

FINANCING OF ROAD DEVELOPMENT

Contribution of roads in the development of a nation cannot be over emphasised. Roads are like arteries which supply life and blood to the economy of a nation. Traditionally, roads have been developed and maintained by the Government through budgetary support. Government has embarked upon a huge programme of development of all categories of roads to fulfil requirements of road users. Construction of roads requires large scale investment in a short period of time which makes the task of road financing very challenging. It has been assessed that improvement of existing National Highway alone would require more than nine lakh crores of rupees over a short period. Fund raising is to be done to match the requirement needs exploring other methods of financing.

The basic model of private financing of roads is Build Operate and Transfer (BOT). Concessionaire finances the construction from his own resources and the borrowings leveraged thereon from the financial institutions. The debt is serviced from the revenue earned by tolling the traffic plying on the road for a specified concession period and the remaining is retained by the Concessionaire as return for his investment. The success of project on this model entails ability to assess the risk associated with construction and traffic generation. The main feature of the model is that finances are arranged by the Concessionaire relieving the demand on the Government funds. In addition, the premium/negative grant received from the Concessionaire can be utilised to finance the other projects. The model is applicable only on roads

which carry heavy traffic and pass the test of financial viability. It is expected that funds to the tune of 20% can be generated for development of National Highways through this mode.

The other model which has been adopted for financing of road projects is BOT annuity model. The Concessionaire initially mobilises the funds for construction of road and receives back annuity payment from the Government over a specified period of time. In this way, the Government can spread its resources over a larger road network in a short period of time.

Apart from BOT and Annuity models, some other models catering to the specific needs and based on the experiences have also been developed. A few of them are Build, Own, Operate and Transfer (BOOT); Design, Build, Finance and Operate (DBFO); Design Built Operate and Maintain (DBOM) and Finance, Design, Build, Operate and Maintain (FDBOM). However, these are more or less variations of basic BOT model.

The task of development of road network and funds requirement is huge to carry it forward. The available models of financing have definitely addressed the problem of immediate financing needs. However, owing to their dependence on assured traffic, other sources of finances have to be explored to sustain the momentum of development specially in backward areas. Cess funds and net surplus from toll revenue have been identified as

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other major sources of finance. The following steps may also be explored in the context of making available long term finance of highway projects :

- (i) Creation of a Road Finance Corporation;
- (ii) Encouragement of takeout financing;
- (iii) Banks should be allowed to treat bonds or loans at par where it involves infrastructure financing and invest also in unrated and unlisted bonds; and
- (iv) Long term infrastructure bonds issued by SPVs (with maturity more than 5 years) held

by banks and insurance companies should be allowed to be classified under Held-to-Maturity (HTM) category;

Continuous efforts are needed to develop other innovative models which are aligned to the existing economical environment and provide comfort to the financier and operator.



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