



TALK TO EXPERTS - 11

Author

A languishing highway project

In the previous discussion, we saw the features of the Hybrid Annuity Model and its advantages both for the government and the concessionaire. The major advantage for both concerned is ease in case flow for the government and less financial burden for the other party.

The government gives the first upfront of 40% of the total cost of the project and for the rest of the 60% of the cost of the construction, the concessionaire is totally responsible; he can of course raise money through equity and loans.

How does he get the remaining 60% of the money? According to the Hybrid Model, the remaining 60% is paid as variable annuity.

The investment is recovered through annuity payments to be made by the government/Authority over a specified period commencing from the date of commissioning of the project, it said, adding that the balance percentage of the project cost is provided by the government during the construction period.

Advantage of HAM is that it gives enough liquidity to the developer and the financial risk is shared by the government. While the private partner continues to bear the construction and maintenance risks as in the case of BOT (toll) model, he is required only to partly bear the financing risk.

IDC projects

Now, let us move on to the next kind of projects that remain incomplete because of high cost of interest during construction. (IDC)

The cost of construction goes up during construction because of delay whether the delay is due to concessionaire or the authority. When the cost of construction goes up, the cost of debt also goes up. The party responsible for the project finds no source of revenue and the debt due from him keeps going up. The project, therefore, lies idle languishing. This situation leads to what is generally called the cost overrun blocking the project from being completed.

The deviation between the actual cost incurred during construction and the estimated cost at design level is called the cost overrun which is one of the most important reasons behind incomplete highway projects.

We will look into the reasons for the delay that inevitably ends in cost overrun and possible steps that can be taken to avoid the situations that threaten to end up in cost overrun.