

Paving the way to prosperity

INTERVIEW WITH KAMAL NATH

MINISTER FOR ROAD TRANSPORT AND HIGHWAYS, INDIA



KAMAL NATH

obtained his Bachelor's Degree in Commerce from St Xavier's College, Calcutta. As a Member of Parliament he represented India in the United Nations General Assembly in 1982 and 1983. He was also the General Secretary of the Indian National Congress and a Member of the Congress Working Party, the highest decision-making body of the Congress Party, from September 2002 to July 2004. He also held positions as Minister of Environment & Forests and Textile Minister before taking over as the Union Minister of Commerce & Industry in May, 2004. He was appointed Minister for Road Transport and Highways in May 2009.

It is widely agreed that if there is one factor preventing India's vibrant, youthful and thoroughly entrepreneurial economy from achieving double digit growth rates comparable with China, it can be put down to its inadequate infrastructure and delays in pushing through much-needed improvements. A recent report by management consultants McKinsey and Co estimated that time and cost over-runs associated with implementing India's infrastructure development plans, for which the government has assigned an overall budget of US\$500 billion (bn) for the period 2007-12, could reduce the economy's potential output by US\$200 bn a year and cut total employment by 35 million jobs over the next eight years. The report identified inefficiencies in implementing infrastructure projects at every stage, from the tender process to completion, and in recent years progress in expanding and upgrading India's highways and road network had been slowing down rather than accelerating.

Given the economic and social importance of getting India's road-building back up to speed, the newly re-elected Prime Minister, Manmohan Singh, offered this key role to his combative former Trade Minister, Kamal Nath. "I had requested the Prime Minister for a challenging assignment" he says, "and I am glad that he assigned to me the task of developing the highway infrastructure of the country."

The new Minister for Road Transport and Highways is aware that he plays a key role in remedying a broader problem. "India's rapidly growing economy has been placing huge demands on power networks, roads, railways, ports and transportation systems", he says, "and there is an urgent need to eliminate the infrastructure deficit that has been eroding the country's competitiveness". He is also aware of the urgency in expanding India's road transport carrying capacity, noting that "while the national highway network has doubled between 1997 and 2009, soaring demand has far outstripped supply."

The scale of the challenge is immense. He points out that "India's road network is the second largest in the world, yet national highways account for just 2 per cent of all roads in the country although they carry 40 per cent of the traffic". Among the priorities are extending the National Expressways network beyond the 'Golden Quadrilateral' (GQ) project that connects

the four metro-cities of Delhi, Mumbai, Kolkata and Chennai – and the North-South/East-West Corridors which connect the four corners of the country. To these, a network of highway stretches is now being created that will connect centres of industrial or tourist importance as well as capitals of all state and provinces. The National Highways Authority of India (NHAI) has a separate port connectivity programme, and road and rail networks largely complement each other. But Nath points out that "while our railway network is well established and the focus is more on modernisation, we are in the process of creating a world-class network of national highways."

The biggest challenge is meet surging demand. Looking ahead, Kamal Nath notes that across India "traffic on roads is growing at the rate of 7 to 10 per cent, while vehicle population growth is 12 per cent each year. Thus, there is a huge demand for high-quality road infrastructure." Moreover, road building provides an economic stimulus, he says, "that touches the lives of the unskilled, the skilled and professionals, and is key to growth in trade, industry and agriculture."

A modern and efficient road network, he says, is not only a medium for better connectivity. Rather, he sees roads as a "change agent", in that "they bring about a visible economic and social change to the areas and regions they traverse through and positively impact on the lives of the local populations". This accords well with the government's objective of encouraging 'inclusive growth', and Nath says "we are working towards it through increased focus on improving infrastructure, developing and strengthening small and medium enterprises, building skills, and targeting social spending at the poor. "For us in India", he declares, "growth is an imperative. For, to be counted as a major economic powerhouse by 2025, he argues that India needs to accelerate its economic growth beyond existing rates to at least 9 per cent a year. Within this broader framework he affirms that "our National Highways Development Programme (NHDP) is a key element." His primary task is to get things moving faster, especially in the awarding of new contracts.

Nath is the first to admit "there was a feeling that this sector was slowing down and the award process had become gridlocked. Since taking over, I have held many rounds of consultations with the stakeholders – concessionaires, contractors, consultants, tax experts

and others. We have been able to place many of the issues plaguing the award process for resolution before the B.K. Chaturvedi Committee, set up by the Prime Minister himself), which recently came out with its first report. Since when, the Cabinet Committee on Infrastructure has approved most of its recommendations. “We have assigned to ourselves a target of building 20 kilometres of road a day” he says, “equivalent to 7,000 km a year, and we are gearing up to ensure that this is not a shallow promise. To achieve this, the NHAI’s capacity in terms of manpower and resource availability has to be enhanced, and this is being provided for. It was also felt that there are certain structural changes required at NHAI and in the process of land acquisition. Twelve regional offices of the NHAI have been opened, and we are working on reducing the time taken for land acquisition. Once these are in place we are hopeful that execution of projects will be swift and result-orientated, as a result of which project cost and time over-runs will cease to exist.”

Likewise, the pick up in India’s economic growth recently should facilitate conditions of the bidding process for new projects compared with last year when, as Nath admits, “the global meltdown affected NHAI’s bid process substantially and we received a lukewarm response from the market to many of our bids. Since there was a fear of a recession resulting in a drop in realisable traffic, there was naturally an aversion to undertake road projects by private developers.”

Since then, however, “increased funds flow to developers through stimulus packages announced by the Government and the improved economic outlook are leading to a better response from developers.” He points out that “the Indian commercial banking system has been the predominant funding source for highway projects and, as is well known, India’s banking system has remained unaffected by the global meltdown, so this resource base remains intact to fund new projects.”

Bidding is currently under way for some US\$21 bn of road-building projects and the Minister is confident of an improved result. “Going by the recent response to bids”, he says, “we are hopeful that the current outlook for project award is better.” The government favours public-private partnerships, with around 60 per cent of projects being offered on BOT (Toll), with cost recovery through toll rights during a per-specified concession period, and 30 per cent on BOT (Annuity) where it comes through a series of annuity payments for a pre-specified repayment period. With some stretches of road running through the backward areas the government may consider various other innovative methods of toll collection.

According to the Indian Planning Commission, India’s infrastructure funding requirement is estimated to be around US\$500 bn, with US\$430

bn of this in core transport and utility sectors. About 25 per cent of this was to be sourced through Public Private Partnership (PPP). The National Highways Development Programme commenced in 2000 with Phase-I and, as of now, there are seven phases to it, and according to the latest estimate all seven phases would involve, at current costs, a further total investment of Rs.3,31,000 crore (roughly US\$70 bn), of which US\$41 bn has to come from the private sector.

As Kamal Nath points out, “there is a need for a quantum jump in the level of funds required, both by the private sector and by government /NHAI. For meeting the pace of road development in India we require equity, debt and pension funds to be sensitised of the huge opportunity that the National Highway Development Programme is offering to the international investors.” Towards this end, the Minister has held road shows in Singapore, Zurich, London and New York, the response to which has been “encouraging”. “We are hopeful”, he says, “that overseas investors, along with financial institutions and construction companies, will substantially increase their engagement with India.”

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The Indian Government’s National Highways Development Programme is seen as a key agent of social change