Charting a difference course

If the government is serious about improving infrastructure, it needs the private sector. To lure them to participate, it needs to rework its laws and the returns, says **Shyamal Moghe**

"The government's policy is to involve the private sector through three options. It can either privatise the projects i.e. sell them to the private companies, or allow a private enterprise to build; operate and transfer the projects for a certain number of years, or the government and private companies could jointly develop and run the project."

Recently the Planning Commission of India's revision of estimate for infrastructure financing in India put the figure of $490 billion in the next five years to improve its infrastructure. The finance ministry in its annual Economic Survey 2007-08 reported an amount of $500 billion to maintain a growth rate of 9%. Praveen Sood, group CFO of HCC puts the figure at $1 trillion. It is clear from the estimates that India needs a humongous investment in upgrading its infrastructure. One can easily corroborate the numbers seeing the poor state of the roads, the need for flyovers and bridges to ease traffic congestion in big cities, overcrowded ports and airports and a paucity of power supply across the country.

The socialist nature of the Indian economy until the end of the 1980s put the onus of building and maintaining infrastructure on the government. The liberalisation in the 1990s brought in the private sector in infrastructure development across the country. It also for the first time introduced public-private partnerships (PPPs) in the infrastructure sector. According to Shashikant Hegde, director, Economic Research: "Indian private companies stayed away from infrastructure projects mainly because of the huge initial investment requirements, inordinate bureaucratic delays in project clearing, lack of transparent policies and delays in land acquisitions / transfer."

Praveen Sood, group CFO, HCC

To ease these apprehensions of the private sector towards government intentions and attract private funds and companies in infrastructure, a step needed to be taken. In October 2002, the government of India set up a committee to identify and clear projects under the PPP model. Under this scheme, after identifying a project, the government agencies proposed to do the preparatory work and assist private companies in achieving speedy financial closure. The aim was to ensure returns for the private sector at minimum risk. Besides a PPP model ascertains a close monitoring of infrastructure projects and completion on time. Governments in developed countries have used this PPP model to successfully develop their social infrastructure like health and education. A case in point here is that of the UK which has a well developed PPP model in the health sector. The governments of UK, South Africa and Australia have special departments to look after PPP in infrastructure.

Lessons from the past

In the past decade the Indian government has privatised and commercialised roads, ports, airports, power and telecom. Post liberalisation, telecommunication has been the success story of the decade. It is a good example of what participation from the private sector and a hands-off policy by the government can help achieve. According to the Indian Department of Telecommunication, as of July 2008, the total number of land lines in the country increased to 333.84 million from 18.6 million in March 1998. The total number of mobile connections in India, according to the Cellular Operators Association of India, is 296.8 million, and growing. The telecom penetration has been one of the fastest in the world. This sector could be successful because of the liberalisation in the telecom sector which has attracted domestic and multinational telecom companies.

The government hopes to replicate the telecom success story to other infrastructure projects as well. The deputy commissioner in Rajasthan Ajay Dikshit says: "PPPs need not be restricted to one particular sector. It will be successful as long as the projects are commercially viable and can bring about operational and financial efficiency and improved services. As of now PPPs have become almost a norm in the construction of new highways."

The success of the Mumbai-Pune expressway is a case in point. The government's poli-

Shashikant Hegde, director, Economic Research

cy is to involve the private sector in infrastructure projects through three options. It can either completely privatise the projects i.e. sell them to the private companies, or allow a private enterprise to build, operate and transfer the projects for a certain number of years, or the government and the private companies could jointly develop and run the project. This scheme of joint development of projects has found most favour since investments in infrastructure projects are huge and managing the financing can be cumbersome. According to Economic Research, as of 30 November 2008, there were 22,021 new projects entailing a total investment of Rs25,97,987 crore in the power and infrastructure sectors. Of the proposed investment, the power sector accounts for around Rs12,39,700 crore, an investment of Rs8,64,300 crore was to be spent on spriucing the transport sector such as roadways, railways, airports, and seaports, while Rs59,000 crore would be invested in telecom.

The following table shows investment of private companies in various sub-sectors in infrastructure.

Investment in power, services & infrastructure

.	Total		Private Sector	
Sectors	No of projects	Investment (Rs crore)	No of projects	Investment (Rs crore)
Electricity	1,482	1,239,702	712	607,792
Hydel power	660	237,495	169	28,742
Thermal power	522	944,800	325	570,104
Nuclear power	11	37,304	1	0
Non-conventional power	289	20,103	217	8,947
Services & Utilities	20,539	1,358,085	6,997	332,736
Hotels	454	10,054	408	9,414
Hospitals	374	23,214	133	8,963
Tourism & recreation	462	28,742	93	20,231
Water pipelines & distribution	914	58,480	5	1,779
Water, sewage effluent treatment	357	14,167	19	718
Community services	1,337	37,369	172	7,058
Transport infrastructure	8,885	864,327	122	65,499
Roadways	6,953	341,538	24	7,782
Railways	597	212,207	7	863
Airports	136	38,348	5	12,410
Seaports	240	88,519	35	24,448
Pipelines	107	73,909	24	15,868
Power distribution	732	102,328	16	2,867
Telecom	72	59,417	44	41,441
Commercial complexes	1,501	26,511	999	13,654
Real estate	5,166	75,489	4,309	48,028
Industrial parks	850	136,837	620	109,363
Storage & distribution	138	22,975	54	6,241
Miscellaneous services	27	470	19	348
Total	22,021	2,597,787	7,709	940,529

Source: Economic Research

Shaping up

For a healthy and speedy development of PPP in infrastructure, the government needs to rationalise and encourage financing avenues like liberalising loans for infrastructure projects and creating infrastructure funds. Unarguably investments in infrastructure projects are huge and private companies need to borrow a large amount which can come either from financial institutions (both domestic and international) or from the capital market in the form of infrastructure funds, stocks and bonds. Sood says, "Indian construction and infrastructure

Private players can offer relief to the transportation sector

companies are under-capitalised and need large resources to fund public private projects. Whereas debt is available as a certain percentage to equity, the infra funds help to bridge the gap in equity." Therefore the finances have to come from the capital markets.

Several domestic banks funding infrastructure projects are IDFC (focussing on energy, electricity, oil & gas and other infrastructure sectors), ICICI Bank, Yes Bank, HDFC, State Bank of India, and Infrastructure Leasing & Financial Services Limited (India's leading infrastructure development and finance company). The World Bank has committed to lend $14 billion by 2012 to help India upgrade its infrastructure.

However if the government is keen to bring infrastructure at par with developed countries, it is important that it practices total transparency in allocating projects to the private sector. According to Hegde, "Given an investor-friendly environment with less interference from government authorities, the private sector will definitely participate in infrastructure building activities on a large scale. Past investment trends indicate that only a few sectors like telecom, power, hotels, industrial parks, and commercial complexes have enthused private players. As of November 2008, of the total investments lined up in various infrastructure sectors, private sectors accounted for around 49% of the envisaged power investment, 70% in telecom, around 50% in construction (mainly real estate, industrial parks, commercial complexes). The share of private sector in transport infrastructure is around 8%. It is in this sector that the Indian government wants the private sector to participate on a large scale. For that to happen, the government will have to play a very proactive role in creating conducive policies for investment and setting up fair regulatory frameworks."

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From the perspective of the private sector, since the investment is really huge and the returns come after a long gap, the government should give tax breaks to the construction companies, remove cumbersome regulatory hurdles, provide for speedy clearance of foreign direct investment in infrastructure, encourage fund generation from the capital market and ensure smooth working of the PPP model. At the same time it is also important to have an ombudsman like institution to monitor the sector and private companies to practice their corporate social responsibilities.