

Long-term implications are unhealthy

In the immediate term, the government's strategy to revive stuck projects seems a smart one. As FE reported on Wednesday, the roads ministry has asked the National Highways Authority of India (NHAI) to prepare a plan whereby the NHAI takes control of a project stuck for funds, appoints a firm to complete the project, runs the project for a few years so as to recover its investment and once this is done, returns the project to the original concessionaire to run for the remaining life of the concession. It is not clear as yet whether the NHAI investment would be in the form of debt or equity—the proposal is in the formative stage, and emanated from the need to get one such project, the Gurgaon-Jaipur one, going. In this case, though, while the concessionaire was willing to step aside for a few years, the lenders nixed the idea. Given there are several such projects where clearances have not been made available on time, and where the initial projections on traffic have gone completely out of whack—this makes existing promoters reluctant to bring in more funds—thanks to the economic collapse, the move makes a lot of sense. Indeed, since the roads minister, Nitin Gadkari, has also come up with a plan to create a highways fund, NHAI will have a lot of money at its disposal. The Gadkari proposal envisages securitising NHAI's annual toll incomes, and getting investors like the Japanese—or long-term ones like insurance and pension funds—to participate in it. Given a completed road project offers safe as well as steady returns, the fund is likely to attract several investors. Indeed, in other cases of stuck projects with banks, this newspaper has argued, there is a case for banks to take over projects in the immediate short-term, and get them going.

Over the medium-term, however, the possibility of replacing private players with the government has to be guarded against. The idea of Build Own Operate Transfer (BOOT) was to bring in private sector efficiencies, not just money. Any move that takes us back to governments running projects cannot be a good idea on a sustained basis. The reason why the move is being contemplated, even welcomed in many quarters, is that NHAI/banks have not been able to oust bad/inefficient promoters quickly—as a result the projects are stuck, as is valuable bank money. In most projects, however, there are clauses that allow for getting out promoters/concessionaires; they have to be used more forcefully—if banks/NHAI are not doing this, RBI/the roads ministry needs to ensure this; if there are problems with the law, then these need to be addressed. A short-term solution can't be allowed to become a long-term problem—inefficient promoters have to be replaced with efficient ones, and if existing promoters are forced to take significant haircut, this makes finding a replacement that much easier.