

ON THE ROAD TO SUCCESS
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The transport sector plays an important role in the movement of goods and services in required for stimulating the economy. In India too, the roads are the major means for transportation carrying 58 percent freight and 80 per cent of passenger traffic.

Development of highways and roads is the domain of the National Highways Authority of India and the Ministry of Transport. India's road network, two million km in length, is the third largest in the world. The movement of goods on Indian roads increased from six billion ton kms in 1951 to over 400 BTKM in 1995.

However, like other infrastructure sectors, the road sector too has problems. High growth in traffic is expected due to a spurt in economic growth. The network in the national highway is only two per cent of the total road length in the country. On the one hand, traffic is highly dependent on the highways, and on the other, a large portion of roads is unsurfaced or is poorly maintained. To overcome these problems substantial investment in developing the network is required, in particular in national highways. These require large outlays, high cost and long-term finance.

According to the Eighth five Year Plan, an investment of Rs.40, 000 crore is required to further develop the road network-about Rs.8, 000 crore per annum. It is now clear that such a massive requirement of funds is not possible through government resources, Realizing the necessity of attracting private investment, the government has taken various measure to encourage investors. These include:

- Private Sector would be permitted to finance, construct, maintain and operate identified ways and bridges from its own resources.
- Legal framework has been suitably amended to implement BOT projects in this sector, giving the private sector requisite powers.
- Road sector has been declared as an industry to facilitate easy borrowing.
- Road sector has been declared as infrastructure to permit tax-free bonds.
- The government has identified 27 specific projects for construction of new highways projects and express ways for the private sector, involving an investment of Rs.1, 400 crore.

The recent move to tap private sector funds is through concessionaire approach with BOT/BOOT model.

The investor builds, operates and transfers the facility back to the government at the end of the concession period. Here, the role of the private sector is not limited to financing but extends to construction, operation and maintenance. The private parties are permitted to levy an end-user charge on the beneficiary of the project. The BOOT projects should conventionally be set up as Special Purpose Vehicles (SPVs) -separate legal entities to facilitate execution of the project independently.

It may not be possible for toll to cover operational risks. This is caused by low toll charges due to political will, ability to pay and road usage. What needs to be done is develop integrated

highway complexes. These complexes include industrial towns, kiosks, etc., on either side of the road, which would enhance revenue through taxes, recurring income, franchise fee and increased value of real estate. This is done in developed countries in the form of incremental revenue debentures, additional revenue along with the toll would work well for making these road projects self-sustaining.

In the recent Budget, the road sector has been given concessions by the Finance Minister. Rs.3, 300 crore would accrue to central road funds through the cess on diesel and petrol. Thirty per cent will be earmarked for states to take care of highways and roads. The remaining 70 percent will be utilized for national highway development.

Tax holiday provisions under Section 80-IA of the Income Tax Act have been extended to 15 years. Section 19(23)(G) has also been modified. The road sector has also receive increased allocation of Rs.800 crore from the previous year's Budget, providing Rs.3, 709 crore. It must be understood that development of roads is the key to economic growth. It has to be taken up through public private partnership and innovative instruments.