Hybrid Annuity Model – New MoRTH Bidding Rules

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Hybrid Annuity Model Latest News

- The Ministry of Road Transport and Highways has tightened bidding norms for **Hybrid Annuity Mode** road projects by adding penalties and possible disqualification for contractors linked to major construction failures.

Hybrid Annuity Model

- The Hybrid Annuity Model (HAM) is a **public-private partnership model** used mainly for road and highway projects in India.
- It was introduced to revive private sector participation in infrastructure after earlier models such as **Build-Operate-Transfer** (BOT) faced difficulties due to land delays, traffic risks, financing problems, and stressed balance sheets of developers.
- HAM combines features of the **Engineering, Procurement and Construction** (EPC) model and the Build-Operate-Transfer Annuity model.
- Under this system, the government and the private developer share financial responsibility, while the government also takes over major revenue risks.

- In HAM road projects, the **government generally pays 40% of the project cost during the construction period**.
- The remaining 60% is arranged by the private developer and is paid back by the government in the form of annuity payments during the operation period.
- Since toll collection risk remains with the government, the private developer is not dependent on uncertain traffic revenue.

Key Features of HAM

- **Shared financing**: The government contributes 40% of the project cost during construction, reducing the initial financial burden on private developers.
- **Annuity-based repayment**: The remaining amount is paid to the developer in instalments after construction, usually over the concession period.
- **Government bears traffic risk**: Unlike BOT-Toll projects, the developer does not depend directly on toll collections.
- **Private sector efficiency**: Construction, operation, and maintenance responsibilities remain with the private player, encouraging timely completion and better project management.
- **Performance-linked payments**: Payments are linked to project milestones and maintenance standards, creating incentives for quality work.
- **Lower investment risk**: Since the government assures payments, banks and financial institutions are more willing to fund such projects.

Benefits of HAM

- **Revival of PPP projects**: HAM improved private participation when BOT projects became less attractive due to uncertain toll revenue and financial stress.
- **Reduced burden on government**: Compared to EPC, where the government funds the full project cost, HAM allows cost sharing with private developers.
- **Lower risk for developers**: Developers are protected from traffic risk, which is difficult to estimate accurately in many road projects.
- **Better bankability**: Assured annuity payments improve the confidence of lenders.
- **Focus on maintenance**: Since the concessionaire is responsible for operation and maintenance, roads are expected to be maintained better over time.
- **Faster infrastructure creation**: HAM has supported the construction of national highways, expressways, and connectivity corridors.

Challenges in HAM Projects

- **First**, it creates a long-term financial liability for the government because annuity payments must be made for years after construction.
- **Second**, if project costs are inflated at the bidding stage, the government may end up paying more over time.

- **Third**, many HAM projects depend on timely land acquisition, environmental approvals, and utility shifting. Delays in these areas increase costs and affect project execution.

News Summary

- The MoRTH has now introduced stricter norms for HAM tenders to prevent poor-quality construction and major structural failures.
- Through a circular dated April 29, 2026, MoRTH extended provisions earlier applicable to Engineering, Procurement and Construction (EPC) contracts to HAM projects.
- The key change is the **introduction of a catastrophic failure clause**.
    - A bidder may face a minus 30 mark penalty or possible disqualification if it has been involved in a catastrophic failure caused by construction defects in any highway project within two years before the bid due date.
    - The rule applies to both completed and ongoing projects.
- MoRTH has directed that these modified provisions be included in all ongoing and future HAM bid documents.

Meaning of Catastrophic Failure

- MoRTH has defined catastrophic failure as serious construction-related incidents that significantly affect project quality, cause loss of life, or create lasting damage to road structures. These include:
    - Collapse of a bridge, flyover, or underpass.
    - Embankment or pavement failure causing loss of serviceability.
    - Collapse of the launching girder or staging leading to loss of life during construction.
    - Tunnel collapse or trapping of people for more than 72 hours.
    - Failure of Pavement Quality Concrete.

Significance of the New Rules

- The new norms are significant for India's highway sector. **In the last three years, major deficiencies were reported in 67 National Highway projects**.
- Earlier, action against defaulting agencies included penalties, termination of agreements, blacklisting, debarment, or declaration as non-performers. The new rule adds a preventive filter at the bidding stage itself.
- It is **likely to benefit companies with strong safety systems, quality control, and clean execution records**.

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