

Demand for Grants 2019-20 Analysis

Road Transport and Highways

India has one of the largest road networks in the world with about 59 lakh km of road length.¹ This road length includes National Highways (NHs), Expressways, State Highways (SHs), district roads, PWD roads, and project roads. In India, road infrastructure is used to transport over 60% of total goods and 85% of total passenger traffic.¹

The Ministry of Road Transport and Highways formulates and administers policies for road transport, and transport research. It is also involved with the construction and maintenance of the NHs through the National Highways Authority of India (NHAI), and the National Highways and Infrastructure Development Corporation Limited (NHIDCL). It also deals with matters relating to road transport such as implementation of the primary central legislation, the Motor Vehicles Act, 1988.

This note looks at the proposed expenditure of the Ministry for the year 2019-20, its finances over the last few years, and issues with the same.

Allocations in Union Budget 2019-20

Fund allocation²

The total expenditure on the Ministry of Road Transport and Highways for 2019-20 is estimated at Rs 83,016 crore. This is 6% higher than the revised estimates for 2018-19.

In 2019-20, while revenue expenditure of the Ministry is estimated at Rs 10,957 crore, capital expenditure is estimated at Rs 72,059 crore. In 2014-15, the ratio between revenue and capital expenditure was 50:50. In 2015-16, this ratio changed, with the Ministry spending more funds on capital expenditure. Since then, the Ministry has increased its capital expenditure significantly. In 2019-20, 87% of the Ministry's spending is estimated to be on capital expenditure.

Table 1: Budget allocations for the Ministry of Road Transport and Highways (in Rs crore)

	2017-18 Actual	2018-19 Revised	2019-20 Budget	% Change BE 2019-20/ RE 2018-19
Revenue	10,262	10,062	10,957	9%
Capital	50,752	68,564	72,059	5%
Total	61,015	78,626	83,016	6%

Notes: BE – Budget Estimate; RE – Revised Estimate.
Sources: Notes on Demands for Grants, 2019-20, Ministry of Road Transport and Highways; PRS.

Policy announcements in the Budget Speech³

In her budget speech, the Finance Minister made the following announcements regarding the roads sector:

- **Road and infrastructure cess:** The Road and Infrastructure Cess on petrol and high-speed diesel has been increased by one rupee per litre. Excise duty has also been increased by one rupee per litre for these products.
- **Road infrastructure:** Phase II of the Bharatmala project will be launched under which state highways will be developed.

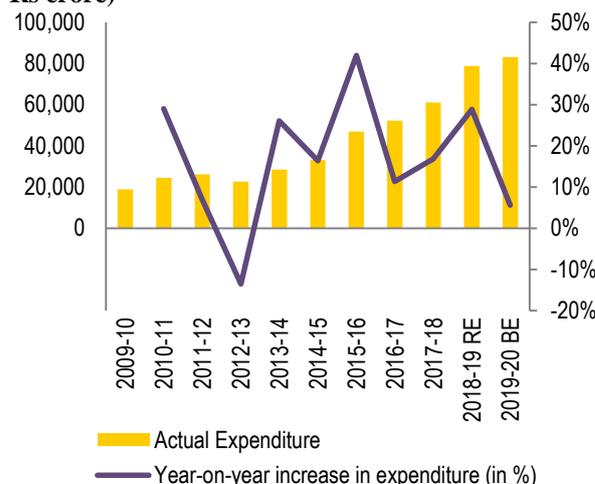
The Finance Bill, 2019 also proposed certain changes in the roads sector by amending the Central Road and Infrastructure Fund Act, 2000.⁴ Currently, the central government is responsible for formulating the criteria on the basis of which specific projects of state roads are financed out of states' share of funds from the Road and Infrastructure Fund. The Bill provides that the central government will now be responsible for formulating criteria for any state road project.

Overview of Finances

Utilisation of funds

In the past few years, the expenditure of the Ministry has seen a significant increase, with the maximum year-on-year increase (42%) seen in 2015-16.

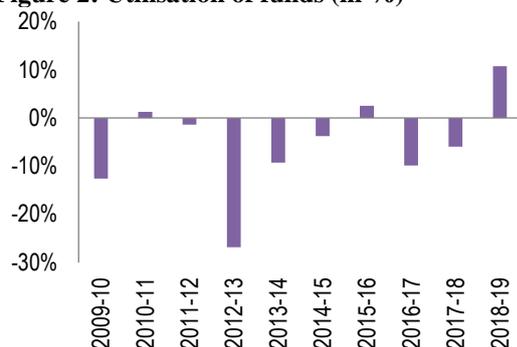
Figure 1: Actual expenditure by the Ministry (in Rs crore)



Notes: BE – Budget Estimate; RE – Revised Estimate.
Sources: Ministry of Road Transport and Highways budget documents 2009-2019; PRS.

However, the actual expenditure by the Ministry has been consistently lower than the budget estimates (see Figure 2).

Figure 2: Utilisation of funds (in %)



Note: The number for 2018-19 compares the budget estimates with the revised estimates.

Sources: Ministry of Road Transport and Highways budget documents 2009-2019; PRS.

Expenditure of the central government

In 2019-20, of the total expenditure, the highest allocation is towards roads and bridges at 55% (Rs 45,890 crore).² This is followed by allocation towards the National Highways Authority of India (NHAI) at 44% (Rs 36,691 crore).²

Table 2: Expenditure heads for the Ministry of Road Transport and Highways

Major head	2017-18 Actual	2018-19 RE	2019-20 BE	% Change BE 2019-20/ RE 2018-19
Roads and bridges	36,887	40,920	45,890	12%
NHAI	23,892	37,321	36,691	-2%
Road transport and safety	144	258	280	9%
Others	92	127	155	22%
Total	61,015	78,626	83,016	6%

Notes: BE – Budget Estimate; RE – Revised Estimate.

Sources: Notes on Demands for Grants, 2019-20, Ministry of Road Transport and Highways; PRS.

Roads and bridges: Expenditure under roads and bridges includes development of NHs, projects related to expressways, increasing the number of lanes under various projects, and development of road connectivity in Naxalite affected areas. In 2019-20, the allocation towards roads and bridges is Rs 45,890 crore. This is 12% more than the revised estimates of 2018-19 (Rs 40,920 crore).²

NHAI: The central government is responsible for the development and maintenance of NHs, and it carries out these functions through the NHAI. The NHs comprise about 2% of the road network but carry about 40% of the total road traffic.⁵

Expenditure on the NHAI includes funding provided towards projects under the National Highways Development Project (NHDP). Key projects under the NHDP include: (i) the Golden

Quadrilateral, (ii) the North-South and East-West Corridors, and (iii) four-laning of 12,109 kms under phase III.¹

NHAI has been allocated Rs 36,691 crore in 2019-20, which is 2% less than the revised estimates for 2018-19 (37,321 crore).² Of this amount, 44% (Rs 16,091 crore) will be provided from the Central Road and Infrastructure Fund (CRIF), 29% (Rs 10,600 crore) will be provided from the Permanent Bridge Fees Fund (PBFF), and the remaining 27% (Rs 10,000 crore) will come from the monetisation of the National Highways Fund.²

Funds managed by the Ministry

The Ministry manages its expenditure through various funds. Their details are provided below.

Table 3: Summary of transfers from funds (in Rs crore)

Funds	2017-18 Actual	2018-19 Revised	2019-20 Budget	% Change BE 2019-20/ RE 2018-19
CRIF	43,663	51,679	54,539	6%
PBFF	8,500	9,584	10,610	11%
National Highways Fund	-	9,682	10,000	3%
National Investment Fund	5,265	6,210	6,070	-2%

Notes: BE – Budget Estimate; RE – Revised Estimate.

Sources: Notes on Demands for Grants, 2019-20, Ministry of Road Transport and Highways; PRS.

Central Road and Infrastructure Fund (CRIF):

A majority of the Ministry's expenditure is managed through transfers from the CRIF. A portion of the cess collected on motor spirit and high speed diesel is earmarked for the development of NHs and SHs, and the amount is transferred to the non-lapsable CRIF. This amount is eventually released to the NHAI, and to the state/UT governments for development of road infrastructure (and other infrastructure projects such as railways) in the country.⁶

For 2019-20, the transfer from CRIF is estimated at Rs 54,539 crore.¹ This is a 6% increase from the revised estimates of 2018-19 (Rs 51,679 crore). These grants are expected to be used for the creation of capital assets.

Permanent Bridge Fees Fund (PBFF): Funds transferred to the PBFF relate to the revenue collected by the government by way of (i) fees levied for the use of certain permanent bridges on NHs by motor vehicles, (ii) toll on NHs, and (iii) revenue share and negative grants received on some PPP projects. These funds are then released to the NHAI for the development of NHs entrusted to it.²

For 2019-20, the transfer to PBFF is estimated at Rs 10,610 crore.¹ This is an 11% increase from the revised estimates of 2018-19 (Rs 9,584 crore).

National Investment Fund (NIF): The NIF was created in 2005, and is credited with proceeds from disinvestments of public sector enterprises. The Ministry finances the Special Accelerated Road Development Programme in North East (SARDP-NE) with funds from the NIF.

For 2019-20, the transfer to NIF is estimated at Rs 6,070 crore.¹ This is a 2% decrease from the revised estimates of 2018-19 (Rs 6,210 crore).

National Highways Fund: In August 2016, the Union Cabinet had authorised NHAI to monetise certain public funded NH projects.⁷ Such monetisation includes transferring operations and maintenance of stretches of NHs to private contractors on a long-term basis. In 2019-20, Rs 10,000 crore is estimated to be generated through such monetisation.

Schemes

Bharatmala Pariyojana: The Bharatmala Pariyojana is an umbrella programme covering NHs.⁸ It aims to optimize efficiency of freight and passenger movement by bridging critical infrastructure gaps. The program aims to increase the number districts with national highway linkages from 300 to 550.⁹

In 2017, the Union Cabinet approved phase I of Bharatmala Pariyojana under which 34,800 km of roads will be developed over a period of five years. Phase I will also subsume 10,000 km of balance roadworks under the NHDP. The estimated cost of Phase I is Rs 5,35,000 crore, spread over five years. These works are carried out by the NHAI, and allocation to the NHAI covers execution of projects under the Bharatmala Pariyojana.

Till March 2019, 225 road projects with an aggregate length of about 9,613 km have been approved under Bharatmala Pariyojana Phase-I.¹⁰ Of these, 178 projects with an aggregate length of 7,998 km have been awarded till March, 2019.

In 2019-20, this scheme will be extended to include the construction of state highways as well.

Issues to consider

The roads sector is facing several constraints such as: (i) availability of land for NH expansion and upgradation, (ii) significant increase in land acquisition cost, (iii) lack of equity with developers, (iv) bottlenecks and checkpoints on NHs which could adversely impact benefits of GST, (v) higher cost of financing, and (vi) shortfall in funds for maintenance.¹¹ Further, the value of NPAs in the infrastructure sector (including roads and highways) has been increasing, with NPAs at

around Rs 2.6 lakh crore as of August 2016.¹² We discuss some of these issues below.

Issues with financing

Role of central government in financing: The Standing Committee on Transport (2016) had observed that while the Ministry of Road Transport and Highways invests in the construction of roads, it does not have its own source of revenue other than budgetary support from the central government.¹³ The Committee recommended that the RBI and Ministry of Finance may help the Ministry of Road Transport to set up its own dedicated financial institutions to generate funds for development of the road sector. It also recommended that Ministry should monitor toll collection and channel any surplus funds towards stressed projects.

The Committee had also noted that while the central government has allocated a huge budget for the road sector, this will not be sustainable over the long term.¹³ It suggested that the government should devise ways and establish appropriate financial institutions and models to encourage the return of private investment to the road sector.

Borrowings: In 2019-20, NHAI estimates to borrow Rs 75,000 crore towards capital outlay. As per the revised estimates of 2018-19, NHAI's borrowings did not see any change from the budgeted estimates (Rs 62,000 crore). However, in 2017-18, NHAI's borrowings fell short of the budgeted estimate by Rs 8,747 crore (11%).

The Standing Committee on Transport (2018) had questioned the ability to complete projects in the absence of the required funding.

Private financing and contracts: It has been noted that private financing for the roads sector is a challenge.^{5,14} Several PPP road projects have not been able to attract bids.¹⁴ The major highway developers in the country are also facing financial capacity constraints. Further, there is a lack of debt products that are aligned with the revenue stream profile of highway projects. This makes financing of such projects difficult, and has resulted in some projects getting stalled at the construction stage. This is also discouraging prospective bidders.¹⁴

The Committee on Revisiting & Revitalizing the PPP model of Infrastructure Development (Chair: Dr. Vijay Kelkar) had looked at issues with PPP projects in India, in November 2015.¹⁵ It had recommended setting up an independent regulator for the roads sector to help bring in and regulate private players in the sector. It had also noted that service delivery (such as constructing roads) to citizens is the government's responsibility and PPPs should not be used to evade such responsibilities.

The Kelkar Committee had also observed that since infrastructure projects span over 20-30 years, a private developer may lose bargaining power because of abrupt changes in the economic or policy environment.¹⁵ It recommended that the private sector must be protected against such loss of bargaining power. This could be ensured by amending the terms of the concession agreement to allow for renegotiations.

Infrastructure lending: The Standing Committee on Transport (2016) had observed that several of the long-term loans disbursed for the road sector are turning into non-performing assets (NPAs).¹³ Project bids are often made without proper study, and projects are awarded in a hurry. This results in stalling of projects, and concessionaires leave midway. Concessionaires had also anticipated higher revenue realization but achieved less due to the economic downturn.¹³

Banks and other infrastructure lending institutions have also been reluctant to finance the highways sector.¹³ This has led to difficulties in debt servicing, putting additional stress on the road infrastructure portfolios. Besides increasing the cost of the project, delays also make it difficult to obtain additional debt.¹³

The Committee recommended that banks should take due diligence while disbursing loans to concessionaires. It also suggested that the bank NPAs may be supported by government allocation. Further, banks could be empowered to recover the bad debts. The model concession agreement of NHAI should be restructured to change terms and conditions which ensure that banks do not end up accumulating NPAs.

Performance of NHAI

The Comptroller and Auditor General of India (2016) had also noted several procedural inefficiencies with NHAI. For example, NHAI could not realise toll on certain projects due to delays in approvals, toll operations, and other procedural lapses.¹⁶ NHAI did not adhere to the Ministry's guidelines on maintenance of project wise balance sheet and cash flow.¹⁶ Loss of revenue was also noted due to inefficient bidding process for engagement of toll collecting agencies.¹⁶

The Committee on Public Undertakings (2017) had also noted several issues in the financial performance of NHAI such as: (i) insufficiency of funds, (ii) gap between the amount of fund allocated to the Ministry, and released to NHAI, and (iii) under-utilisation of funds.²¹ For example, funds that are left unspent at the end of a financial year is shown as 'opening balance' at the beginning of the next financial year. This opening balance was Rs 2,672 crore and Rs 6,740 crore for the years 2015-16 and 2016-17 respectively.²¹ This shows

NHAI's inability to optimally utilise the available funds.

Investment in maintenance of roads

In 2019-20 the Ministry has allocated Rs 3,150 crore towards maintenance of roads and highways (including toll bridges). This is Rs 469 crore (17%) higher than the revised estimates of 2018-19.

The Ministry has allocated about 1% of its budget towards maintenance of NHs. This is for a total NH length of 1.14 lakh km. In comparison, in 2019-20 the US government seeks to allocate \$23.74 billion (51% of its total budget on highways) towards its National Highway Performance Program, to improve the condition and performance of their National Highway System (roughly 2.2 lakh miles of length).¹⁷

The Standing Committee on Transport (2017) had observed that the entire length of NHs in the country cannot be maintained with this amount. It had recommended that the budget for maintenance of NHs should be increased. Maintenance of roads should be given top priority as it increases the life span of roads. An effective monitoring mechanism for repair and maintenance of roads should be put in place.¹⁴ Further, there should be penalties for contractors and engineers in case of poor quality repair, maintenance, and construction. The Standing Committee on Transport (2018) had also noted issues of under-utilisation under maintenance and repairs works.

The National Transport Development Policy Committee (2014) had also noted that the amount spent on maintenance of existing roads is less as compared to the amount spent on construction and upgradation of roads.¹⁸ This results in roads with potholes, weak bridges, and poor pavements. Further, maintenance is carried out only when required, as opposed to being a part of preventive measures.¹⁸

Investment in road safety

In 2019-20, the Ministry has allocated Rs 280 crore towards road transport and safety. This is 8% higher than the revised estimates of 2018-19. This would provide for various things such as road safety programmes, setting up of facilities on NHs, for extending relief to accident victims, strengthening of public transport, research and development, and training.

This amount is about 0.3% of the Ministry's total budget. In comparison, the US federal government spends about \$2.7 billion on its Highway Safety Improvement Programme (6% of its total expenditure on highways).¹⁷

In 2017, there were 4,64,910 road accidents in India, which killed about 1.5 lakh people and injured about 4.7 lakh people.¹⁹ As a signatory to

the Brasilia Convention, the government intends to reduce traffic fatalities by 50% by 2020.²⁰

The Motor Vehicles (Amendment) Bill, 2016 which was amending the Motor Vehicles Act, 1988 sought to address various issues around road safety. It lapsed with the dissolution of the 16th Lok Sabha. The Bill provided for a Motor Vehicle Accident Fund which would be used for treatment of injured persons. It also provided for a National Road Safety Board, which would advise the central and state governments on all aspects of road safety and traffic management.

Connectivity in remote areas

The Ministry also allocates funds towards the development of highways in areas with poor connectivity. Some of these projects include the Special Accelerated Road Development Programme in North East (SARDP-NE), Externally Aided Projects (EAP) and Roads Projects in Left-Wing (LWE) Extremism Affected Areas.

In Budget 2019-20, Rs 6,070 crore has been allocated towards the SARDP-NE project, which is 2% lower than the revised estimates of 2018-19. The Standing Committee (2018) had noted underutilisation of funds and under-achievement of targets in SARDP-NE.

With regard to projects in LWE areas, the Standing Committee on Transport (2018) had noted that the allocation had decreased by 4.4% in 2018-19. It had raised concerns that such budget cuts should be avoided as road connectivity in such areas is necessary.

Targets vs performance

Road construction: The rate of road construction has improved in the last few years. Achievement of construction targets (for NHs) has ranged between 55% to 70% in the last five years. The road construction target for 2018-19 was 15,000 km. As per the Economic Survey 2018-19, road length of 10,824 km was constructed in 2018-19 (72% of the target). This implies a rate of construction of 30 km/day.

Table 4: Targets vs achievements for road construction (National Highways)

Year	Target (km)	Constructed (km)	% achievement (constructed/target)
2014-15	6,300	4,410	70%
2015-16	10,950	6,061	55%
2016-17	15,000	8,231	55%
2017-18	15,000	9,829	66%
2018-19	15,000	10,824	72%

Sources: Economic Survey 2018-19; PRS.

The Standing Committee on Transport (2017) had noted that the targets could not be met due to

shortage of funds. The projects could not be completed due to various reasons such as delays in obtaining clearances, poor financial and technical performance of the contractors, and law and order issues. The Economic Survey 2018-19 also highlighted issues such as time and cost overruns due to delays in project implementation, procedural delays, and lesser traffic growth than expected which increased the risk factor of the projects resulting in stalling of projects.

Project delays

The Committee on Public Undertakings (2017) had noted that from 1995, till June 2016, out of the total 388 projects completed, only 55 projects were completed on or before time.²¹ Delays in the completion of the projects were mainly attributed to: (i) the long time taken in land acquisition, and obtaining environment and forest clearances, (ii) poor performance of concessionaires due to economic slowdown, and (iii) law and order issues.

Such delays increase project costs, eventually making certain projects unviable. As of December 2018, 435 infrastructure and road projects were pending, and the Ministry expects to complete them by October 2020.²²

The Standing Committee on Transport (2015) had recommended that a coordination mechanism at the central level with the Ministries of Finance, Environment and Forest and Defence will help speed up the process of clearances.¹⁴ The Standing Committee (2016) had also suggested that the Ministry of Road Transport and Highways should obtain all these clearances before awarding the projects to concessionaires. The NHAI should: (i) technically examine, (ii) estimate costs, and (iii) ensure all clearances, before awarding any projects to the concessionaires.

Increase in land acquisition costs

From January 1, 2015, the compensation for land acquired by NHAI is determined as per the Right to Fair Compensation and Transparency in Land Acquisition Rehabilitation and Resettlement Act, 2013. The Committee on Public Undertakings (2017) had noted that due to higher compensation under the 2013 Act, the expenditure by the Ministry of Road Transport on land acquisition increased from Rs 9,097 crore in 2014-15 to Rs 21,933 crore in 2015-16.²¹

The Committee also observed that farmers who were entitled to lesser compensation under the older law, have been approaching courts for increased compensation.²¹ This has further delayed the land acquisition process and added to the cost of projects.

¹ Basic Road Statistics of India 2016-17, Ministry of Road Transport and Highways, <http://morth.nic.in/showfile.asp?lid=4585>.

² Notes on Demands for Grants 2019-20, Demand no 83, Ministry of Road Transport and Highways, <https://www.indiabudget.gov.in/doc/eb/sbe83.pdf>.

³ Budget Speech 2019-20, <https://www.indiabudget.gov.in/budgetspeech.php>.

⁴ The Finance (No. 2) Bill 2019-20, https://www.indiabudget.gov.in/finance_bill.php.

⁵ Outcome Budget 2015-16, Ministry of Road Transport and Highways.

⁶ Notes on Demand for Grants 2014-15, Demand no 83, Ministry of Road Transport and Highways.

⁷ “Cabinet authorized National Highways Authority of India to monetize public funded national highway projects”, Press Information Bureau, Cabinet Committee on Economic Affairs (CCEA), August 3, 2016, <http://pib.nic.in/newsite/PrintRelease.aspx?relid=148306>.

⁸ Bharatmala Pariyojana Phase I, Press Information Bureau, Ministry of Road Transport and Highways, October 25, 2017 <http://pibphoto.nic.in/documents/rlink/2017/oct/p2017102504.pdf>.

⁹ Unstarred question no. 1129, Lok Sabha, December 21, 2017, <http://164.100.47.194/Loksabha/Questions/QRresult15.aspx?qref=59211&lsno=16>.

¹⁰ Unstarred question no. 281, Rajya Sabha, June 24, 2019.

¹¹ Chapter 8: Industry and Infrastructure, Economic Survey 2016-17, Volume 2, August 2017, http://www.indiabudget.gov.in/es2016-17/echapter_vol2.pdf.

¹² “246th Report: Demands for Grants (2018-19) of Ministry of Road Transport and Highways”, Standing Committee on Transport, Tourism and Culture, March 17, 2017, <http://164.100.47.5/newcommittee/reports/EnglishCommittees/Committee%20on%20Transport,%20Tourism%20and%20Culture/246.pdf>.

¹³ “236th Report: Infrastructure Lending in Road Sector”, Standing Committee on Transport, Tourism and Culture, August 10, 2016,

<http://164.100.47.5/newcommittee/reports/EnglishCommittees/Committee%20on%20Transport,%20Tourism%20and%20Culture/236.pdf>.

¹⁴ “220th Report: Demands for Grants (2015-16) of Ministry of Road Transport and Highways”, Standing Committee on Transport, Tourism and Culture, April 28, 2015.

¹⁵ “Report of the Committee on Revisiting and Revitalising Public Private Partnership Model of Infrastructure”, Department of Economic Affairs, Ministry of Finance, November 2015.

¹⁶ Chapter 12: Ministry of Road Transport and Highways, Report No. 9 of 2017, 2016, Compliance Audit Union Government Commercial, Comptroller and Auditor General of India, April 5, 2017, http://www.cag.gov.in/sites/default/files/audit_report_files/Executive_Summary_report_No_9_%20of_2017_on_compliance_audit_observations_union_government.pdf.

¹⁷ FHWA FY 2019 Budget, Federal Highway Administration, <https://www.fhwa.dot.gov/cfo/fhwa-fy-2019-cj-final.pdf>.

¹⁸ “Volume 3, Chapter 2, Roads and Road Transport”, India Transport Report: Moving India to 2032, National Transport Development Policy Committee, June 17, 2014, http://planningcommission.nic.in/sectors/NTDPC/volume3_p1/roads_v3_p1.pdf.

¹⁹ Road Accidents in India 2017, Transport Research Wing, Ministry of Road Transport and Highways, <http://morth.nic.in/showfile.asp?lid=3369>.

²⁰ “Consultative Committee of the Ministry of Road Transport & Highways discusses functioning of NHIDCL and Road Safety”, Press Information Bureau, Ministry of Road Transport and Highways, March 22, 2016.

²¹ Report No. 19, Committee on Public Undertaking: ‘National Highways Authority of India’, Lok Sabha, August 2, 2017, http://164.100.47.193/lssccommittee/Public%20Undertakings/16_Public_Undertakings_19.pdf.

²² Unstarred question no. 505, Lok Sabha, December 13, 2018, <http://164.100.24.220/loksabhaquestions/annex/16/AU505.pdf>.

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