

How to reduce India's infrastructure deficit

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It is generally recognised that infrastructure investments are the most productive for inclusive growth. So, in the current difficult times, after the immediate relief measures, India should be prioritising infrastructure investments.

India runs among the largest infrastructure programmes in the world, and has invested over \$1.1 trillion on it in the last decade. India is among the top three civil aviation markets in the world, with double-digit average traffic growth in the last six years. The airports at Delhi and Mumbai, from being among the worst airports in the world before being farmed out to the private sector, have become the best. Teledensity has experienced exponential growth, with the overall teledensity topping 92 per cent now, from 1 per cent three decades ago.

Many notable road projects have been developed, including the Jaipur-Kishangarh highway, which are beneficial to users, while producing value for investors. We have seen the private sector producing value even in the most difficult power distribution sector, where in the case of North Delhi, the aggregate technical and commercial (AT&C) losses have gone down from more than 50 per cent in 2001 to single digits now — comparable to that in developed countries.

However, there is a large infrastructure deficit in the country, apparent from our over-crowded roads, over 100 per cent capacity utilisation on our trunk railway routes, and high turnaround time for ships. Besides, we have high overall AT&C losses, stranded power plants, increasing import dependence in the oil and gas sectors, and no Indian city with 24x7 public water supply.

If we aim to become a \$5 trillion economy by 2025, we need to spend much more on infrastructure, and do so efficiently. The government had constituted a task force on developing the National Infrastructure Pipeline in September 2019, whose final report was handed over to the finance minister on April 29. As per estimates in the report, India will have to more than double its annual infrastructure investment in the five-year period FY2020 to FY2025, compared to \$110 billion per annum currently.

Besides the quantum of investment, there are a number of reforms needed to improve the efficiency of infrastructure investment. I would like to highlight three of these reform measures.

Sanctity of contracts

India ranks 163 out of 190 countries in enforcement of contracts, one of the 10 parameters considered for Ease of Doing Business (EoDB). So, sanctity of contracts needs to be upheld. However, while much has been said about Andhra Pradesh's reneging on its renewable energy contracts, there should not be any selective application of the principle of upholding the sanctity of contracts.

The cases that come to mind are those of Coastal Gujarat Power Ltd (an ultra mega power project of 4 Gw capacity that has claimed relief on account of rise in the price of Indonesian coal, which is not provided for in the power purchase agreement) and the Hyderabad Metro Rail Project (which is unwilling to follow the "change in law" provision of the concession contract so far as user charges are concerned). So, to make the bidding process fair, curb aggressive bidding, and improve India's position on this parameter in EoDB, sanctity of contracts should be upheld by both public and private sectors.

Reasonable user charges

If we want world-class infrastructure, we must be willing to pay for it. In general, infrastructure is under-priced, as apparent from the loss of 40 paise per unit of power sold in the country. Cost recovery in metro rail is so poor that it does not cover even operation and maintenance expenses. Unless we recover reasonable user charges, the access to public services suffers and the poorest sections of the population get rationed out, as apparent from the experience of piped water supply in Indian cities. The poorest sections have to buy water from tankers and standposts at

prices that are many multiples of publicly provided piped water supply. So, reasonable user charges are also likely to benefit even the poor.

Autonomous regulation

As fiscal resources are limited, and there is a large unmet need for infrastructure, governments, including in India, are looking at the private sector to lend a helping hand. Thus, we

find that we are looking at development of even many unconventional sectors like railway stations and passenger trains through public-private partnerships (PPPs). Whenever an infrastructure sector is opened for private investment, there is a clamour for autonomous regulation through an independent sectoral regulator.

However, the country has too many infrastructure regulators already, and their record in reducing regulatory risk is also suspect.

We should also be cognizant of the fact that we have the highest number of PPP projects in the world in the road sector, where we practise "regulation by contract", without there being a need for setting up an independent sectoral regulator. So, all regulatory options, including "regulation by contract" and multi-sectoral regulators should be part of the menu of regulatory choices.

India aims to spend huge amounts on infrastructure in the coming years. While the quantum of investment is important, it is equally important to promote the efficiency of these investments through some of the reform measures outlined above.

The writer, until recently member secretary of the Task Force on National Infrastructure Pipeline, is joint secretary, Ministry of Home Affairs. Views are personal