

Infrastructure in India A PPP opportunity

A concentrated focus on infrastructure is vital to ensure that India emerges as an economic powerhouse, and to create an environment of enabling and sustainable growth



BOOSTING THE ROAD NETWORK: Without PPPs it will be impossible to take the road projects beyond the drawing board

The India growth story is gathering force. Buoyed by strong economic fundamentals at home, favourable demographic numbers and a rapidly expanding marketplace, India is a destination that very few investors are ignoring.

Over the recent past, the economy's amazing pace and agility have made it the focus of intense scrutiny and activity. New sectors have opened up and old ones have made a place for themselves in the global business rink. Industrialists and investors have jostled

to be a part of the India story; across sectors and across the country. There is no doubt that the country has the potential and capability to turn into an economic powerhouse.

Growing at the rate of 8-9 per cent a year, the Indian economy has clearly driven itself to a position of strength. It is now time to create an environment of enabling and sustainable growth. For that to happen, as the Asian tigers and China have ably demonstrated, a concentrated focus on infrastructure is going to be vital. It is the only way India can address the concerns of domestic and international industry without losing any of the momentum that its economy has acquired in recent years.

MOVING TOGETHER

There is no doubt that there are significant opportunities in India's infrastructure sector. As we have seen with telecom and, to some extent with power and roads, infrastructure can provide investors with a platform to expand and grow roots into the Indian economy.

The government is keen to nurture profitable partnerships with the private sector to bridge the investment and the knowledge gaps within infrastructure. Infrastructure calls for huge investments and while returns are high too, it requires investors willing to accept long gestation periods.

Infrastructure development is also a function of continuous and speedy adaptation to technology. This would not be possible without quality manpower and heavy investment.

Thus it is clear that the way ahead is through well defined and innovative public private partnerships. In fact Prime Minister Manmohan Singh has repeatedly called for "innovative public-private partnerships to explore new pathways to make the infrastructure ambitions a realisable goal".

Within infrastructure, power, ports, airports and roads will act as the key facilitators for change. These are the areas where targeted reform is expected to bring in fresh investments, which in turn will lead to a stable growth of over 8 per cent a year. According to the government, investments of around

\$320 billion are expected in the infrastructure sector as part of the Eleventh Five-Year Plan (2007-2012) to meet this growth.

The Indian government has taken several steps to open up the infrastructure sector to foreign investment and through a slew of measures; it is sowing the seeds for profitable public-private partnerships (PPPs).

Consider the case of the power sector. In India, it has often been feared that acute shortages, poor distribution mechanisms and heavy transmission losses could choke growth. The investments required are huge and the government, on its part, has been hampered by lack of resources.

The best way here would be PPPs. A recent report by KPMG for CII on infrastructure shows that, the government has taken the following steps to ensure this:

- ❖ Generation is de-licensed (except large hydro projects) and now all new generation in the private sector has to be contracted through the competitive bidding route
- ❖ Open access on common carrier principle is allowed on transmission networks and is soon to be phased in on distribution networks as well
- ❖ Provisions for parallel distribution networks in existing areas are made. This would create a competitive environment in distribution.
- ❖ There is a huge shortfall in power generation and therein lies an opportunity. The government is now open to allowing a direct transaction between power generators and consumers, thereby enabling the power plants to set aside some part of the production for merchant use. Private participants are also being wooed with attractive interest rates and financial incentives.

A similar story is panning out in the roads sector. The National Highways, which account for just 2 per cent of India's road networks, carry 40 per cent of traffic.

Clearly there is a huge gap that needs to be filled and the government has initiated projects whereby by 2012, another 40,000 km will be developed. This involves an investment worth \$ 50

billion. Without PPPs, it will be impossible to take the projects beyond the drawing board. So far, PPP programmes have been approved for 19,600 km, including the six-laning of the Golden Quadrilateral and other National Highways, East-West and North-South Corridors and 1,000 km of new expressways.

To bring in the private sector the government has undertaken a number of steps such as allowing 100% foreign direct investment, facilitating commercial borrowing, providing capital grants and instituting a viable build-operate-transfer (BOT) model. The result has been an unprecedented interest in road building PPPs and a number of success stories in the sector.

More recently the government has transferred several attributes of this model to the airports and airport infrastructure in the country. Public bidding was allowed for the airport infrastructure development in Mumbai and Delhi and a private firm was awarded the contract. The PPP route was critical for the opening up of this sector just as it has been for every element of the country's infrastructure development process.

STEERING THE COURSE

There are a number of projects in the pipeline that are large, prestigious and would have a huge impact on the economy. For instance, the Larsen & Toubro (L&T) project to build a six-lane road off the Baroda Bharuch highway could boost business in the region. Similarly the \$48.9 million Thiruvananthapuram city road development project – one of the first PPPs – would change the lives of millions.

A number of projects in the airport sector, especially the development of metropolitan airports too need to be nurtured and protected. Modernising the Delhi and Mumbai airports is expected to cost \$666.67 million and recent alliances with private parties have ensured that work is in progress.

In the coming months, these projects will be put to the test. It will be important to stick to time frames. For their fate will not just determine that of India's infrastructure, but will reach out and manifest itself in the country's overall development pattern. 