

National highway authority of india



**ASSIGN
BUSTER**

After Independence in 1947, India adopted socialist policies and had meagre growth rate of 3.5 per cent. All this changed when India opened its gate to reforms in 1991, which accelerated the growth to 8%. During this period the policy makers stressed on the importance of infrastructure development and highway development got precedence. To increase the road transportation network in India National Highway Authority of India (NHAI) was setup.

Along with improving the existing highways, NHAI embarked its journey with two iconic projects: The Golden Quadrilateral (GQ) and North-South East-West Corridor that were aimed at covering length and breadth of India. The phase I and phase II of the project aimed at construction and up gradation of 13,146 km of national highways into 4 to 6 lanes.

The major challenges facing NHAI were

Financing of projects: The long gestation period and uncertain future cash flows make it very difficult to avail finance for project. To solve this problem a lot of finance models like BOT, EPC etc., have been tried. But the satisfactory solution is yet to be reached.

Land Acquisition: According to the law the land has to be valued at prices on the date of notification and the compensation has to be paid accordingly. However, this had led to wide spread criticism and protests from land owners. The government has been dragged into a number of disputes pertaining to land acquisitions

Coordination among ministries: In India getting approvals for infrastructure projects requires a close coordination between various central, state and

local municipal levels. It involves coordination amongst all these parties and leads to delay in getting project approved.

Change of government and its priorities: Due change in government there has been a gradual shift of focus from infrastructure to rural development, leading to lack of finances and focus that ultimately led to delay of projects

To overcome these challenges a lot of changes are required by government to keep steady growth of highway development in India.

National Highway Authority of India

India had its tryst with destiny on 15 August 1947 when it got independence after almost 200 years under British rule. India started its process to build up the nation then by adopting the policies of socialism, planning commissions. However it was marked by red tapes, controls, bureaucracy hurdles, and government intervention. For almost 40 years India grew at a slow pace of 3.5% which is now called Hindu rate of growth. In 1993 India dwelled into a new path to growth. The markets were opened; liberalisation and globalization were the words of the day. However India could never become the success story which it became without revamping its decades old transportation infrastructure. India was now growing at a modest pace and to make sure that the growth levels are increased and maintained it became imperative that the logistic infrastructure be improved.

Recognizing these threatening problems India under the rule of NDA (National Democratic Alliance with the BJP as biggest party in the alliance) with the aegis of the then prime minister Atal Bihari Vajpayee announced a

massive project to revamp its infrastructure. It was called “ National Highway Development Project” which paved the path for a new era of growth.

Introduction

National Highway Development Project was implemented in 1998. It planned to widen, rebuild the national highways of the country which accounted for less than 2% of the total road network in India but carried about 40% of the road traffic. Road density in India is among the lowest at 2.75km per 1000 people and 770 km per 1000 sq. km compared to 6.7 and 841 resp. (TCA Anant, 2008)

The phase I of the project was called the Golden Quadrilateral (GQ) Project. Subsequently seven more phases have been launched and the project has been extended to cover all the important hubs, ports to this national highway grid.

The Project

The agency responsible for implementation of NHDP was National Highway Authority of India (NHAI). It is a nodal agency governed by the Ministry of Road Transport and Highways, Government of India. The phase I and phase II of the project aimed at construction and up gradation of 13,146 km of national highways into 4 to 6 lanes. The golden quadrilateral project and the north south and east west corridors were part of these phases. Golden quadrilateral project aimed at improving road connectivity between the four metropolitan cities of India namely, New Delhi, Mumbai, Chennai and Kolkata. Other major towns like Ahmedabad, Surat, Vishakhapatnam, Pune, and Bengaluru were also supposed to be a part of these national highways.

East west corridor connected Silchar in east to Porbandar in West. North south corridor connected Srinagar in north to Kanyakumari in south. Phase III plans to integrate the state capital and major economic hubs with the NHDP I and II and total 12, 109 km of highways will be upgraded in this phase. In phase IV around 20, 000 km of national highways will be constructed and upgraded. These are majorly the highways that were not a part of phase I, II and III. Phase V envisages to upgrade 5000 km of 4 lane roads into 6 lane roads. The government still has to decide which sections of the highways will be upgraded in this phase. Phase VI plans to construct expressways in India on BOT basis. These expressways will connect major industrial towns of India. Phase VII plans to build bypasses, flyovers, ring roads to increase road network in cities to national highways.

Economic Impact

As the various projects were launched there was a rapid rise in the creation of jobs. There was also a huge employment generation in both skilled and unskilled sectors. During the phase I around 250000 persons per day were required or around 40 persons per km per day. (www. nhdp. org). Various sectors like steel, cement industry and equipment manufacturers saw high growth rates during the period. As per figures from press information bureau, Government of India growth rate in cement, steel and commercial vehicles were 8. 1%, 6. 8% and 55% respectively Source: nhdp. org.

There was a direct correlation in the progress of the project and the GDP growth. By the time the phase one was nearing completion India was clocking a GDP growth of more than 8% consistently. According to World

Bank the annual benefits the annual benefits were around Rs 8000 crore[1]on the GQ project itself.

There were a lot of indirect benefits which were to be realized with the project. These were primarily a reduction in time for transportation of freight and passengers. There will also be a reduction in vehicle operating costs, fuel costs, and maintenance costs. As the roads will be made the connectivity of rural parts with the nearby major towns will improve thereby impacting the development of the area. It would lead to faster movement of the produce and will benefit trade. Most importantly there would be a great reduction in accidents.

During the time another scheme “ Pradhan Manti Grameen Sadak Yojana” (Prime Minister’s Rural Road Development Plan) was also envisaged and implemented by the government. The scheme vowed to improve road infrastructure in the rural areas. It was decided to build roads in the villages and connect them to the national highways. Thus the thinking on the part of the government to improve basic infrastructure was really commendable.

In January 2012 when the government announced that the golden project is complete it was the fifth longest highway in the world. The project was completed in Rs. 32000 crores and was under budget as the government had estimated that the project cost would be Rs. 60000 crore (at 1999 prices). The project was also a first of its kind when it was completed before schedule which is new for a project of this scale.

The government was very dedicated to complete the project and because of this allowed 100% FDI in the sector. This was one of the earliest sectors

where 100% FDI was allowed. However, realizing that it would still not be able to generate enough financing for the project various financing models was adopted. Cess on petrol and diesel along with external and market borrowings were adopted to raise capital for the project. Private partnership was introduced to raise finance and joint ventures with international contractors were made.

Financing of Highway Projects

History

Until the creation of National Highway Authority of India (NHAI), roads were treated as public goods. The financing for developing and maintain these roads came mainly from taxes. There was no or very little connection between cost of developing the roads and the income from the taxes. There was very little attempt at direct road pricing.

The Problems

Limited Funding: Highway development requires large investments but the government was already under large fiscal deficit.

Inefficiencies: There were large inefficiencies that led to project over runs thereby escalating the project budgets exponentially.

Risk: With entire development with government, all risk was concentrated at one point. This strained the financing capability of the

Creation of NHAI

NHAI started its operation in 1995, the major motivation for an autonomous body under government of India was to increase the rate at which national highways were been developed. One of the major hindrances in increasing this pace was the limited capital available with the government. NHAI realized that to full fill its vision it has to look outside government for capital to develop its national highways.

The Financial Innovations

To understand the financial innovations at NHAI, first we have to understand the various risks associated with construction of National highways

Pre-development: Environmental clearance, land acquisition and other such requirements before the construction of roads can be done. Delays in getting clearances cause delays and costly project over runs.

Construction: Changes in designs, weather and geological conditions, funds unavailability, wrong planning of material availability and unforeseen labour shortages may lead to project over runs

Utilization: Less than expected road utilization, user's unwillingness to pay higher toll rate, may significantly impact the revenues from the road.

Foreign exchange rate: Fluctuations in exchange rate may lead to significant cost over runs for overseas developer

Act of God: Natural calamities like earthquake, floods may lead to delays and rework. These will lead to significant cost impact on the project.

Political Risks: Change of government, termination of the project, undue imposition of high taxes, may put considerable financial risk on the project.

The various financing model implemented by NHAI are

EPC (Engineering procurement and construction) contract: The project is completely finance by the public funds (E. g. World bank/ADB). Except for construction risk all risks are borne by NHAI. The advantages that NHAI has achieved through this mode are speedy implementation of projects, improved quality of roads, foreign investments form large multinationals. The inefficiencies involved in development of large infrastructure projects like national highways have been minimized. Foreign multinationals have set up joint ventures with Indian companies driving up innovations and successful implementation of projects

Annuity Contract: Financing of project is done from the contracted annuity. Project is financed through these annuity receivables. But the financial risk is borne by NHAI. Here NHAI is responsible only for financing the projects. Advantage for NHAI in this mode of financing is that, it has to pay the contractor every year specific amount to build the road.

BOT contract: Build operate and transfer as the name suggest, the company to wins the contract has to build the roads, maintain it and generate revenues so as to get back all the money invested and then transfer the highway back to government after specific period of time. These contracts are project finances, with all the capital coming from the private players. A special purpose company is created and all the risk except for political risk is borne by it.

EPC and Annuity currently dominate bulk of the projects. Thus most of the risk is still with NHAI.

For project financing as in case of BOT contract, the certainty of utilization of highways and thereby the toll collection is very less. This puts a lot of risk on the investor and therefore very few BOT contracts have been materialized.

Is Securitization the solution?

National highways have long gestation periods, with cash flows coming very late in the total project duration. This puts considerable financial risks on the private company to take is such projects. To minimize this risk securitization mechanism can be put in place.

Securitization is a mode of finance in which various cash flows are pooled together and sold to special purpose vehicle created to implement this project. SPV then issues debt securities which are backed by the cash flows.

Is the viable solution to boost highway development in India, should NHAI implement this model?

Challenges

Land Acquisition Act, 1984

When railway network was being expanded in India in the 19th century the British Government then rulers of India faced problems related to the private land acquisitions. They then enacted and passed the law whose first regulation was passed as early as 1824. India adopted the law in 1947 to primarily take care of land acquisition for public use. However this was just a

land acquisition law and did not had provisions for rehabilitation. Currently the government has to deal with this act along with 16 other acts for controlling private land acquisitions by the government and its bodies.

According to the law the land has to be valued at prices on the date of notification and the compensation has to be paid accordingly. However, this had led to wide spread criticism and protests from land owners. The government has been dragged into a number of disputes pertaining to land acquisitions. Currently over 80 NHDP projects are getting delayed due to disputes in land acquisition. It is argued by a section of society that the rules under the act are draconian. The compensation paid by the land acquisition officer to the land owners is also less than the market value due to money being siphoned off at many stages due to corrupt officials. There are charges that the land is under evaluated by the officials and when the compensation is being paid at below market prices to the land owners there is not much utility for them. Also, not much care is taken about rehabilitation of the people who are displaced by the projects.

The government had appointed committee to see into all these issues and to come up with new recommendations to improve the act. The government is planning to table a new law in the parliament however the draft has led to fresh concerns by the industries and social activists alike. The new law will make cost of land acquisitions up to four times the market rate in rural areas and twice the market rate in urban areas. Still the social activists argue it to be pro-market and one which will increase land disputes. The investors and firms argue it to be one which will make investments in projects costly.

Confederation of Indian Industries CII) is of the view that the committee has

<https://assignbuster.com/national-highway-authority-of-india/>

made recommendations without taking into consideration the need of the industry.

Coordination among ministries

In India getting approvals for infrastructure projects requires a close coordination between various central, state and local municipal levels. It involves coordination amongst all these parties and leads to delay in getting project approved. This ultimately makes the financial viability of the project questionable. (Wang et al, 2000). Despite government assurance of a single window and fast clearance of infrastructure project they are still getting delayed due clearances involved.

Change of government and its priorities

The project was envisioned during the regime of NDA in 1999. However, when the elections were held in 2004 UPA (United Progressive Alliance) came in to power and has been in power for the last 8 years. There focus has shifted to other welfare schemes like MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act), farm loan waiver among others. This has shifted the priorities of the government to raise finances for its welfare schemes and not the NHDP projects. Subsequently, the projects have been running on delays and many projects have delayed because the contracts have still not been handed over.

Corruption

There has been much news highlighting the rampant corruption in awarding the tenders to certain parties, contractors. Cases of wide spread siphoning

<https://assignbuster.com/national-highway-authority-of-india/>

off the money by the government officials was also reported. Satyendra Dubey, a project director who became the whistle blower in a letter to Prime Minister's Office (PMO) in August 2003 raised lot of doubts about the happenings in Jharkhand about the project. He was subsequently transferred to Gaya, Bihar against his wishes where he was murdered in November 2003. This caused a nationwide furore over the incident forcing the government to appoint an enquiry team. The enquiry team later confirmed that Dubey's name was leaked by PMO to NHA and also confirmed the allegation of corruption raised by Dubey.

Roadmap

Given the challenges being faced will the government now take measures to bring in fresh reforms in the sector so that the targets of NHDP are met? This might involve taking in some tough measures which might be opposed by sections of society. However, will a better sense prevail and a greater good of the society, GDP growth goals be achieved.