National Highways and NPAs

What is the issue?

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- A recent ordinance empowered the Reserve Bank of India to ensure recoveries from wilful defaulters.
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- If only it were to examine the anatomy and modus operandi of national highway projects, it would discover a large-scale plunder of public money.
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How NPAs increase due to highway projects?

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- The contractor-engineer-politician trio is always in command of highway projects, since the very inception of the National Highways Authority of India (NHAI).
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- It bloomed when the construction of the Golden Quadrilateral commenced in 2000.
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- This initiative drew much applause in the initial years.
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- But it was soon overtaken by delays, cost over-runs and gold-plating.
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- The contractual framework remained archaic and PWD-style.
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- But the damage was comparatively limited as the programme was confined to budgetary resources of the central government.
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- Later public private partnership (PPP) was introduced for ramping up investment from 2005.
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- But crony capitalism soon took over.
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- NHAI soon gave up the international best practice of short-listing five

bidders to ensure healthy and sustainable competition.
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- Soon the bidders invented ingenious ways to attracts bids.
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- e.g Consider a project requiring an investment of Rs 1,200 crore.
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- The bidder would manipulate and get the banks to approve a cost of say, Rs 2,000 crore.
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- This would not only fund the entire project cost, including the promoter's equity, but also enable siphoning of large sums of surplus cash while relieving the concessionaire of all financial risk.
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- As a result, bidders started bidding ever more aggressively to corner more projects.
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- Public sector banks are also part of this via reckless lending.
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- RBI only allowed loans falling within the official estimates of the NHAI to be recognised as secured lending.
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- The rest was unsecured lending, entirely at the risk of the banks.
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- Since the highly inflated loans could never have been repaid from toll revenues, several projects have predictably turned into NPAs.
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- The rejuvenation of the NHAI and the banks is critical for mobilising new capital and entrepreneurs.
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Source: The Hindu

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