



TALK TO EXPERTS -10

Author

Hybrid Annuity Model

In the last session, we looked into the Toll model projects and the Annuity model projects, briefly touching upon their differences.

Since the government is ultimately responsible and accountable to the public for the money it has invested in the projects which unfortunately have not been completed within the time frame allotted for them. The government, to tide over the crisis, has come out with a new model, a hybrid annuity model to fast track the completion of the highway projects.

Under the new model Hybrid Annuity Model (HAM), the government will contribute 40% of the project cost in five years in annual payments. The remaining cost of the project is the responsibility of the developer. He can raise the money in the form of equity or loans. He cannot claim toll right to collect; under HAM, it is the National Highways Authority of India (NHAI) that is responsible for the

revenue collection. Once the project is completed, NHAI will collect the toll and refund the private players, the developers in 15-20 years.

The advantage to the developer here is financial risk is shared by the government during project implementation. There is no traffic risk for him; it means it facilitates getting loan from the banks. Moreover, the hybrid annuity model provides for inflation-adjusted project cost over time.

Advantage for the government is it eases cash flow.

It appears that the government is to use HAM particularly for the stalled projects where other models are not applicable.

The lessening of the financial burden on the developer is likely to attract many investors. In fact, media reports suggest that even international players can try this low-risk investment opportunity.

It was given to understand that after 2010 the investors showed no enthusiasm in the projects and the reasons appear to be endless problems in land acquisition, too slow approvals from too many departments; above all, the public protest against toll collection discouraged investments. Investors will hesitate where the prospects of returns are not bright but dismal and uncertain.

Generally, the HAM is looked upon with favour by the media since by and large it reduces the financial risk of the developer. For the government, completion of the languishing projects holds greater promise of reduction in the logistic cost ultimately. In India, the logistics cost is very high compared with the developed countries. The less is the logistics cost, the greater is the possibility of development in the

national economy.

Some more details about HAM model will be discussed in the days to come.