

## General Studies-3; Topic – Indian Economy and issues relating to mobilization of resources

### Private Sector Investment in Infrastructure

#### 1) Introduction

- According to Economic Survey 2018, India will need about USD 4.5 trillion in the next 25 years for infrastructure development.
- The Global Infrastructure Outlook reflects that rising income levels and economic prosperity is likely to further drive demand for infrastructure investment in India over the next 25 years.
- The current trend shows that India can meet around USD 3.9 trillion infrastructure investment out of USD 4.5 trillion.
- The Survey stressed the need to fill the infrastructure investment gap by financing from private investment, National Infrastructure Investment Bank (NIIB), Asian Infrastructure Investment Bank (AIIB) and New Development Bank.

#### 2) Present Status

- The private sector contributed an estimated ₹20 trillion, or a third of India's ₹60 trillion infrastructure investment, between fiscals 2008 and 2017.
- However, it has declined sharply in recent years in terms of share of investment, from 37-38% to below 25% in fiscal 2018.
- Over-investments in the couple of fiscals through 2012 have backfired, leaving in stalled projects and huge stressed assets.
- Private investment capacity is yet to recover meaningfully.
- Renewables, which have seen speedy investments, are facing headwinds today.
- Private investments in thermal generation are already in deep trouble.
- In railways, and urban infrastructure, private investments are negligible.
- The causes behind this is the "collapse of Public Private Partnership (PPP) especially in power and telecom projects; stressed balance sheet of private companies; issues related to land & forest clearances."
- Public institutions, viz. city governments, power utilities, and bus transport corporations are incapacitated.
- India has been grappling with high logistics costs of 16-18%.

#### 3) Positive Developments

- National highways remain the only bright spot, where policy actions and the hybrid annuity model (HAM) have revived projects.
- Recent toll-operate-transfer (TOT) auction is a great example of asset monetization and crowding-in of private capital.
- A spike in public spending has offset some of the fall in private investments.

#### 4) Benefits of Private Investment

- Achieving infrastructure investment of 5% of GDP requires considerably more private sector contribution.
- Private sector participation in infrastructure delivery helps deliver tangible benefits.
- The private sector has also delivered efficiently—both on project execution as well as operations.
- Private participation enhances public accountability.

- Public private partnership (PPPs) bring back trust in public utilities that execute them, improve service delivery and bridge resource gaps.
- Reviving the stalling private sector investments is crucial to accelerate the infrastructure build-up that India needs, aspires for, and deserves.

### 5) Government Efforts

- **The Government has taken several steps to encourage investment by private sector like launching of innovative financial vehicles such as**
  - a. Infrastructure Debt Funds
  - b. Infrastructure Investment Trusts/Real Estate Investment Trusts
  - c. Framework for issuance of municipal bonds
  - d. Relaxation in External Commercial Borrowing (ECB) norms
  - e. Establishment of National Investment and Infrastructure Fund (NIIF)
  - f. Relaxation of norms for Employees' Provident Funds Organization (EPFO)/pension funds for infrastructure sector
  - g. Bringing in 5/25 scheme to extend long tenor loans to infrastructure projects

### 6) Way Forward

- Broad-basing private investment in infrastructure requires commitment and holistic efforts from both the Centre and the states.
- **Empower public institutions to drive transformation**
  - a. Capable creditworthy public institutions are an essential prerequisite to attract private investment.
- **Rewire contracting frameworks**
  - a. Expediting creation of a PPP think-tank institution as recommended by the Kelkar committee could help.
  - b. We should look beyond conventional build-operate-transfer models to annuity and investment-lite performance-contracting models.
  - c. This would require recalibrating risk-sharing, and reworking contracts with clear performance metrics.
- **Create supply-side enablers to deepen the infrastructure financing ecosystem**
  - a. Stalled projects need to be dealt with steadfastly to attract private developers.
  - b. Building capacity to implement the Insolvency and Bankruptcy Code will be crucial.
  - c. Creating a diversified and resilient financing ecosystem to facilitate a shift from overreliance on bank-led financing.
  - d. Strengthening bond markets and expeditious deployment of capital under the National Investment and Infrastructure Fund can help.
- CRISIL said that the problem of stressed assets in the banking system to push the investment cycle.
- India would need to find innovative mechanisms to attract investments into infrastructure to sustain its growth.