THE HINDU NOIDA/DELHI
THURSDAY, DECEMBER 14, 2017

A tale of two Metro rails

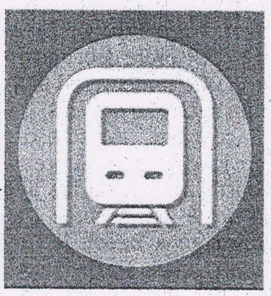
A comparison of two projects with opposite outcomes has many lessons to offer for the infrastructure road map

GAJENDRA HALDEA

The Prime Minister inaugurated a 30 km section of the 72-kilometre-long Hyderabad Metro Rail Project on November 28. There was much fanfare, and justifiably so. After all, it is a state-of-the-art metro system, superior to any other in India. Its technology is the latest, the stations and structures are innovative and elegant, the trains are driver-less and sleek, to count a few of its features.

Private enterprise

Hyderabad Metro is primarily financed through private investment, unlike other metro projects that are entirely funded by the public exchequer. It is also the largest PPP (public-private partnership) investment in India, and one of the largest in the world. The total investment could well be about ₹20,000 crore, if around 10% is assigned for real estate development. Other than a viability gap grant of ₹ 1,458 crore from the Central government, the rest will be private investment.



GETTY IMAGES/ISTOCKPHOTO

Besides assigning the right of way for the elevated metro tracks and stations, the State government is only required to provide the land for three maintenance depots where real estate development can be undertaken above the ground floor. Some small plots of land have also been added for parking and shopping purposes.

In particular, the fare structure laid down in the Concession Agreement will always remain affordable on account of greater efficiencies as well as the cross-subsidisation from real estate development.

The credit for this ambitious project largely belongs to the late Y.S. Rajasekhara Reddy, then Chief Minister of Andhra Pradesh, who pushed for an innovative PPP approach. Evidently, he did not wish to allocate the scare budgetary resources for this capital-intensive project, as he was pursuing several social sector initiatives, such as 'Arogyashree' for universal health care. He gave me the mandate and a free hand to conceptualise the model, write the concession agreement and supervise the bid process.

There have been some defaults in discharging contractual obligations. The spirit of partnership has also been a bit wanting. In particular, construction was stalled at numerous locations because of inordinate delays by the government in providing the right of way and depot land. This delayed the project by over two years, thus causing a significant increase in costs, which would have to be borne by whoever is adjudged as the defaulter under the prescribed dispute resolution mechanism.

There will surely be some problems, especially on account of the scant regard for sanctity of contracts. However, the accountability framework laid down in the Concession Agreement is clear and precise as it can identify and address any defaults or malfeasance.

'Flawed' project

The other PPP project in question is the Airport Metro Line project of Delhi Metro Rail Corporation (DMRC), which was terminated by the concessionaire, Reliance Infrastructure, with an arbitration award of about ₹5,000 crore [interest included] against the former, primarily on account of a flawed concession agreement that enabled inflated costs and claims.

Notably, the arbitration panel comprising three engineers, empanelled by DMRC itself, held that the construction works suffered from serious defects, including over 1,500 cracks in concrete structures. Separately, the Commissioner for Railway Safety reduced the stipulated train speed due to safety concerns. The project is now being run by DMRC consequent upon the demise of PPP. In sum, public interest has been ripped apart by means of a huge termination payment as well as large recurring losses in the years ahead.

The Hyderabad Metro is entirely based on the model concession agreement (MCA) of the erstwhile Planning Commission whereas DMRC's Metro Line is based on a distorted version of the same MCA. Their comparison will clearly reveal how critical the underlying contractual framework is. This is akin to the software which determines the success of a satellite.

This tale reflects two extremes in the same sector, during the same period and in the same country. Would NITI Aayog or any other think tank study the two closely and draw lessons for the benefit of the government and the people? The lessons learnt would be invaluable for accelerating the much-needed infrastructure investment in India.

Gajendra Haldea was Principal Adviser, Infrastructure in the erstwhile Planning Commission