

Realty bait to lure cos to highway projects

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To boost the viability of road projects without adding to fiscal stress and in order to attract big corporations into the sector, the government has drawn up a new scheme of ultra mega road projects (UMRPs), where firms will have the right to develop real estate alongside the stretches.

Each UMRP will be marked for its sheer size — R20,000 crore each — and the resultant gain on cost efficiency. The developers will be free to collect fees from users of these roads for a period of up to 30 years. The additional sugarcoating is that they will be allowed to develop real estate projects alongside the highways.

Previous road minister Kamal Nath had also proposed mega road projects a few years back, but they remained non-starters. The new scheme takes off from this but includes real estate development as a key ingredient to make these large projects remunerative.

The Union road ministry's proposal draws inspiration from the Yamuna Expressway project in Uttar Pradesh where the Jaypee Group is doing both road and real estate development on a portion of the 165 km stretch. But the project has faced stiff opposition in acquiring land. The Planning Commission is also in the know.

The UMRPs are proposed to be modelled on the lines of ultra mega power projects, which are single largest projects with a capacity to produce 4,000 MW of electricity a year each. As is the practice for these power projects, UMRPs will also be awarded by a government agency after all clearances from the Centre and states are in place. The states' role would be crucial as they would be the prime land acquisition agency for these projects.

The ministry's plan envisages the setting up of an expert committee for identifying stretches and weaving them up into packages. The panel is proposed to have representatives from the road ministry, environment ministry, state governments and financial institutions, apart from technical and traffic consultants, among others. A limited number of UMRPs may be launched initially to showcase the uniqueness of these projects.

“We would need support from states in acquiring huge tracts of land that these package will need. However, problems may crop up as opposition to land acquisition is intensifying across the country. The expert committee will help in resolving such issues,” a senior official in the Planning Commission said, requesting anonymity.

A government official said that a pre-approved viability gap funding (VGF) may be attached to certain stretches of the package. But the general idea behind developing UMRPs is to cut the government's subsidy bill, the official said.

The government is already looking for ways to reduce the award of those projects that require annuity payments, after Planning Commission member (infrastructure) BK Chaturvedi suggested so in 2010. Chaturvedi headed a task force on reducing the government's annuity commitments.

Officials said that the private sector will be keen on bagging these projects even with zero financial support from the Centre. “Instead, developers are more likely to bid on the basis of how much they are willing to pay the government as negative grant,” a senior road ministry official said.

Creation of these packages will improve the pace of road construction from under 10 km a day currently. The ministry is trying to achieve the often-repeated target of constructing 20 km of roads a day by 2014.

E&Y executive director Abhaya Agarwal said combining real estate development with road projects is not a solution in itself to rising subsidy liability and slow road construction. “It will really be attractive but thinking that it be a panacea is not right as real estate has a substantial time lag in generating profits. Properties cannot really be considered cash cows for road construction. In addition, banks will look at these project differently as these are high-cost projects, involving huge risk,” Agarwal said.