

PPPs in roads, highways in need of a strong govt push

► 50 per cent of the problems faced by industry are at the state level

► Appetite of big companies to take mega projects appears limited

by Prerna Singh

Availability of quality infrastructure is a pre-requisite to achieving broad-based and inclusive growth on a sustained basis. This assumes greater significance as India prepares itself for a radical shift in its economic growth model with focus on increasing the share of manufacturing sector by about 10 per cent in next 10 years or so. Development of dedicated freight corridors and multiple industrial corridors shall provide the foundation for this major shift. The XII Plan (2012-2017) has an ambitious target of infrastructure investment and is envisaged at \$1 trillion (or about ₹41 lakh crore, about 10 per cent of GDP). This projected investment is about twice the investment envisaged in the XI Plan and 27 per cent of the gross domestic savings.

The government's ambitious target of constructing 20 km of highway per day has hit a roadblock as it has been able to award only 1100 km of roads against the target of 8800 km in 2012-2013. Out of 151 highway projects, 101 projects are delayed on account of land acquisition problems, delay in statutory clearances, lack of good contractors, financial closure and non availability of labour.

NHAI is involved in around 1600 cases of dispute amounting to ₹11,100 crore investments. Over 1100 cases are in tribunals and 500 cases are pending in courts. There should be a fully empowered committee to settle these

disputes at the earliest.

For fast-tracking statutory approvals of infrastructure projects above ₹1,000 crore a Project Monitoring Group, formed under Additional Secretary Cabinet Secretariat, has been expediting required approvals and coordination among stakeholders in a transparent on line process. Assessing the impact of this Project Monitoring Group secretary Anil Swarup said out of 329 projects entailing investments of ₹17, 00,000 crore which accounts for 22 per cent of the GDP of India, 122 projects of investments worth ₹4, 00,000 crore have already been cleared so far. According to him, 50 per cent of the problems faced by the industry lie at the state level. For this purpose the formed group travels to states on a weekly basis to solve the issues at ground level.

Road sector is crucial for the growth of the economy. The development of roads is directly related to the development of the nation as it helps in connecting farm lands and centres of economic activities to the mainstream of the market, employment generation, poverty alleviation and ultimately to the economic prosperity and social wellbeing of the nation.

An ESCAP study says that one million rupees spent on road construction lead to seven times reduction in poverty than million rupees spent on poverty alleviation”.



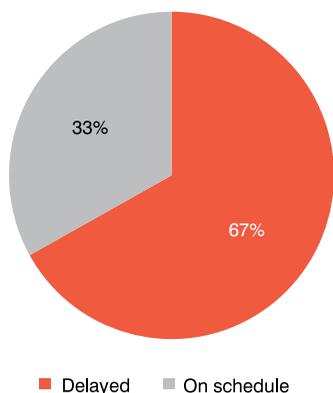
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Infraline conference

Continuing with its exclusive series of conferences on the road sector, Infraline Energy recently organized its third annual conference on Public Private Partnerships (PPP) in Roads and Highways in New Delhi. The underlying objective of this conference was to bring numerous stakeholders in roads and highways sector together to brainstorm on many complex issues adversely impacting the sector and to jointly evolve workable solutions for consideration by policy makers.

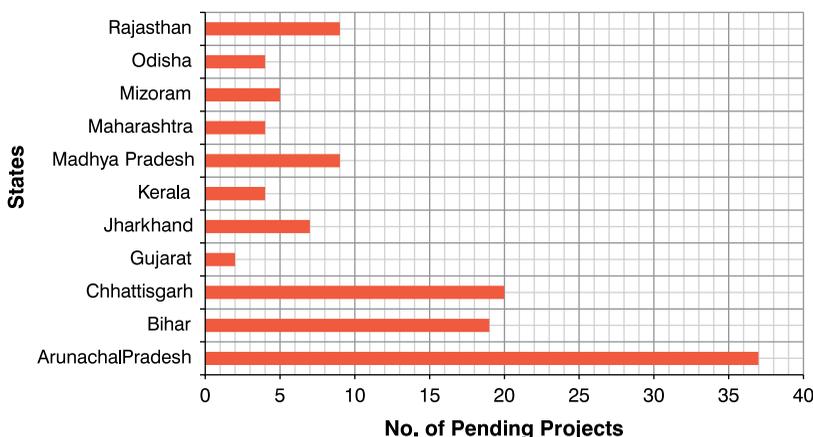
Union minister for transport, roads and highways, Oscar Fernandes, delivered the inaugural address. The participants included policy makers from ministries and Cabinet Secretariat, project developers, investors and representatives of industrial associations who deliberated on the various aspects of implementation of PPP model in

Status of Delayed Road Projects



Source: Parliament Sessions & NHAI

Statewide projects pending for Environmental Clearance



Source: Parliament Sessions & NHAI

roads and highways sector and the need of the hour to build and restore investor confidence in this sector.

The conference provided an overview of the sector, brought out the status of key challenges, risk profiles and their mitigation strategies, technological advancement, policy and regulatory reforms needed, new and innovative financing mix for projects, and the need for devising comprehensive framework for future growth of this crucial national infrastructure.

The takeaways

- Transport sector contributes to 6 per cent to country's GDP and share of road sector alone is around 70 per cent of it.
- During XII Plan, out of total estimated investment of around ₹4.8 lakh crore in infrastructure space, a provision of ₹3.2 lakh crore has been made for the various phases of NHDP. Private sector is expected to assume major responsibilities and the Union government is anticipating around 50-60 per cent contribution from it.
- The year 2011-12 was a golden period for PPP projects. During that period around 8000 km of road contracts were awarded which led to increasing the targets to 9500 km for 2012-13. But this did not

The experience of private sector with PPPs in road projects is not very healthy. Project developers have been confronting several challenges like land acquisition, environment, forest clearances, poor performance of contractors, non availability of labor and project financing.

happen due to lack of interest by bidders, ongoing financial crunch, non viability of projects under the offered terms, experiences from the operating projects, and delays in achieving financial closures for the concessionaire.

- PPP model has not delivered because a) public component has not come up to the expectation and b) the appetite of big companies to take mega projects appears limited. The spirit of partnership in PPPs is missing. The government has a conflicting role of sovereign partner as well as commercial partner.
- The experience of private sector with

PPPs in road projects is not very healthy. Project developers have been confronting several challenges like land acquisition, environment, forest and wildlife clearances, poor performance of contractors, lack of project management skills, non availability of labor and project financing.

- As out of 151 highway projects, 101 projects were delayed on account of land acquisition problems and delay in statutory clearances. The government is thus largely responsible for such situation as time over runs, policy changes (Land Acquisition Bill etc) would push up the project costs significantly thus depressing the projects viability.
- One of the major contributory factors to the problem are the provisions contained in Land Acquisition Bill which have made all processes more cumbersome. Economic slowdown and aggressive bidding have also led to non-completion of few projects on time.
- PPP projects could be made viable if they can sustain 40 per cent viability gap funding and they have to be four-six lane, to recover the cost.
- Delays lead to time and cost over runs as inputs become more expensive. It was therefore suggested that raw material prices should be indexed to

Producer Price Index.

- It was felt that bidding should only be permitted within a 'range' and, as per international practices, bids beyond the range should be rejected.
- The sector is facing financial crunch because of the non-viability of road projects. There are also issues like over-estimation of traffic, capital gains tax, exit norms of the main contractors, replacement of good contractors (A Class) to sub contractors (C class) leading to bad quality of roads, etc.
- There are huge number of ongoing disputes, involving 1600 arbitration cases amounting to ₹11,100 crore investments, 1100 cases being examined by tribunals and 500 cases pending in courts.
- It was highlighted that some 500 top listed companies are sitting on the cash pile of ₹9 lakh crores and top 40 PSUs have ₹2.5 lakh crores at their end. Appropriate policy reforms and enhancement of bankability of road sector could attract deployment of such funds.
- The experience and limitations faced by commuters using toll roads also came up for discussions. It emerged that adoption of electronic toll collection techniques and latest software to forecast and monitor traffic on the roads would bring in many operational efficiencies. Globally 80 per cent of toll collection takes place electronically and 20 per cent manually but in India it is the other way round.
- India lacks high quality companies / contractors for the road sector and generally too many bidders chase few project bidding with doubtful capabilities. This makes the whole process time consuming and inefficient.

The road ahead

- The government should act as a facilitator and not as the regulator given the stage of development



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of Indian road sector and the need to expand it in a more time-bound manner. It should provide favourable environment and stable policies to attract higher investments in road sector.

- There is a need for more comprehensive risk mapping and risk sharing among parties. Certain risks like statutory approvals, land acquisition can be best handled by government / its nominee. The demand risk can be addressed by awarding the project on least PV of tolling basis. Finally, the government must bring in some predictability on the road map for the sector.
- Proactive stakeholder engagement should be promoted and private concessionaires should be treated more as partners rather than as equity investors.

- Project Monitoring Group Cabinet Secretariat threshold limit should be reduced to include smaller projects as well. As bulk of the problems facing road projects relate to state governments, innovative approach is needed to make them partners in such projects as they are the largest beneficiaries of such infrastructure.
- India lacks good contractors for the sector and project management skills are found to be weak. Imparting training on project implementation management could be a positive step.
- UMPP model of ministry of power where the responsibility of clearances lies with the government should be replicated for roads sector as well.
- There should be proper utilization of long-term debt funds to maintain liquidity in the sector.
- Model concession agreements should be reframed and made flexible to the changing situations.
- There should be easier and transparent exit norms for the concessionaire who completes the projects
- Innovative approach should be adopted by regulators like guaranteed returns, risk sharing, fiscal support and tax holidays. 📌