



Urban Infrastructure – Essential for the Growth of India

India, a largest Democracy in the world, a vibrant nation full of resources, on the path of improving literacy rates has great tendency to adopt and compete with the best of International trends and technologies. The key for the development of Indian as a Nation will solely be dependent on striking the right balance of Urban Development alongside the

Infrastructure growth. While cities in India are full of vibrant activity and energy, they are also becoming disordered, complex, and too often congested.

India's urban population is larger than the entire United States, and is second only to China's. It is clear that India's urban population will continue to grow, probably doubling in the



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next couple of decades. The scale and potential is enormous. To meet the challenges of this inevitable and rapid urbanization, India needs well-performing cities and the integrated infrastructure development will be the key.

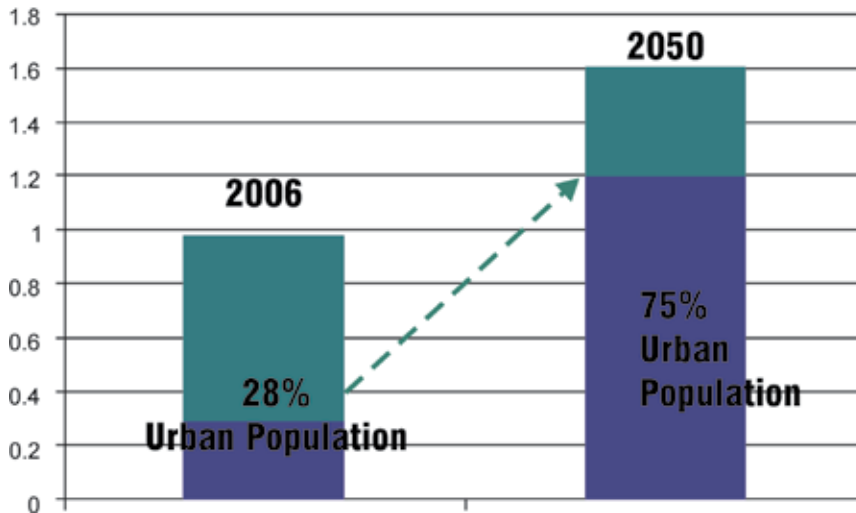
It has now become imperative that helping the Indian cities to function efficiently is mandatory for the better future of the country. At the same time, we need to be extra cautious while designing the new cities so that the mess that we are witnessing now shall better be avoided.

It has been recorded since several years that a rapid urbanization is happening across states of India. Please have a look at the figure 1. below.

To meet the demand of developing / upgrading the infrastructure which is generated out of rapid urbanization as

920 Million People Being Added to Urban India By 2050

Source: WDI



per statistics above and otherwise, we will have to take the following steps:

- We will have to build new cities to accommodate the surge and shift of population. The basic premise of the design of these new cities must be that these new city projects are considered as Infrastructure projects and not real estate projects. Infrastructure shall be the key. These cities shall be green, sustainable, livable and well planned integrated development
- Improve infrastructural facilities and help create durable public assets and quality oriented services in existing cities & towns.
- We will have to create conducive working environment to give a boost to private investment under PPP model for sustainable development

Issues with the existing model of city development:

- ◆ Unplanned Expansion within Cities
- ◆ Planned Traditional Expansion within Cities
- ◆ (Semi) Planned Traditional expansion via Satellites

We Need to Get Serious about The Issue of City Development and Integrated Infrastructure Development.

This traditional approach will not work because new challenges call for new and innovativesolutions.

Infrastructure Potential

India is the fourth largest economy in the world. However, one factor which is a drag on its development is the lack of world class infrastructure.

Infact, estimates suggest that the lack of proper infrastructure pulls down India's GDP growth by 1-2 per cent every year.

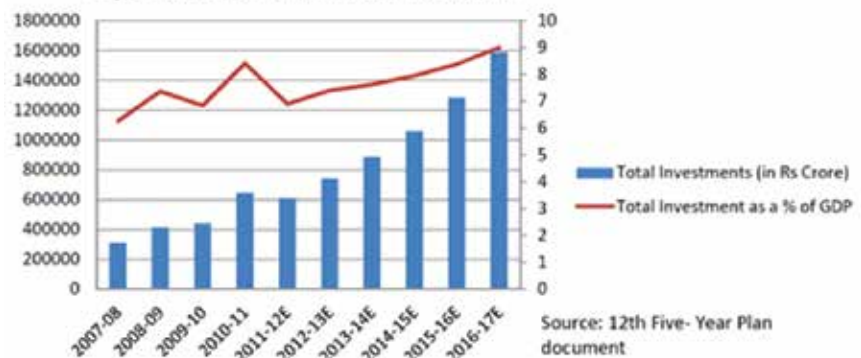
Inadequate infrastructure was recognized in the Eleventh Plan as a major constraint for rapid growth. The Plan had, therefore, emphasized on the need for massive expansion on investment in infrastructure based on a combination of public and private investment, the latter through various forms of PPPs. The total investment as a percentage of GDP is also expected to be in the range of 7-9% (see figure 1).

Challenges in Achieving Infrastructural Goals

There are various factors which are responsible for poor infrastructure growth. Major ones and are enumerated below:

Financing: The infrastructure project are highly capital intensive and funding had been one of the major impediment in achieving the infrastructure goals. The infrastructure broadly can be divided into two types, one which is very essential for the public at large and have no or very little revenue potential and other which has handsome revenue potential. The first kind of infrastructure must be totally government financed whereas the later can be developed

Figure 1 : Share of Infrastructure in GDP



Source: 12th Five-Year Plan document

on PPP mode. Since resource constraints will continue to limit public investment in infrastructure, PPP-based development needs to be encouraged wherever feasible. In view of this, one can say that there is an over dependence on the private sector for developing and maintaining the infrastructure. The private sector, however, needs funds to develop infrastructure projects that are capital intensive and have a large gestation period. Typically, private investments in infrastructure projects are mainly in the form of debt raised by developers.

Fact of the matter is that many PPP project are waiting for the financial closure to happen and are inordinately getting delayed.

Land Acquisition: One of the significant challenges in achieving the infrastructure goal is the way Land acquisition is done for infrastructure projects. Compensation fixed in terms of registered value is always the bone of contention. There is always a substantial difference between the compensation offered and the actual value of the land. The land owners always feel aggrieved which result in dispute and litigation. The Land Acquisition and Rehabilitation

& Resettlement Bill (LARR) which came into the force from 01st June 2014, though define the process of land acquisition and will lead to systematic settlement yet it makes the land acquisition costlier. This could be detrimental to private investments in the long term, since viability of projects may be affected.

Another major source of delays is the need for clearances from numerous agencies: Most of the infrastructure projects in India suffer from delays in completion. This is mainly due to an inadequate regulatory framework and inefficiency in the approval process. Infrastructure projects require multiple sequential clearances at various levels of government. As an illustration, more than two years were needed for the Gujarat Pipavav port project to receive the necessary clearances after achieving financial closure. Moreover, most of the large projects involve dealings with various ministries. Often, the perspectives of the different ministries/departments vary and co-ordination remains inefficient (World Bank, 2006).

The various categories of approvals required across the

project cycle at every stage, right from the pre-tendering stage to post construction. While it is important to have a rigorous procedure that ensure transparency and quality, bureaucratic complexities and the protracted procedure for securing approvals are often considered serious disincentives for developers and contractors. Environmental safeguards and guidelines have proven to be one of the major reasons for delay in infrastructure projects, especially in the power sector. While new projects need to comply with these regulations, even a project under construction may need to comply with revised standards midway through the execution stage. While the concerned Ministry states that the delays are primarily due to non-compliance with the procedures of Environment Impact Assessment (EIA) notifications and circulars issued, the terms of compliance involve a complex and Time consuming procedure.

Poor pre-construction planning

Due to the adverse effect of various impediments like land acquisition, statutory approvals, delayed financial closure, etc. the pre-construction phase of infrastructure projects is pretty long drawn. In spite of having substantial time for meticulous planning, we often do not focus on this most important aspect of the project which led to the suffering during execution phase and hence delayed commissioning/ completion.

Tendering/bidding are also an important part of pre-construction phase, which is invariably found to be mishandled and often non-transparent. The tenders prepared for the selection of PPP developers/ partners are also prepared in a routine manner as if we are hiring some execution agency meaning thereby they are largely one-sided (major risk are allocated to potential PPP agency) favoring the government.





Way to surpass these challenges

We have seen that India's Infrastructure, which is an essential and most important component of Urban Development, is in poor shape and need an immediate attention and redress both from Government and Industry. Following are the suggestive way to surpass the challenges faced by infrastructure development:

- a) Land acquisition being a sensitive issue cannot be handled by the private investors and it must be exclusively handled by government and the project either as cash contract (EPC) or PPP should not be awarded unless the land acquisition (>90%) is done.
- b) More conducive environment for potential concessionaire. Improvements in the investment climate are vital. India needs to expand dramatically the sources and volume of available infrastructure financing. This will not be possible without private-sector participation, which in turn requires a business environment that ensures adequate

- return on investment, transparency in procurement, and high-quality governance and regulation. The termination of agreement by the private developer for the country's largest highway project, Kishangarh-Udaipur-Ahmedabad route of 555 km, has raised serious concerns over the other on-going projects in Rajasthan. Concessionaires and authorities concerned claim that clearances even for small issues are now getting stuck in the bureaucratic cycle.
- c) We all know that there is rapid urbanization which is posing many challenges. Migration of large population to urban centres is causing new cities to emerge and existing ones to expand. India must seize the opportunity to adopt green urban planning early on: mass-transport systems should link satellite cities to ports and megacities, and new cities should be eco-friendly and energy-conserving. The Indian government's recent promotion of dynamic economic corridors between major cities is a step in the right direction but its

moving at snail pace. Government need to expedite the process by cutting short the long bureaucratic cycle.

- d) By boosting the credit ratings of infrastructure projects via credit enhancements, this facility will allow pension funds and insurers to invest in infrastructure projects. ADB and IIFCL are already jointly working on it.
- e) Implementable regulations with regard to sustainable infrastructure. We need not make the long drawn bureaucratic regulatory routes but to make it extremely friendly. The agencies which are resorted to something like this must be incentivised.
- f) More grant to state/city authorities through JNNURM along with better regulatory system to avoid any possible misuse.
- g) Single window statutory clearance (inclusive of MoEF) to projects.
- h) There are good competent people working in different departments of government, however they are working in silos, we need better and effective coordination for a fast project roll out.
- i) The government has targeted to attract at least half of the \$1-trillion investment envisaged in the infrastructure sector during the 12th plan period (2012-17) from the private sector. To achieve the same, government has to provide the provision in PPP contract for re-negotiation in case of drastic change in the ground situation due to unforeseen factors. Private developers have been demanding a renegotiation provision in PPP contracts because they cannot foresee all the events and contingencies during the entire contract period, which is typically 20 years or more. The time has come

to give a heed to these demands to boost the private participation. There is a need to spell out a clear and well-defined treatment of contingent liabilities, including the extent to which they can be undertaken and the process of authorising the same.

The rationale of such a provision can be explained by the following examples. A large number of existing infrastructure projects in sectors such as highways, power, airports and ports had run into rough weather because of unforeseen circumstances, and the lack of provision for renegotiating the contracts has made them unviable for investors. Last year GMR and GVK walked out of mega-highway projects worth ₹10,700 crore, while most recently Reliance Infrastructure pulled out of the ₹5,800-crore Airport Express line of the Delhi Metro. We witnessed the problems in Gurgaon expressway. There are problems brewing in the Delhi-Noida-Delhi (DND) Expressway project, while Tata Power and Reliance Power are struggling to transform their

ultra-mega power projects powered by imported coal into profit-making ventures due to changes in input costs. This could signal the end of Public Private Partnerships (PPP) in India, with some even changing the definition of PPP to perennially posing problems.

Conclusion

The largest democracy of the world had recently voted for the change and we have a new Government, which everyone has high hope from. They need to now bring in lot of confidence in private sector to invest in Infrastructure and also at the same time make the process simpler by tightening the noose of officials responsible for posing the hurdle for vested interest.

The development of India's infrastructure presents a huge task as well as a huge opportunity. The previous sections have raised some of the key issues that will need to be addressed for a major step-up in infrastructure development. But

there are other challenges too. It is important to draw attention to some of them in particular. The first concerns the environment. Building good quality infrastructure is integral to the development of a competitive Indian economy that is expected to play a larger role in the world economy. And building it rapidly with the least damage to the environment is important. How the huge growth in power generation, transportation and urbanization can be managed is therefore especially important. A second issue is the importance of transparent processes of bidding and procurement if a PPP is to play a major role. Fairness and a level playing field must be firmly established and not perceived to be compromised at any stage. There is no doubt that India's infrastructure is a growth sector: it is clearly recognized as a national priority. The infrastructure will be built. The question is how well will the process be managed: how sustainable, transparent and fair will it be?

With the Twelfth Plan focusing on attracting private sector to fund about 50% of the total infrastructure investment target, there is need to start both short-term actions and long-term measures at the earliest. Fiscal support will continue to be dominant for infrastructure development but equally important would be the enabling policies that could lead to streamlining of procedures and protecting interests of both investors and consumers. If we put some the recommendation above into practice, Infrastructure dream can be realized and place India's economy on a high growth trajectory.

