

Financing of National Highway Authority

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The National Highway Authority (NHA) was established by the Government of Pakistan in 1991 through an Act of the Parliament as an autonomous body to plan, build, operate, repair and maintain national highway and motorway in the country. The National Highway Council (NHC) which lays down the policies, approves the plan, and oversees the operation of the NHA is headed by the Federal Minister of Communications.

2. The NHA projects are currently financed by the Government of Pakistan (GoP) in form of Cash Development Loans (CDLs) irrespective of the fact whether the project is commercially viable or not. A large number of financially and commercially unviable projects are executed by the NHA thus showing losses every year. In this process, the NHA has accumulated Rs.2.176 trillion long term loans (including accrued interest) from the GoP. The accumulated deficit built up on the balance sheet of NHA amounts to Rs.2.119 trillion. In 2018/19 it had to pay Rs. 621.424 billion as finance cost on these loans, which is reflected in the balance sheets as payable. As some of the loans relented by the GoP are foreign currency loans and exchange risk is borne by the NHA there was an exchange loss of Rs.48 billion in 2018/19, due to devaluation. If this amount of Rs.111 billion in finance cost and exchange is excluded, the gross loss incurred by NHA is reduced to Rs.62 billion. Further excluding Depreciation cost of Rs.80 billion which is a non-cash accounting requirement, the NHA in cash terms would show a cash profit of Rs.18 billion in 2018-19. This flawed model of financing i.e. entirely through cash development loans in local and foreign currencies induced by an erroneous policy has resulted in this self-inflicted discrepancy in the financial statements. NHA is repaying these loans through compulsory deductions at source from their PSDP budgetary allocation

resulting in financing shortfalls, delays and cost overruns. The original estimates of completing the projects are thus thrown overboard diminishing the benefits stream.

3. The Government has addressed this long outstanding issue by capitalizing the outstanding mark-up as on June 2020. There would be moratorium on further accrual of mark-up till finalization of a business plan. Moreover, Finance Division will stop deduction from NHA's PSDP allocations. NHA has initiated work on financial restructuring and development of business plan through professional consultants being hired through international competitive bidding and assistance of ADB and WB. To further augment revenue base, NHA has developed an inventory of its assets within the right of way (RoW) through GIS. This would be updated through satellite connected imagery for identifying encroachments and additional leasing.

4. Until and under the NHA turns into a corporate entity that makes decision on commercial considerations or perform agency function on behalf of the Government (for example the large network in Balochistan would remain dependant on government grants on socio-economic basis) NHA would remain an executing arm of the GOP financed out of PSDP as grants. It is therefore inadvisable to treat NHA as a commercial SOE. For the reasons stated above the SOE triage report agreed with the IMF and the World Bank has excluded NHA from the list of commercial SOEs.

5. Moving forward, finalization of financial restructuring of NHA with a positive net worth of Rs.2.12 trillion should result in this entity borrowing from capital markets and banking sector on the strength of its own balance sheet. NHA would have to obtain credit rating from Moody's or

S&P or Fitch for this purpose. There would be thus no need for borrowing CDs from the Government or obtaining Government guarantees for foreign loans. Revenue generation strategy would entail imaginative use of its Right of Way (ROW) assets and capturing upward gains from its tolls.

The current financial situation does not allow adequate allocation for repair and maintenance of the network thus leading to deterioration in the quality of assets. It is suggested that the NHA should be transformed into a corporate structure that deploys a variety of arrangements such as self-financing, accessing capital market and financial institutions, viability gap funding for public private partnership , PSDP allocations as grants for socio economic projects etc.
