desirable to ensure that the interests of both users and service providers are kept in view.

34. Government intends to set up independent regulatory authorities[6] for some of the infrastructure sectors. The role of the regulator would include setting norms for entry and exit, tariff fixation, and establishing standards for construction, operations and maintenance for the facilities/services. However, the setting up the regulatory authorities would be decided based on the specifics of each sector.

F. INSTITUTIONAL FRAMEWORK

35. At present the process of project identification and development is handled by the various Government departments and agencies and in case of urban projects by the respective urban local bodies. The Infrastructure Development Department (IDD) of the Government of Karnataka, which has been set up as the nodal agency to streamline the process of appraisal and approval of Infrastructure Projects, shall facilitate various Government departments in developing Infrastructure Projects through PPPs.

36. Government has set up a "PPP Cell" in the IDD. The PPP Cell is headed by the Principal Secretary, Infrastructure Development Department, and shall be adequately staffed. iDeCK will provide technical advice and support to the PPP Cell. The PPP Cell may also engage consultants as and when necessary. The PPP Cell will be the nodal agency to receive the proposals in respect of the PPP projects and place them before the SWA for consideration and approval. The PPP Cell may invite/co-opt representatives from the private sector, nominated by State-level Industrial fora such as ASSOCHAM, CII, FKCCI, and KASSIA *et.al*.

37. Government shall set up a District PPP Committee at the District level, to co-ordinate and facilitate the implementation of infrastructure projects, including facilitation for obtaining clearances and approvals on a PPP route. The District PPP Committee shall be chaired by the Deputy Commissioner of the concerned district. The District PPP Committee shall have officers of appropriate rank, nominated by the Government, as well as upto three representatives from the private sector, nominated by State-level Industrial fora such as ASSOCHAM, CII, FKCCI, and KASSIA et.al.

38. IDD would be duly strengthened with staff having appropriate skills to enable it to co-ordinate and integrate the necessary procedures and processes for facilitating Government/Government Agencies in expeditious project approval

[6] Also multi-utility regulators

and implementation. Simultaneously, capacity would also be built up in Government/ Government Agencies at the State and District level, to formulate and implement Infrastructure Projects on PPP basis. iDeCK would support Infrastructure Development Department and other Government departments/ agencies in developing and financing Infrastructure Projects on a PPP basis. The PDF and PIF administered and managed by iDeCK, on behalf of Government, would be utilized for this purpose, where appropriate.

39. A Single Window Agency (SWA) has been set up at the State Level under the Chairmanship of the Chief Secretary to approve the projects under PPP projects upto Rs. 50 crore, and to recommend the projects above Rs. 50 crore to the State High Level Committee under the Chairmanship of the Hon'ble Chief Minister constituted under Section 3 of the Karnataka Industries (Facilitation) Act 2002. In the case of all PPP proposals upto Rs. 50 crore, the concerned Department shall, in consultation with the Infrastructure Development Department place them before the State Level Single Window Agency[SWA] for PPP headed by the Chief Secretary for approval. For all proposals in excess of Rs. 50 crore, the State Level Single Window Agency for PPP will scrutinize the proposals and make its recommendations to the State High Level Clearance Committee[SHLCC], headed by the Honb'ble Chief Minister, for approval. The IDD, as the nodal Department for PPP, with support from iDeCK, shall assist the concerned Departments in the evaluation of all such projects. The IDD shall also assist the State Level Single Window Agency for PPP and SHLCC in evaluating and deciding upon the specific proposals.

39(a**). POST AWARD GOVERNANCE AND PROJECT MONITORING[7]:**

i. It is essential to continuously monitor the performance of the PPP projects over the project life cycle in accordance with the Planning Commission guidelines on "Institutional Mechanism for monitoring of PPP projects" issued vide OM No.14011/09/2008-Infra (Part-II) dated 08.08.2012 of Department of Economic Affairs, Government of India.

ii. The institutional structure for monitoring PPP projects requires the creation of a two-tier mechanism for monitoring PPP projects. The PPP Cells within each department shall have a Project Monitoring Unit (PMU) which monitors the projects through a reporting mechanism. The Monitoring Reports for each project would include compliance of contract terms, adherence to time lines, assessment of performance, remedial measures and imposition of penalties. The State Level Performance Review Unit (PRU) should review the PPP Project

Monitoring Reports submitted by the different PMUs and oversee or initiate action for rectifying any defaults or lapses.

40. IDD would set out the process for scrutinizing and clearing all investment proposals, frame guidelines for assessing the feasibility of private investment, set in place standard procurement documents and framework agreements, and assist the Government/Government Agencies in the procurement of developers. IDD would also facilitate the Government/ Government Agencies, to develop and implement Infrastructure Projects in the PPP format, in an expeditious manner.

41. In order to facilitate financing of project development and implementation in an efficient, sustainable and expeditious manner, Government would use its "Infrastructure Initiative Fund." IDD would set out the policy and regulatory guidelines and provide the necessary institutional support for operations and management of the Fund. All fees and charges[8] accruing from project development and investment initiatives of IDD/ concerned Government/ Government Agency, would be credited to the Infrastructure Initiative Fund. Government would also make contributions to the Fund through budgetary provisions and/or other sources, from time to time, as it may deem appropriate.

42. Based on the strategy developed for each sector, IDD, in consultation with Government Departments/Agencies, would prepare a road map for infrastructure development in the State that will:

a) Identify critical projects in different sectors that need immediate attention;
b) Identify projects where significant benefits of network extension can be exploited for integrated infrastructure development;
c) Explore the scope for PPPs in developing new Infrastructure Projects and augmenting existing infrastructure facilities and encourage such participation through appropriate incentives;
d) Prepare a shelf of developed projects for posing on a PPP format;
e) Mobilize resources through appropriate policy measures to supplement private sector investment, especially in the case of commercially non-viable projects;
f) Identify and resolve bottlenecks in the institutional framework that are likely to impede investments and therefore provide a conducive environment for infrastructure development through PSP;

[7] Vide Government Order No. IDD 07 ITS 2013 dated 30.10.2015
[8] Such as project development fees, application/tender charges, concession payment, interest charges guarantee payments, taxes, cess etc

g) Facilitate the conversion of approved projects into the implementation phase.

43. The institutional roles and responsibilities are set out in **Schedule II.**

44. Government also recognizes the role of public opinion and stakeholder participation in facilitating Infrastructure Project development and implementation. Since the viability of projects is contingent upon cost to the final user, it is important to ascertain “what the market can bear”. Mobilizing public opinion and ensuring stakeholder participation is thus an integral part of Infrastructure Projects. IDD would collaborate with professional bodies, NGOs, Industry Associations, and User Groups in facilitating this process.

G. INCENTIVES AND CONCESSIONS

45. Government would provide the incentives and concessions set out in **Schedule III** to promote private finance initiatives in infrastructure development. These would be available to all projects falling in the ambit of **Para 13** of this Policy. Investors would be eligible for any other additional incentives and/or concessions proposed/available for projects under existing sectoral policies/proposed sector-specific strategies, but Government shall take a holistic view of the totality of incentives and concessions, vis-à-vis the viability requirements of the project. In addition, several of these projects would also enjoy tax benefits under the Income Tax Act, 1961, as delineated by the Government of India.

46. In case of projects where no private investments in the form of private equity participation are envisaged, and where the Government agency or implementing authority directly awards the project to a contractor following a standard procurement process, but not under a specific concession structure as described in Para 22 - 24 of this document, no incentives and concessions would be available under this Policy.

47. To enhance commercial viability of the projects, Government may allow, wherever necessary, the Concessionaire/ SPV to develop utilitarian services or other socially acceptable commercial activities such as development of hotels/motels, gas stations, or recreational centres etc., on the Infrastructure Project site.

48. Subsidies in the Infrastructure sector would be based on the need for balancing adequate cost recovery, with social needs and regional development. Wherever subsidy is necessitated for social/ regional needs, it shall be the endeavour of

the Government to ensure that such subsidies are direct and transparent. In all other cases, it shall be the endeavour to price services to be commensurate with the real costs of service provision, and sustainability of the project.

49. To the extent that the project parameters may permit, every project shall endeavour to maximise employment opportunities to the local population of the State of Karnataka.

V DURATION AND REVIEW OF POLICY

50. This policy would come into force with effect from the date of issue of Government notification and would be effective till the formulation of a new infrastructure policy.

51. There would be a mid-term review of this Policy based on a critical assessment of feedback from stakeholders, and changes in scope that are deemed necessary and desirable, would be incorporated at that stage.

52. The Government recognises that expanding and institutionalising the scope of PPP in provision of infrastructure may also necessitate appropriate changes in the existing legislative framework. It is however felt that the present framework offers sufficient scope for PPPs in provision of Infrastructure. The specific legislative constraints for PPPs would also be reviewed and addressed during the mid-term review.

VI SECTORAL STRATEGIES

53. The broad principles set out in this document would govern the various strategies to be developed for each sector. The concerned administrative departments would finalize the sector strategies and action plans thereunder within six months of the date this Policy comes into force.

54. As regards the power sector, the recent policies announced by Government with respect to privatisation[9] and restructuring and the Electricity Act 2003 would, *inter-alia*, provide the underlying basis for implementation of the proposed sector development strategy.

55. IDD would assist Government/ Government Agencies in making a concerted effort to set out an action plan for already identified project development opportunities in various infrastructure sectors in the immediate term. IDD would use the services of iDeCK, which has been assisting several of these

[9] Detailed Policy Statement on Karnataka Power Sector Restructuring and Privatisation Programme; Independent Power Producers Policy

Departments on various projects and policies in the past, particularly in the PPP domain, to provide the necessary project development and implementation support. For this purpose, IDD would interface with other Departments concerned, such as, the Public Works Department, Urban Development Department, Energy Department, Commerce & Industries Department, and Department of Information, Tourism & Youth Services, among others, to advise on and co-ordinate the identified and new project development activities.

VII SPECIAL THRUST TO DEVELOPMENT OF INFRASTRUCTURE IN HYDERABAD-KARNATAKA REGION[10]:

56. Given the special status to the Hyderabad-Karnataka region during the year 2013 under Article 371 J of the Constitution of India, the following measures shall be taken to encourage the development of infrastructure in this region:

  a. The Government shall prepare an Infrastructure Strategic Action plan for the region that would address key social and economic Infrastructure such as roads and bridges, healthcare, educational, drinking water supply, minor irrigation, animal husbandry, sericulture and urban development.
  b. Create a PPP cell in the Hyderabad - Karnataka Area Development Board (HKADB) which will be equipped to:
     i. Identify potential PPP projects that can be undertaken in the region
     ii. Facilitate selection of private developers for implementation of various projects
     iii. Oversee performance of these projects
  c. A committee under the Chairmanship of Principal Secretary, IDD would be constituted to monitor the progress of projects on a quarterly basis.
  d. Government shall undertake specific capacity building programs for the officers in the region to understand the need and benefits of PPP. All projects being implemented on PPP mode would be fast tracked to ensure faster delivery of services.

VIII MODEL BID DOCUMENTS, POLICIES AND RULES FORMULATED BY GOVT OF INDIA[11]:

57. Govt of India has brought out several model bid documents for various sectors. The State will adopt them for PPP projects undertaken in the State. The State will consider policies and rules on PPP as and when formulated by Govt of India.

[10] Vide Government Order No. IDD 07 ITS 2013 dated 30.10.2015

SCHEDULE I - EVALUATION OF RISKS & RISK MITIGATION MEASURES

Projects are subject to various types of risks during the development, construction and operations periods. In a PPP framework, these risks are typically assigned to the parties best able to handle them. The table below sets out the typical project risks envisaged during the project life-cycle and their mitigation measures in a standard Concession (BOT) contract.

Risk Description	Assigned to	Risk Mitigation Measure
I. Project Development Period		
Statutory clearances needed prior to implementation including Environmental Clearance	EPC Contractor/ Concessionaire	Government shall facilitate obtaining all such clearances
Land Acquisition	Concession Agreement (CA)	Government shall set in place appropriate process to expedite land acquisition
Delay in Land acquisition	CA	-do-
II. Construction Period		
Project Design Risk	EPC Contractor / Concessionaire	Detailed technical evaluation by independent Technical Consultant Independent Engineer entrusted with detailed scope of work to ensure that project conforms to design standards and specs.
Political Force Majeure Event (War, invasion, armed conflict or act of foreign enemy, strikes, agitation, blockade, embargo, insurrection, military action, civil commotion)	CA	Agreement typically lays down provisions for extension in time, sharing of costs and payment of compensation by the Contracting Authority under such events
Damage/Injury to 3rd parties	EPC Contractor / Concessionaire	Insurance generally procured by EPC Contractor with an extension of cross liability
Cost Overrun Risk	EPC Contractor / Concessionaire	Construction cost estimates Independent revalidation of construction costs estimated by EPC Contractor.

[11] Vide Government Order No. IDD 07 ITS 2013 dated 30.10.2015

Risk Description	Assigned to	Risk Mitigation Measure
		Fixed time/fixed price contracts. Risk related to cost overrun passed on to the EPC Contractor. Insurance Cover
Project Completion/Time Overrun Risk	EPC Contractor / Concessionaire	Fixed time /fixed price contract with EPC Contractor Performance Security provided by EPC Contractor, including defects liability period Retention Money Equity stake in project SPV
Inflation Risk	EPC Contractor / Concessionaire	Transferred to the EPC Contractor / Concessionaire under the EPC Contract
Technology Risk	EPC Contractor / Concessionaire	Concessionaire to provide warranties /commitments to upgrade technology to meet output specifications
Termination Risk	Promoters/ Concessionaire/ Lenders	Termination Compensation Substitution/Step-in Rights to Project lenders
III. Operations Period		
Traffic/ Demand Risk	Concessionaire/ CA Depending on project	Detailed Traffic Studies by independent traffic consultant/expert. Annuity structures/ Financial Support
Revenue Risk	Concessionaire/ CA	Traffic surveys/ willingness-to-pay studies Annuity structures / Financial Support
Revenue Leakage Risk	Concessionaire/ CA	O-D surveys; tolling infrastructure, monitoring systems Independent Auditor
Maintenance Standards	O&M Contractor/ Concessionaire	Performance Security Monitoring by Independent Engineer.
Increase in O & M costs	O&M Contractor/ Concessionaire	Fixed Price Contract
Injury to the Project road users/third parties	O&M Contractor/ Concessionaire/	Insurance Cover

Risk Description	Assigned to	Risk Mitigation Measure
	Insurance Co.	
Environmental Risk	O&M Contractor/ Concessionaire	Concessionaire/ O&M Contractor to meet the accepted environmental norms during the operations period. This could be enforced through suitable clauses in the Concession Agreement.
Termination Risk	CA/ Concessionaire / Lenders	Termination Compensation Substitution/ Step-in-Rights to Project Lenders
IV. Financing Risks		
Equity	Sponsors/ Investors	Sponsors generally required to maintain in aggregate a minimum shareholding in the paid up equity capital of the Concessionaire Project lenders insulated from risk related to equity subscription
Term Debt	Lenders	Suitable security creation
Interest Rate Risk	Concessionaire	Fixed interest rates on debt, with reset options
Adverse FX Risk	Concessionaire/ CA	Funding through Rupee debt In case of forex funding for critical projects, exchange rate risk could also be partly or fully borne by CA through appropriate agreements and hedging mechanisms
V. Other Risks		
Expropriation, including creeping nationalization, changes in legislation, discriminatory actions on tolls, etc.	CA	Such acts defined as direct political force Majeure events and remedies are generally provided under the Concession Agreement.

SCHEDULE II - INSTITUTIONAL ROLES & RESPONSIBILITIES

Govt./ Govt. Agency/ Organization	**Key Tasks**
Government of Karnataka (GoK)	a. Formulation and review of policy measures b. General administration of policy measures c. Co-ordination between various departments for facilitating project implementation d. Performance evaluation
Infrastructure Development Department, GoK	a. Co-ordination of policy level initiatives b. Part of the Single Window Agency (SWA) for PPP for approval of private investment proposals up to Rs. 50 crore c. Part of the High-Level Committee (HLC) for Infrastructure Projects over Rs. 50 crore d. Assistance to HLC and SLSWA for evaluation of all Infrastructure Project proposals to be implemented through PPP e. Co-ordination of project development
High Level Committee	Facilitate and approve PPP projects over Rs. 50 crore
Single Window Agency	Facilitate, coordinate and scrutinise all PPP projects and approve projects up to Rs.50 crore.
PPP Cell & District PPP Committee	a. Facilitate project identification, development & implementation b. Facilitate co-ordination between various departments c. Facilitate obtaining clearances and approvals
iDeCK	a. Secretariat / Advisor to IDD /SWA /HLC. b. Preparation of sectoral strategies and action plans for successful project implementation c. Administering training and skill development programmes d. Co-ordination of project development for PPP projects e. Project financing f. Interface between Government and private sector/ industry

SCHEDULE III - INCENTIVES AND CONCESSIONS

1. The project would be allowed to charge user fees (tolls, port dues etc.) during the concession period.

2. Recognising the fact that infrastructure projects require special consideration in view of long gestation periods, low rates of return and higher risks, incentives and support such as tax holidays, tax exemptions, Viability Gap Fund, etc., have been provided under the purview of the GoI.

3. Apart from the incentives, concession and support available to the projects, the Government proposes to offer the following incentives:

A. FACILITATION

a. Where it is not possible for private investors to obtain land required for the project on their own, the Government would acquire the land required for the project;
b. Facilitation in obtaining clearances and approvals from various agencies;
c. Facilitate in obtaining water and power required for the project.

B. ASSET-BASED SUPPORT

a. Government land may be provided, subject to availability, at concessional rates;

b. Wherever an Infrastructure Project by itself is not financially viable, the private investor may be allowed to acquire additional land on the same terms as the land for the main project, and develop suitable commercial activities to ensure a reasonable composite internal rate of return. Such development rights would be consistent with applicable laws and land-use, and would include commercial complexes, hotels, housing complexes, and advertisement hoardings. Where permitted under local regulations, this would include relaxation in the applicable Floor-Space Index norms;

c. Develop linkage infrastructure, for projects that need such critical linkages.

d. This will not be available to the procurement made under Swiss Challenge Route.[12]

C. FOREGOING REVENUE STREAMS

a. **Exemption from entry tax and Special Entry tax** arising in the construction of the Infrastructure Project facility for a period of **three years or till the date of completion of the project, whichever is**

[12] Amended vide Corrigendum No IDD 59 ITS 2009 dated 31.05.2010

earlier. Only machinery, equipments, and construction material would be eligible for this exemption. Further, the limit of exemption would be **Rs. 25 lakhs for machinery and equipment, and Rs. one lakh per invoice[13] for construction material**, or as officially notified by Government from time to time. Such exemption would be applicable both to the developer of the infrastructure project, or any person authorised to execute works in the infrastructure project.

b. **CONCESSION ON STAMP DUTY ON TRANSFER OF LAND**[14]:

Other than Hyderabad Karnataka Area	**Hyderabad Karnataka Area**
Zone 1 : 100 %	HK Zone 1 : 100%
Zone 2 : 100 %	HK Zone 2 : 100%
Zone 3 : 75 %	
Zone 4 : nil	

c. **Concession on conversion fine on land**:

Other than Hyderabad Karnataka Area	**Hyderabad Karnataka Area**
Zone 1 : 100 %	HK Zone 1 : 100%
Zone 2 : 100 %	HK Zone 2 : 100%
Zone 3 : 75 %	
Zone 4 : nil	

[Note: **Zone 1** : Most backward; **Zone 2** : More backward; **Zone 3** : Backward;
Zone 4 : Industrially developed;

Hyderabad Karnataka Area: Districts of Bidar, Bellari, Gulbarga, Raichur, Koppal & Yadagir]

D. CONTINGENT GUARANTEES

In specific cases, guaranteed payment structures such as "Take-or-pay" (wherein there is an assurance of payment for the availability of a service) or "supply-or-pay" (wherein there is an assurance of payment for the non-availability of a service) would be considered.

[13] Inserted vide GO No IDD 07 ITS 2010 dated 08.08.2011
[14] The zones in this Policy shall be identical to that defined in the Industrial Policy, 2014 of GoK

E. FINANCIAL SUPPORT

a. Viability gap finance from the Central Government: The Government of Karnataka would sponsor the project for release of Viability Gap Fund, from the Government of India

b. The Government of Karnataka would also provide additional Viability Gap Fund, over the VGF of the Central Government

c. Provided that the quantum of total Viability Gap Fund shall be determined after clearly and explicitly calculating all project costs and incentives/ concessions:

    i. Taking into account all costs of the projects, excluding cost of land, and land related charges such as Stamp Duty & Conversion Fine

    ii. Taking into account all other incentives granted, including asset based support and the foregoing of revenue streams, and including any other financial incentive granted under any other sector policy, or scheme of the Central Government, Central Government Agency, Government or Government Agency.

d. This will not be available to the procurement made under Swiss-Challenge route[15].

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[15] Amended vide Corrigendum No IDD 59 ITS 2009 dated 31.05.2010