



## **TALK TO EXPERTS -14**

Author

### **Delay in payment**

Next to cost escalation, delay in payments comes as a reason for the highway projects to languish, bringing benefits to none of the stakeholders, the people who are expected to benefit by the project and who ultimately pay for them in the form of taxes, the government that conceived the projects for the people who in general have seated them in power, the concessionaire who meant to engage himself in a profitable business enterprise.

Now, let us see what causes delay in payments which have ended up in stalling expensive projects.

Most of the projects are funded by government organizations and with the government organizations, getting clearance is strictly and heavily subject to policies and any minor change or violation of the policy will prove a huge impediment to the established process of payment clearance. This crucial delay in payment will severely affect the cash flow

of the project. Cash flow is the life-breath of any project; smooth passage of cash will ensure speedy and unstuck implementation of the project with all the stakeholders down the line of the supply chain getting money in time.

Already reeling under the ill-effects of delay in payments, the concessionaire may be forced to seek additional finance, additional debt from the banks but it will be very nearly impossible to get the extra money with a lot of regulatory procedures intervening. For the banks, the money already sanctioned and distributed to carry out the project which being not completed, the money spent so far will be more or less construed as Non-Performing Assets. The banks shy away from the projects that become, at least for the immediate context, NPA since the presence of NPAs tends to dub banks inefficient and ill-performing.

Another cause for delay in payment takes us to a larger canvass of economic slump or downturn. Commercial activities appear to be off the boil; they generate lesser revenue leading to financial crunch. Cash flow gets affected at every level of business engagement. Cash shortage damages the progress of the project. For any project that is to be completed in time, there should be no cash shortage. By cash shortage, the gap between the inflow and outflow of the cash is referred to. Beyond a reasonable period, any extended cash shortage affects deeply the process of implementation. An efficient management takes care of steady cash flow within and without.

There are some causes for poor cash flow even under normal circumstances marked by normal commercial activities reflecting ordinary financial stability. A contractor might take up too many projects at the same time; with the result, diversion of funds becomes almost a routine affair. Or, the contractor does not have required financial strength; possibly, he has bitten more than he can chew. The contractor without necessary experience and expertise might have indulged in an underbidding for the project with the sole aim of winning it. Underbidding will lead to severe cash crunch.

We have seen the important reasons for delay in payments and the consequent adverse situations that actually hamper the completion of the project, leave alone speedy execution which is a far cry from the situation. Mismanagement and defective strategies at many levels of planning appear to be the bane of the languishing highway projects.

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