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Super highway unlikely to attract private funding

THE task of developing the country's roads is beset with problems. The gestation period for the power sector is two to three years (from zero date) and even less for the telecommunications sector. In contrast, it takes 25-30 years before a road project is commissioned and returns actually start flowing. Which investor will be prepared to wait that long, asks Uttam Gupta.

WITH the amendment of the National Highways Act and setting up of the National Highway Authority of India, the government has paved way for the private sector's involvement in developing Indian roads. It has ambitious plans to develop a national Super Highway Network stretching 13,000 km which is estimated to involve an expenditure of about Rs 1,30,000 crore (assuming Rs 10 crore for every 1 km stretch).

Of this, the government hopes to contribute only Rs 13,000 crore being the expenses likely to be incurred in acquiring land, shifting utilities and environment clearance, etc. For the balance, it is looking at the private sector including the foreign companies, to undertake commensurate investment initiatives. All this sounds like a pipe-dream.

In power, we are already in the fourth year since its opening up and not even a single MW of generation capacity has been added, nor any meaningful progress is in sight in any of the projects including those which were on the fast track.

In the telecommunication sector also, privatisation process, particularly in the basic services, is yet to take off. Although, after inordinate delays, the results of the tender have been announced, the failure to set up the Telecom Regulatory Authority with statutory backing may still bulldoze the chances of the selected parties taking up the job.

In power, lucrative and guaranteed returns were offered; returns that escalate with increase in PLF; payments guaranteed through guarantees of the state government and counter-guarantee (CG) by the GOI and protected against depreciation of the rupee. Besides, the projects were allowed to use fuel of their choice notwithstanding shortages in the overall availability to liquid hydrocarbons. The package could not have been better. And yet, the results are frustrating.

Investment in telecommunications is highly profitable even after considering the subsidised public telephone facilities in rural areas which the government expects the operator to undertake mandatorily.

This is clearly evidenced by the high license fee quoted in the recent tender. In this case, the government has the added incentive of using the consequential huge revenues for reducing the overall fiscal deficit especially at a time when the resource crunch is at its peak.

Despite these favourable circumstances, progress has been dead slow, and it calls for serious introspection. None other than the government itself is to be blamed for not formulating a coherent and consistent policy (especially in power) and allowing antiquated rules and procedures and bureaucratic red tapism to stampede the progress.

The government and its institutions being the common denominator, these problems will exist in handling privatisation in other sectors as well, and road is no exception. In fact, in this case, the government is yet to announce a comprehensive policy. Passing of legislation is only the bare minimum step that only means that private parties can build and run roads and collect toll from the users. For attracting them effectively, however, a lot more homework is required.

In the road sector, there are additional problems. Unlike power, where gestation period is two to three years (from zero date) and much smaller in telecommunications, in roads, this is extremely long. It takes 25-30 years before the project is commissioned and returns actually start flowing. Which investor will be prepared to wait that long?

Even bigger question is the toll rate and payment. In power and telecom, fundamentally there is no problem. Any one who gets a connection must pay and the people are, in fact, used to paying for these services. In respect of roads, the situation is entirely different. The concept that any one using the road must pay a tax is still not even in embryonic stage.

The related question is who should be taxed and how much? Considering that road being a public utility and used by all and sundry, a uniform toll is neither desirable nor practicable. It will be inequitable and neither desirable nor practicable. It will be inequitable and against the principles of natural justice to collect toll from public transport and movement of goods like foodgrains, vegetables etc.

That brings in a plethora of administrative problems and even the misuse of the system. The possibility of political interference also is not entirely ruled out. Any MP or MLA will have a vested interest in ensuring that users are not made to pay the toll in a particular area falling within their respective constituencies.

Considering that the private investor cannot afford to take chances on any of these counts, it would insist on guarantees and counter-guarantees. Will the government be ready for that? In power sector, it is now reneging on CG keeping in view the financial implications. In road projects, apart from the huge liabilities, the chances of such guarantees/CGs being invoked are much more due to uncertainties of collecting the desired revenues.

Building roads is a classical case of public utility where investment requirements are heavy, waiting period long and returns are not only inherently unattractive but highly uncertain. A private investor whose main motto is profit and who looks for quick, sure and good returns is bound to consider investment in roads as the least priority.

Financial institutions, including the FIIs, too will be reluctant to commit funds in road projects. All the more so in the institutional atmosphere of a developing country like ours where an effective toll collection system will take time to take shape. In fact, in view of these considerations, even the World Bank is not particularly optimistic about the progress of the privatisation plans of Indian roads.

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Apart from the considerations of resources and returns, management and maintenance of roads have dimensions that go far beyond providing the services and collecting toll. These include amongst others, questions of the safety/security, strategic risks and law and order, etc.

In view of this, building and operating roads is a role that best suits the government. Not only has it the capacity to mobilise resources on the desired scale, but it can also ensure coordination with other aspects like security and law and order. Even in industrialised countries, where infrastructural services are presently being run by private companies in the initial stages, the lead was taken by the state.

In India, this indeed has all along been the case where development of the entire network has been through the efforts of the government only. Now, in the early 90s, the government wants the private sector to undertake this responsibility. What the former is expecting from the latter is not just complementing, but, in fact, substitution of the role. The government has lost interest in maintaining even the existing network of roads with the budget provision being meagre in relation to the requirements.

In the emerging liberlised regime, it cannot be anybody's case that the government alone should continue to build roads. However, for the state to completely wash its hands off to the point of neglecting even the maintenance of existing network is unacceptable.

While seeking replacement of its role by the private sector, unfortunately, the government has resorted to a distorted interpretation of the reforms. Reforms are not just liberalisation and privatisation, it includes restructuring and reforms of existing public utilities. Specifically, in the context of roads, ports and power etc, this should mean better management and maintenance through debureaucratisation and depoliticisation and introduction of a totally professional work culture.

This is precisely what the government should do as a first step to run the existing network of 'roads efficiently' and ensuring their proper upkeep. Second, on its own, it should undertake further augmentation of the network in phases for which commensurate budgetary outlays may be made. Finding resources will pose no problems if only the budget is properly managed, tax collections improved and wasteful expenditure curtailed.

The government's initiative alone will meet only a part of the projected requirements. To support large-scale development, private sector including foreign companies/MNCs, have to be roped in. To facilitate this, a clear-cut and conducive policy should be announced without further loss of time.