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Author

Sometimes, the debt sanctioned by the banks happens to be higher than the total project cost. It so happens when the debt is sanctioned based on the developer's cost estimates which on average are higher by 35% than the NHAI project cost.

In such cases, the lenders are exposed to a higher risk. The potential risk becomes a reality when the government decides to terminate the concession agreement; and, of course, in such event of termination of the agreement, the NHAI guarantees compensation. But the compensation amount is based on the NHAI's apprised cost and it will not be based on the developer's estimates. As a consequence, the compensation will not be and cannot be a match anywhere to the debt sanctioned by the banks, the lenders.

The NHAI reserves the right to terminate the agreement if the performance of the developer is not at all satisfactory or the developer breached some elements of the contract.

Not going into the intricacies of the details of the contract, if we focus on the finance part of the project, it boils down to the cost of the project as estimated by the developer. The somewhat exaggerated estimate becomes the final reason for the project to languish. As an analyst observed, the developers have stretched themselves with the sole aim of getting the project. However much the government may innovate models of payment to the developers, it will not be effective so long as the bidders happen to be reckless in the sense they remain focused on getting the projects rather than the timely execution of the project which will prove beneficial to the public who after all pay for all these things. As an analyst once pointed out, "It is more a discipline issue that no funding model can address."

By implication, discipline suggests honesty in proposal and honesty in execution. The spirit of honesty behind a project minimizes the opportunities of failures and therefore maximizes the opportunities of success.