

# **Infrastructure in India: Challenges and Opportunities**



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# Infrastructure Deficit

## ■ Highways

- 65,569 Km of NH (2% of network, 40% of traffic): only 12% Four-lane; 50% Two-lane; and 38% Single-lane

## ■ Ports

- Inadequate berths, rail / road connectivity and draft are constraints

## ■ Airports

- Inadequate capacity: Runways, aircraft handling capacity, parking space & terminal buildings

## ■ Railways

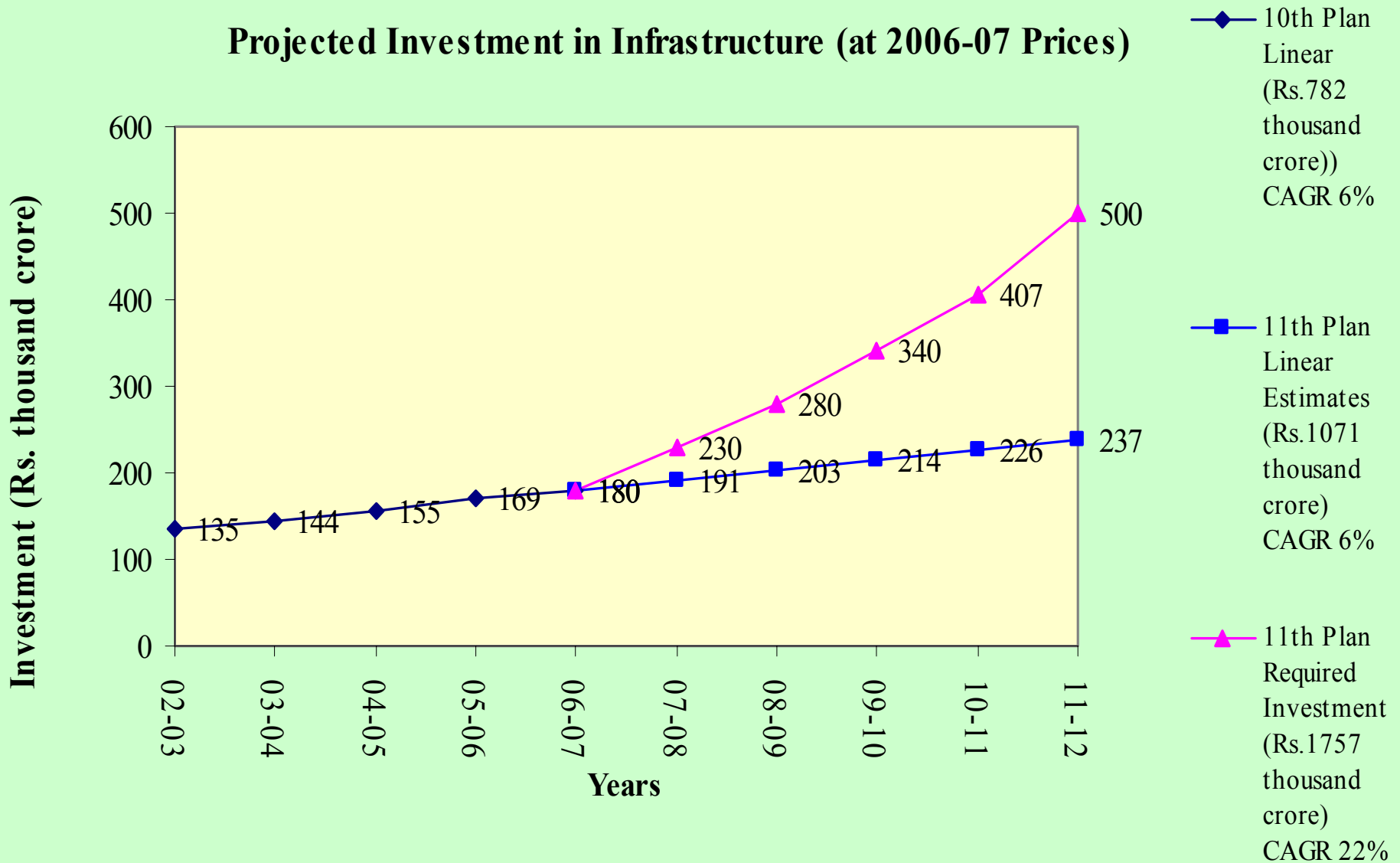
- Old technology; saturated routes: slow average speeds (freight: 22 kmph; passengers: 50kmph); low payload to Tare ratio (2.5)

## ■ Power

- 11% peaking deficit and 7% energy shortage; high T&D losses; absence of competition; and inadequate private investment

# Scale of the Challenge

## Projected Investment in Infrastructure (at 2006-07 Prices)



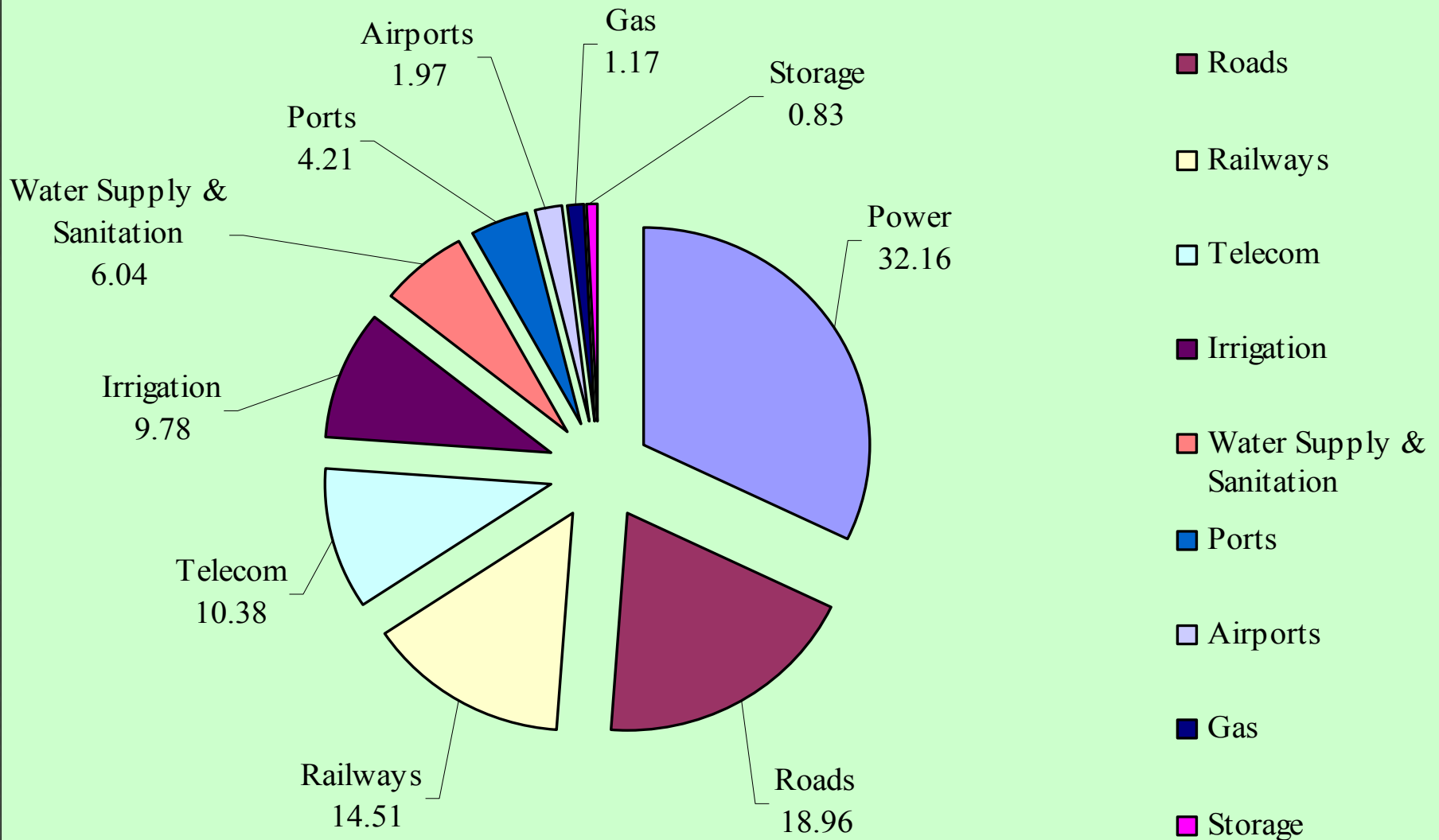
# Projected Investment in Infrastructure

(at 2006-07 prices)

Sl. No.	Sectors	10th Plan (Estimated)		11th Plan (Projected)	
		Rs. in thousand crore	Sectoral shares (%)	Rs. in thousand crore	Sectoral shares (%)
1	Power	289	35.44	565	32.16
2	Roads	130	15.95	333	18.96
3	Railways	83	10.18	255	14.51
4	Telecommunication	92	11.29	182	10.38
5	Irrigation	132	16.14	172	9.78
6	Water Supply & Sanitation	64	7.82	106	6.04
7	Ports	3	0.43	74	4.21
8	Airports	4	0.53	35	1.97
9	Gas	9	1.07	21	1.17
10	Storage	9	1.16	15	0.83
	<b>Total</b>	<b>816</b>	<b>100</b>	<b>1,757</b>	<b>100</b>

# Projected Eleventh Plan Sector Share (%)

Projected Eleventh Plan Sector Share (%)



# Policy Challenges

- **Large capacity addition**
  - Time-bound delivery under budgetary constraints
  - World class yet cost effective
  - Commercially sustainable yet affordable
  
- **Attracting private investment**
  - Policy & regulatory framework for PPPs
  - Optimal risk allocation
  - Institutional restructuring and reorientation
  - Financial support to PPPs

# Division of Labour

- Public Sector to continue, and even expand
  - Especially in segments that can't be commercialised, eg. rural
- **Reliance on PPPs for additionality & improved efficiency**
  - In segments that can be commercialised, eg. roads, ports, airports & rail concessions
- Independent private investment whenever feasible
  - Enable competition in power generation, airlines, container trains etc.

# Governance Structure for PPPs

- Constitution of the **Committee on Infrastructure (CoI)**
  - Prime Minister is the Chairperson
  - Ministers of Infrastructure Ministries; Finance Minister and Deputy Chairman, Planning Commission are members
- Empowered Sub-Committee of CoI chaired by Dy. Chairman, Planning Commission and represented by Ministries
- Secretariat for CoI in the Planning Commission
- Ministries retain their role but work closely with CoI
- Greater reliance on inter-ministerial & **inter-disciplinary dialogue** to enrich outcomes & eliminate conflicts of interest.

# Instruments of Governance

- PPPs integrated in the planning process
- Constitution of Inter-Ministerial Committees (IMCs) under chairmanship of Cabinet Secretary/ concerned Secretary
- Specified tasks are assigned to IMCs with an agreed time frame
- Involvement of experts in formulation of programmes & processes
- Consultations with stakeholders, including users & investors
- Simplification & standardisation of documents & processes

# Instruments of Governance (contd.)

- PPP Appraisal Committee (PPPAC):
  - Appraises & recommends all PPP projects of the Central Govt.
  - Chaired by the Finance Secretary
  - Appraisal Unit in the Planning Commission
  
- Empowered Committee/ Institution
  - Approves proposals for Viability Gap Funding
  - Follows a process similar to PPPAC
  
- India Infrastructure Finance Company (IIFC)
  - Raises funds against sovereign guarantees
  - Provides upto 20% of capital costs as long-term debt

# Important Reports under Implementation

- Model Concession Agreements in highways, rail & ports
- Guidelines for formulation, appraisal & approval of PPP Projects
- Guidelines for financial support to PPP projects
- Guidelines for Pre-qualification of bidders
- Scheme for financing infrastructure projects through the IIFC
- Financing Plan for National Highway Development Programme
- Financing Plan for Airports

# Important Reports under Implementation (contd)

- Financing Plan for Ports
- Report on the Eastern & Western Freight Corridors
- Report on Road Rail Connectivity of Major Ports
- Report on streamlining of Customs procedures at Ports
- Report on streamlining of Customs procedures at Airports
- Report on reducing dwell time at Ports

# Highways

- 40,000 km to be developed by 2012: \$ 50 bn
- **PPP programmes approved so far: 21,700 km**
  - 6-laning of 6,500 km of GQ & Other NH
  - 4-laning of 14,200 km in selected sections
  - 1,000 km of new expressways
  - **7,084 Km to be awarded in 2007-08**
- Safety
  - Setting up of a Board for Safety & Traffic Management
  - Setting up of a dedicated road safety fund

# Highways: Enabling framework

- Financing plan firmed up
  - Cess (\$ 1.7 bn p.a.) and toll revenues to finance the programme
  - Viability gap funding upto 40% of capital costs
- Model Concession Agreement is based on DBFO approach
- PPP projects to have larger stretches (100 km or more)
- Restructuring of NHAI being undertaken

# Ports

- PPP for 54 new berths to add capacity of 640 ml.t. by 2012
- Capital dredging for deepening of draft
- Model Concession Agreement being finalised
- Perspective plan for 20 years and Action Plan for 7 yrs on way
- Rail Road connectivity projects in progress
- Simplification of Customs procedures in progress
- Estimated investment: \$ 20 bn: Role of States to expand

# Airports

- High growth in traffic: over 20% per annum
- Likely investments by 2012: \$ 10 bn
  - PPPs in Bangalore, Hyderabad, Delhi & Mumbai in progress
  - 5 Greenfield airports & 35 other airports to be developed
  - Upgradation of CNS-ATM Equipment
- Model Concession Agreement being finalised
- Airport Economic Regulatory Authority to be set up
- AAI to be restructured

# Railways

- SPV for Dedicated Freight Corridor set up; likely investment of US \$ 7 bn
- Competition in container train movement introduced: 15 concession agreements signed
- Focus on technology upgradation and modernisation
- PPP initiatives in new routes, railway stations, logistics parks etc.
- PPP for modernisation of New Delhi Station being initiated

# Scheme for financial support to PPPs

- Leveraging scarce budgetary resources for addressing critical gaps in private sector financing
- Economically justified but financially unviable projects
  - Long gestation periods
  - Inability to increase user charges to commercial levels
- **Viability Gap Funding** upto 20% of capital costs
- Bidding for minimum capital grant based on pre-approved concession agreement and project specifications

# India Infrastructure Finance Company

- Lack of long term debt in capital markets
- IIFC to provide long term debt to viable infrastructure projects
- Funds to be raised from domestic and external markets against sovereign guarantees
- Loans of Rs.12,478 cr sanctioned for 57 projects with an estimated investment of Rs. 90,612 cr.

# Initiatives at State level

- States are initiating similar programmes
- State PPP projects can avail of upto 20% of capital costs as VGF grant from Central Government
- They can also avail of 20% of capital costs as long-term loans from IIFC
- Technical assistance being provided by Planning Commission
- Assistance for capacity building being provided by the Finance Ministry

# Way forward

- Expansion of PPPs is inevitable
- An enabling environment is a pre-requisite for optimising private investment
- Standardising documents and processes would reduce costs and accelerate investment flows
- Budgetary resources & multi-lateral assistance should be leveraged
- Accelerated roll-out of PPP projects holds the key
- Objective is to create world class infrastructure

*Thank You*