1. The risk borne by a single party is extreme in case of both the PPP models (BoT and EPC). In the light of above statement explain how Hybrid Annuity model will resolve this problem also highlight its key features? Also analyze how the adoption of this model can help in completion of stalled projects? (250 Words)

Answer:

- Most of the earliest highway projects allocated through PPP mode were implemented through BOT (Built-Operate-Transfer)-TOLL MODE. Under this model the private party is selected to build, maintain, and operate the road based on most competitive bidding, i.e., the one who offered most share of revenue to the government.
- Here, all the risks- land acquisition and compensation, construction (i.e., risk associated with cost of project), traffic risk and commercial risk were with the private party. The private party is dependent on toll for its revenues. The government is only responsible for regulatory clearances. Thus, in this model all the risk of non-implementation and cost-overrun was borne by the Private sector.
- To solve this Problem Government Brought EPC model. EPC stands for engineering, procurement, and construction. It is a model of contract b/w the government and private contractor. The EPC entails the contractor; build the project by designing, installing and procuring necessary labor and land to construct the infrastructure, either directly or by subcontracting.
- Under this system, the entire project is funded by the government rather than the PPP model where there is cost sharing. It was not a sustainable model in Long run since it. Suffered from one inherent limitation i.e. the financial resources available with the government.
- HAM model is a Combination OF EPC model and BOT-Annuity model. Under this model. The government will provide 40 percent of the project cost to the developer to start work while the remaining investment has to be made by the developer. Thus, under this model Risk is shared equally between both the parties i.e. Government and Private player and thus it resolves the problem of extreme risk borne by a single under the previous 2 models.

Key features of the HAM Model

- Under this the government will pay 40 per cent of the project cost to the concessionaire during the construction phase in five equal installments of 8 per cent each.
- HAM is a mix of BOT Annuity and EPC models. As per the design, the government will contribute to 40% of the project cost in the first five years through annual payments (annuity). The remaining payment will be made on the basis of the assets created and the performance of the developer. Here, hybrid annuity means the first 40% payment is made as fixed amount in five equal installments whereas the remaining 60% is paid as variable annuity amount after the completion of the project depending upon the value of assets created.

- Revenue collection would be the responsibility of the National Highways Authority of India (NHAI); developers will be paid in annual instilments over a specified period of time. There is no toll right for the developer.
- An important feature of the hybrid annuity model is allocation of risks between the partners-the government and the developer/investor. While the private partner continues to bear the construction and maintenance risks as in BOT (toll) projects, it is required only to partly bear the financing risk. The developer is insulated from revenue/traffic risk and inflation risk, which are not within its control.

How the adoption of this model can help in completion of stalled projects?

- In the hybrid annuity model, one need not bring 100 per cent of finance upfront and since 40 per cent is available during the construction period, only 60 per cent is required to be arranged for the long term. It would be easier for Private Players to raise the remaining 60% fund from the Market, since lending for hybrid annuity-modeled projects would be comparatively easier as there is no traffic risk associated. Lenders would be comfortable as the execution risk is less for contractors as the bidding rolls out only after 90% land is available.
- This makes it attractive and viable for the private player to invest in Highway projects, as in last few years many of the highway projects were stuck due to Lack of fund availability for private players due to high NPAs of the banks and lack of long term financing options in India. This will help in completion of stalled Projects.

PRACTICE QUESTIONS

Answer the following Questions

1. Discuss the health and environmental hazards associated with fly-ash. Also discuss the issues which impede its full-scale utilization in India. (250 words)
2. China's actions threaten the fragile Himalayan ecosystem and makes it imperative for India to act. Examine. (250 words)