

Shobhana's edit

Higher VGF a good idea, need a lot more clarity

The Maharashtra government going to court even before the Mumbai Metro began operations underscores just how tough it is going to be to construct metros in the country. The 2013 Metro Rail Policy is a big help since it plans to raise the viability gap funding (VGF) from 20% levels to around 30-35% of project costs, but this is just a partial solution. Giving land to metro developers at cheap rates is critical since only land monetisation can make projects viable. In the case of the Delhi Airport Metro Express, the share of passenger traffic revenue pencilled in was just 11% of total revenues in the initial years, with the bulk of the revenues to be earned from real-estate—65% in the initial years and around 60% during the remaining concession period.

The problem, however, is dealing with cost escalations—from R2,356 crore to R4,321 crore in Mumbai's first phase. Some metros are under the Tram Act where the concession—of the type Reliance Infra signed—is the operating agreement. Others are governed by the Metro Act where, as Reliance Infra claims, the first tariffs are set by the operator based on certain guidelines, and subsequently raised each year by a tariff committee—it is this dispute of which Act governs the Mumbai Metro that is the subject of the court dispute. If the central government wants metros to be set up, it needs to resolve this confusion along with the state governments.

More important, it has to be understood that the 3rd 'P' of PPP involves a partnership between the government and the private party which, at the moment, does not exist. Which is why, most metro projects have no clauses for renegotiation, they only have clauses for dispute resolution—if there are delays, these have to be factored in by the partners, and tariffs/VGF raised quickly so the project can move on; they cannot be the subject of a dispute that goes on for years. To be fair to the politicians/babus in Mumbai, hiking tariffs/VGF is not easy—even implementing the new VGF will be difficult in cases of cost escalation—when you have the CBI/CVC/CAG breathing over your shoulder. Eventually, as the Rakesh Mohan committee put it, there is no alternative to having a surface transport regulator for all big cities—India needs R1.3 lakh crore for metros in just the current Plan, it can't afford to not get PPP right.