ROADS & HIGHWAYS – NEXT BIG LEAP

Roads

Indian road network is second largest in the world aggregating 33 lakh kilometers. Road transport is a crucial link in connecting cities and villages of India handling more than 61% of the freight and 85% of the passenger traffic in the country. National highways constitute only 2% of the total road network length; however it carries nearly 40% of the traffic on Indian roads. Number of vehicles has also been growing at an average pace of 10.2% per annum over the last five years and the 11th five year plan, is targeting a growth of 9%. India needs better road networks as the cargo and passenger traffic is expected to grow at an annual rate of 13-15%. Investments in road sector during 11th five year plan is projected at Rs 3,66,843 crore at 2006-07 price levels.

Projected investments in Roads in 11th plan

Investments by type of Roads

	2007-08	2008-09	2009-10	2010-11	2011-12	Total
National Highways	29,350	31,029	33,876	40,218	46,988	**181,461**
State Roads	22,718	23,823	25,454	29,196	35,335	**136,526**
Rural Roads	7,500	8,100	8,600	9,200	9,851	**43,251**
NE Roads	846	952	1,163	1,269	1,375	**5,605**
Total	**60,414**	**63,904**	**69,093**	**79,883**	**93,549**	**366,843**
y-o-y change		*5.8%*	*8.1%*	*15.6%*	*17.1%*	

Source: Planning Commission, KRC Research

Outlook

Golden Quadrilateral is 97% complete, while 27% of the work is being completed in the North, South, East, West (NS-EW) Corridor project. Government has also enhanced allocation to National Highway Development Programme (NHDP) by 19.3% to Rs 12,966 crore in 2008-09. Under the proposed plan of NHAI, still 821 km under NS-EW Phase I&II and 10,034 km under Phase III are to be awarded. Government also expects 36.1% of the total investments from the private sector. Hence there is significant opportunity for the companies working under Public Private Partnership (PPP). With the annual passenger traffic growth expected at 12% to 15% per annum and cargo traffic expected to increase by 15% to 18%, the National Highway Development Programme (NHDP) envisages a total investment outlay of US$ 50-60 Bn over the next 5 years.

Exhibit 2:Current Status of NHDP

Kms	NHDP									
		NS - EW								
	GQ	Ph. I &	Phase	Phase	Phas	Phase	Total	Connec-	Others	Total

		II	III	V	e VI	VII		tivity		
Total Length	5,846	7,300	12,109	6,500	1000	700	33,455	380	962	34,797
Already 4-Laned	5,731	4,152	963	131	-	-	10,977	238	829	12,044
Under Imp.	115	2,353	2,408	903	-	19	5,798	136	113	6,047
No of contracts under Imp.	15	118	27	3	-	-	163	6	12	181
Balance	-	637	8,738	5,466	-	-	14,841	6	20	14,867

Source: NHAI, KRC Research

Revamp under UPA 2.0

The UPA government's re-election will provide five years of political stability to push vital reforms and boost the economic growth. Mr.Kamal Nath's appointment as Minister for Road Transport and Highways was a major revamp strategy and a "Beginning of New Era" in changing the face of the Indian Roads & Highways landscape. In order to strengthen the Indian road network Mr. Nath has proposed a mammoth task to "build 20kms a days or 7,000 kms a year or 35,000kms in the next 5 years".

Steps already taken

- Handing over 80% of land at the time of award and the remaining during construction. (Previously 50%).
- Removal of Clause 3.5.2 of RFQ which restricted bidding to the top 5-6 bidders will now ensure greater participation.
- Viability gap funding (VGF), which earlier provided 20% at funding during construction phase and 20% during O&M, now the entire amount will be provided during the construction phase, thus improving the cash flow streams of the developers.
- Estimated project cost has been increased by 20% for projects where Detailed Project Reports (DPR) was completed before 2007 and by 10% for projects where DPRs were completed post 2007.

Proposed Steps

- One-time nod to let road builders bid for multiple works developers, who have once been qualified for any road project, need not go through the request for qualification (RFQ) process for every subsequent project that they may want to bid for; in turn will save time and paperwork for road developers.
- Revenue Sharing Model to be dropped; It may allow a concessionaire to recover its investment and make profit for a longer period by dropping `the revenue-sharing clause' from the existing model agreement. The proposed model allows the concessionaire to keep the entire revenue until it reaches projected daily traffic on the highway and remains at that level for three successive years.
- Real Estate Development; Develop land alongside highways just like a real estate firm and earn revenues from it instead of collecting toll-Perhaps, then, the roads could be toll-free because the builder makes money from the development.

Funding

- The total cost of NHDP has been estimated to be Rs 54,000 crore and the likely sources of funding are: a) Cess on Petrol & Diesel - Rs 20,000 crore b) External Assistance: Rs 20,000 crore. c) Market Borrowings – Rs 10,000 crore d) Private Sector participation: Rs 4,000 crore.
- IIFCL would be allowed to raise Rs 10,000 crore in FY09 and Rs 30,000 crore in FY10.
- World bank & ADB to provide loan assistance of $1.2bn and $200mn respectively.

NHAI- NATIONAL HIGHWAY AUTHORITIES OF INDIA

The National Highways Authority of India was constituted by an act of Parliament, the National Highways Authority of India Act,1988. It is responsible for the development, maintenance and management of National Highways entrusted to it and for matters connected or incidental thereto. The Authority was operationalised in Feb, 1995.

Types of Projects NHAI undertakes

1. Build Operate and Transfer (BOT):

In order to promote involvement of private sector in construction and maintenance of National Highways, projects are offered on BOT basis. Concession period, which can range up to thirty years, road is transferred back to NHAI by the Concessionaire. Projects of Delhi - Gurgaon Section (Access Controlled 8/6 Lane) and Nellore - Tada etc. are being executed on BOT basis.

2. Externally Aided Projects:

NHAI is the implementing agency for executing projects for which loan assistance is available from Multilateral Development Agencies like ADB and World Bank or JIBC. In case of these projects, majority of the funds are transferred by Ministry of Road Transport & Highways to NHAI through budgetary route and NHAI receives agency charges for executing these projects.

3. NHAI funded Projects:

NHAI receives funds for augmenting its capital base from the Government through annual budgets or by Market borrowing.

Bidding process :

General procedure for selection is a two-stage bidding comprising of:

Stage 1:

Pre-qualification - on basis of technical and financial expertise of the firm and its track records on similar projects.

Stage 2:

Commercial bids from pre-qualified bidders. There is a time lag between stage 1 and 2.

Wide publicity is given to NHAI tenders so as to attract attention of leading Contractors / consultants. Notice inviting tenders is posted on this web site and published in leading newspapers.

Final selection :

If a project is funded by Multilateral funding agency like World Bank, ADB, selection is with consultation / concurrence of the funding organisation. For other types of projects selection is as per standards work procedures.

Different Procurement Procedures

International Competitive Bidding(ICB)

Projects financed by international lending agencies & for larger projects for which sufficient nos. of domestic consultants /contractors/consortium are not available.

Local (National) Competitive Bidding (LCB/NCB)

Projects financed by NHAI (in general)

BOT (Toll) Model

- In a BOT (Toll) Model, the concessionaire (private sector) is required to meet the upfront/construction cost and the expenditure on annual maintenance.

- The Concessionaire recovers the entire upfront/construction cost along with the interest and a return on investment out of the future toll collection.

- The viability of the project greatly depends on the traffic (i.e., toll). However, with a view to bridge the gap between the investment required and the gains arising out of it, i.e., to increase the viability of the projects, capital grant is also provided (up to a maximum of 40% of the project cost has been provided under NHDP).

BOT (Annuity) Model

- In an BOT (Annuity) Model, the Concessionaire (private sector) is required to meet the entire upfront/construction cost (no grant is paid by the client) and the expenditure on annual maintenance

- The Concessionaire recovers the entire investment and a pre-determined cost of return out of the annuities payable by the client every year.

- The selection is made based on the least annuity quoted by the bidders (the concession period being fixed).

- The client (Government/NHAI) retains the risk with respect to traffic (toll), since the client collects the toll.

Source: NHAI, morth.nic.in

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