Hybrid Annuity Model

Why in news?

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Transport ministry is promoting the Hybrid-Annuity Model

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What is HAM?

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- HAM is a mix of the **Engineering, Procurement and Construction (EPC)** and **Build, Operate, Transfer (BOT)** models.
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- HAM combines 40% EPC and 60% BOT-Annuity.
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- It was introduced in January 2016 to recover investments in road infrastructure projects
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- About 30 highways projects have been awarded under HAM by the National Highway Authority of India (NHAI).
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How it works?

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- Under the EPC model, NHAI pays private players to lay roads.
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- The private player has no role in the road's ownership, toll collection or maintenance.
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- Under the BOT model, private players have an active role.

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- They build, operate and maintain the road for a specified number of years, before transferring the asset back to the government.
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- The toll revenue collection arrangement is known as BOT-Annuity.
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- Essentially, the toll revenue risk is taken by the government, while the private player is paid a pre-fixed annuity for construction and maintenance of roads.
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What is its significance?

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- It helped to have a better financial mechanism for road development.
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- It is a good trade-off, spreading the risk between developers and the Government.
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- This helps cut the overall debt and improves project returns.
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- The annuity payment structure means that the developers aren’t taking ‘traffic risk’, that is they are not depending on the toll traffic alone for their returns.
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- From the Government’s perspective, it gets an opportunity to flag off road projects by investing a portion of the project cost.
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Source: Business Line

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