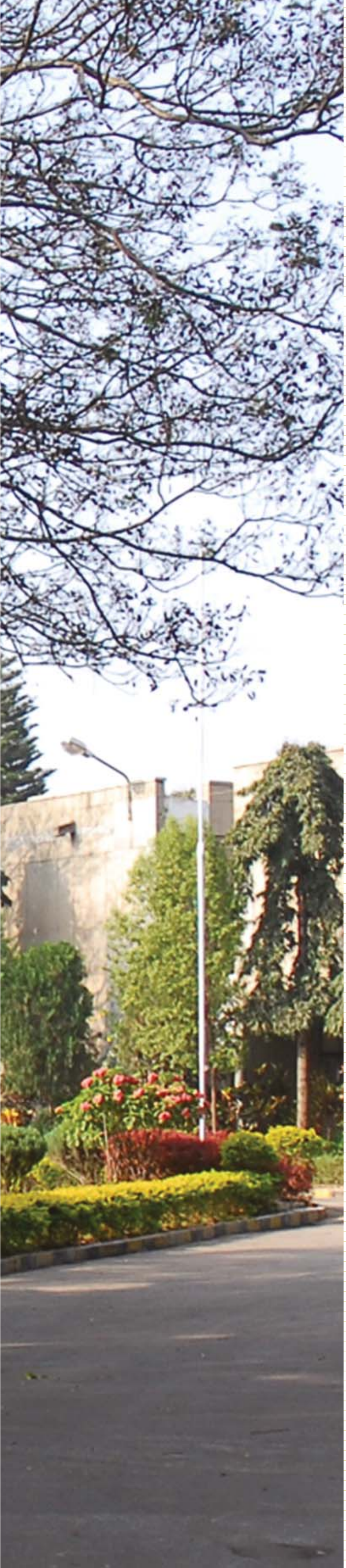

SOCIAL AND ECONOMIC CHANGE MONOGRAPHS

61

The Political Economy of Rent Seeking and Fiasco of Bangalore-Mysore Infrastructure Corridor Project (BMICP)

Krishna Raj
Vinaya Angadi

INSTITUTE FOR SOCIAL AND ECONOMIC CHANGE
Bangalore
(ISEC is an ICSSR Research Institute, Government of India and the Grant-in-Aid Institute, Government of Karnataka)
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Foreword

With the MoU between the Government of Karnataka and the Consortium of Kalyani Group India, SAB, and VHB of USA in 1995, the Bangalore-Mysore Infrastructure Corridor Project (BMICP) has completed two decades (1995-2015) of its existence. ISEC was assigned the study to find the financial viability of the project. Conducting the detailed study, Prof Krishnaraj thoroughly examined *inter alia* the Project Technical Report, Framework Agreement and Outline Development Plan and has pointed out that institutional failure on the one hand and poor governance on the other were responsible for maximizing the IRR to levels beyond imagination. The institutional failure pertains to structural weaknesses of Project Technical Report, Framework Agreement and Outline Development Plan. The control on excess land and unscrupulous profiteering is through real estate business against sanctioned economic principles. The study highlighted that the **Nandi infrastructure corridor enterprise (NICE) realized an undue (650% higher) internal rate of return of 135 % as against the approved rate of 17.52%. In the process, the NICE acquired excess land of 756 acres around Bangalore city worth Rs 4,952 crore. The NICE collected 50% excess toll on bituminous road realizing a huge profit and about 55 villagers / farmers were not paid fair compensation. The Rehabilitation and Resettlement Plan has not been implemented rendering the life of those who parted with their land pathetic**.

This study notes that the High Level Committee and the Cabinet Sub-Committee approved the BMIC Project under an inexplicable circumstance where economic and technical designs were diluted. For instance, HLC could have scientifically assessed the actual land required for different components of the toll road and townships based on the technical designs and verifying the economic feasibility report. For instance, it approved 20,193 acres of land (6,999 acres for toll road and 13,194 acres for five townships) for the ambitious integrated infrastructure project on Build-Own-Operate-and-Transfer (BOOT) basis. For instance, on conservative basis, the required quantity of land would be around 33 acres per km as against an estimation of 43 acres of land for construction of 1 km of road. While the Government land of 6,956 acres and private agricultural land of 13,237 were earmarked for the project, the committee meetings could not account for the imminent dangers due to excess land notification and acquisition by KIADB.

The BMICP project is proved financially viable with high NPV and IRR with two legitimate sources of income from toll and townships. However, if economic viability which is broader in scope is applied, the undue IRR discounts ethics and sustainable development. It further discounts the 1944 ILO Declaration of Philadelphia, which states that "Poverty anywhere is a threat to prosperity everywhere." The report notes that any subsequent modifications to Framework Agreement will either way affect through streams of costs and revenues, techno-commercial viability, legality unless efforts are made by NICE to undertake and submit fresh techno-commercial feasibility studies incorporating inter alia modifications in road alignment, ratio of land use in township (55:45), real estate transaction in Peripheral Road, Link Road and interchanges. The report notes that preferential treatment given to the NICE allowing real estate transactions in toll road, granting additional land in townships towards Bangalore city, reducing ratio of land use for amenities, opened up channels for leveraging additional revenues to NICE against the techno-commercial viability of the project approved in the Framework Agreement.

The report notes that the infrastructure corridor project was defined in favour of company's objectives for realizing revenues from real estate transaction along toll road rather than in the five approved townships. The report notes that NICE unduly benefited from high valued land than required for toll road around Bangalore city and earned fortunes from real estate transactions of Sale of Land, Joint Development Agreement and Mortgage of land, considered as unintended revenue in comparison to what is stipulated in FWA.

Considering the income from total real estate transactions at ₹ 7,077 crore at 2014 market prices, it is reported that NICE has already recovered project investment at prohibitive IRR earning abnormal profits with outstanding toll collection for the next 24 years of concession period. Apart from real estate transaction, NICE also realized additional revenues by laying bituminous pavement against the concrete pavement, not in line with PTR. The study reports that farmers who are land owners have become real victims of the project caught between the government and NICE. The compensation per acre of land was fixed at an average of ₹ 8 lakh not readily accepted by majority of farmers who have filed writ petitions seeking reasonable land compensation. In addition, there has been inordinate delay in paying compensation. Using documentary evidence, the study reports that NICE sold the land in its possession along the peripheral and link roads at exorbitant prices with intentions beyond the objectives of the integrated infrastructure project.

Further, the Resettlement and Rehabilitation (R&R) has not been implemented and has affected the wellbeing of affected Families in 55 villages of Bangalore North and South Taluks. The socio-economic conditions of project affected people are deplorable due to unfair land compensation and non implementation of R&R. The study reports that escalation of project costs, land prices, and legal entanglements constrain the completion of the project in near future. The farmers are not willing to part their land for townships while they prefer to handover land for the express way at prevailing market rates. Government needs to bring out a suitable policy following the recommendations made in the final chapter of the report.

This report will be of great value for students, researchers and policy makers involved in urban planning and governance. It throws up the undue rates of return from real estate and the enormous consequences of income inequalities. In a society gripped with issues of poverty and income inequality, the report highlights how institutional failure results in unscrupulous elements mopping up abnormal profits and encourages rent-seeking behavior culminating in exacerbating income inequality in the already poverty-stricken lives of farmers who suffer from the predicament of parting their prime land receiving unfair compensation on the one hand, and the predicament of poor rehabilitation and resettlement coupled with lack of portfolio management in capital formation on the other.

August 2018 — *M G Chandrakanth*
Bengaluru — *Director*