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Road projects may crash even before take off

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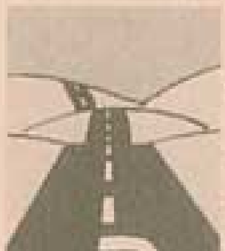

The government has ambitious plans to develop the highways (includes the most prestigious 13,000 km long National Highway Project), construct rural roads, roads in the states and build bridges and fly-overs at unmanned crossings. To support these projects, it had introduced a cess on petrol @ Rs 1 per litre in June 1998. This was followed by a similar cess on diesel in April 1999.

Of the total proceeds from these cess — estimated to be about Rs 6000 crore per annum — the government proposes to use 50 per cent for development of rural roads. Of the remaining half, 57.5 per cent or Rs 1725 crore will be used for construction of national highways, 30 per cent, i.e., Rs 900 crore for state roads and balance 12.5 per cent or Rs 375 crore for building bridges and fly-overs at unmanned crossings.

In a recent interview published in a leading financial daily, Dr Montek S Ahluwalia is reported to have mentioned about the cess on petrol/diesel being levied on ad valorem basis. If, this is to be believed, then, revenues flowing from the cess will be much more specially in view of the escalating price environment. The funds available for various segments will therefore, be correspondingly higher.

As regards procedures, it has been proposed that the cess proceeds will first go to the Consolidated Fund of India (CFI), and then transferred to the Central Road Reserve Fund (CRRF) to be created through an Ordinance / special Act of Parliament. Prima facie, the Fund is intended to be a dedicated facility with a view to ensure that the resources in it are utilised solely for the assigned purpose.

The projects in the road sector face a peculiar problem. Unlike in other areas, wherein the assets created from investment can be pledged for raising loans from financial institutions (FIs), a road or highway cannot be mortgaged. However, proceeds from the cess which are mandated for use exclusively for building roads/highways can be used as an acceptable collateral. This removes a major hurdle in the way of mobilising funds from FIs.

The above arrangements are broadly similar to those in vogue in respect of cess on domestic crude. The cess was introduced in 1974 through a special Act of Parliament, which also provided for the setting up of the Oil Industry Development Board (OIDB). The OIDB was required to ensure use of cess proceeds exclusively for development, marketing and research in the oil sector.

The collections from this cess — about Rs 30,000 crore as of March, 1998 — went to the CFI and were used predominantly for buoying up government's overall budgetary position. Reportedly, the amount made available to OIDB for disbursing to oil companies was a meagre 3-4 per cent. No wonder, the indigenisation programme in the oil sector has suffered a serious setback and currently, India depends on import of crude to the extent of 70 per cent of its requirements.

In the face of growing demand for petroleum products, even to maintain the existing level of self-sufficiency, domestic production of crude will have to be raised to about 51.0 million tonnes by the year 2005. The investment required to achieve this is estimated to be about US $6 billion which is nowhere in sight. The situation will, therefore, only worsen.

The experience with the oil cess makes one sceptical of the fate of the road cess. All the more so, in view of the stipulation that proceeds from the latter will first go to CFI (unlike in the former wherein, these were to go directly to OIDB) and from thereon to CRRF.

This has dangerous portends for projects in the road sector. These will not only be deprived of funds from the government but also from FIs as their exposure would remain largely uncovered. The ambitious programme for development of roads (including rural roads) and highways will crash even before it takes off.

(Dr Gupta is chief economist, The Fertiliser Association of India, New Delhi)