

# Infrastructure

- PPP; post 1991 phenomena (pvt. sector help to fill infra gap)  
 3 new investment models adopted post 1991: PPP, VFG, CSR

Defn: way to execute & maintain infra thru collab. of govt. & Pvt. sector where Pvt. sector is involved in at least Op. & maintenance

Risk sharing → legal & political risks: govt.  
 → supply & demand risks: Pvt.

Division of labour as per resp. strengths

Need → SPV to execute & maintain project  
 → capital intensive ⇒ Pvt. sector  
 → innovation & efficiency

criticisms  
 limitations rather → Long gestation period ⇒ govt. change ⇒ policy change  
 → Moral hazard: govt. bails out when project goes south  
 → Airports, ports etc. ⇒ revenue sharing model

→ aggressive bidding  
 → strain on finances later  
 → quality of service ↓

Reckless bidding (security of govt. bail out)

Hard to renegotiate project if condition changes ⇒ no bureaucrat negotiates

no reward → graft allegation

Hence, many infra projects are today financially stressed, accounting for almost a third of stressed assets (NPAs) in banks. New projects are not able to attract sponsors as in recent PPP bids & banks are unwilling to lend

PPP models (12): EPC, Cost+, HAM, BOT, BOOT, BOLT, DBFO, LDO, BOO, Mgt. contract, Service contract, Swiss challenge

Viability Funding Gap: Dept. of Economic Affairs introduced VFG Scheme (2006) ⇒ financial support of 40% of total project costs to social infra that is economically justified but commercially unviable

FDI in many sectors opened up ⇒ foreign contractors + finance + tech transfer + managerial expertise, innovation, competition etc. etc.

4 govt. steps to promote PPP → India Infra Project Dev. Fund (IIPDF) set up: Corpus of 100 Cr. set up in 2008 ⇒ grant upto 75% for project dev. expenses (PDA ⇒ appeasement ⇒ grant)

Vijay Kelkar Comm. (2015) to study & improve PPP models

India Infra Finance Company Ltd. (IIFCL): Registered as NBFC-ND-IFC with RBI, provides long term finance to infra projects to eligible sectors.

Must write ↑

# - specific infra sectors

→ **Roads**

- Avg. pace of highway construction 3 times from 11.7 km/day in FY 14 to 34 km/day in FY 24. (ES)
- Bharatmala Pariyojana (1998, Vajpayee) → umbrella scheme for highways NHA implemented
- PMGSY: Rural roads

→ **Railways**

- Bkd. linkages (railway ↑ ⇒ iron & steel ↑) + Fwd. linkages (railway ↑ ⇒ tourism ↑, logistics cost ↓, raw material & finished goods transport to mkts. etc.)
- combined multiplier of 4+ (as per Railway Min.)
- Also transport of coal & petroleum products

- 100% FDI in railway infra except train operations & safety
- High Speed Railway: cost efficient over air transport for < 800 km journey
- India 4th largest rail network
- Dedicated freight corridors

Also energy saving & eco friendly (Net Zero goal by 2030)

Increase in public infra investment like railway, affects the economy in two ways:

- In the short run, it boosts aggregate demand and crowds in (pulls in) pvt investment due to complementary nature of infra services
- In the long run, a supply side effect also kicks in as the infrastructure-built feeds into the productive capacity of the economy

→ **Industrial Corridors**

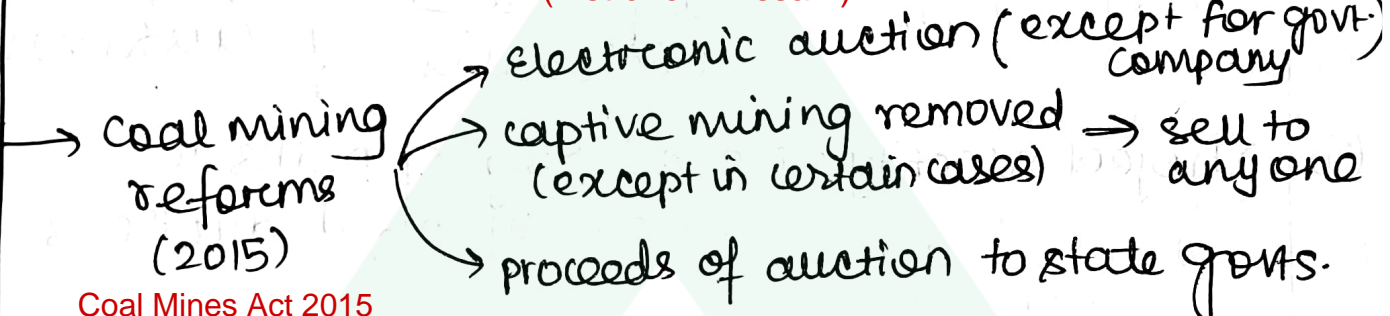
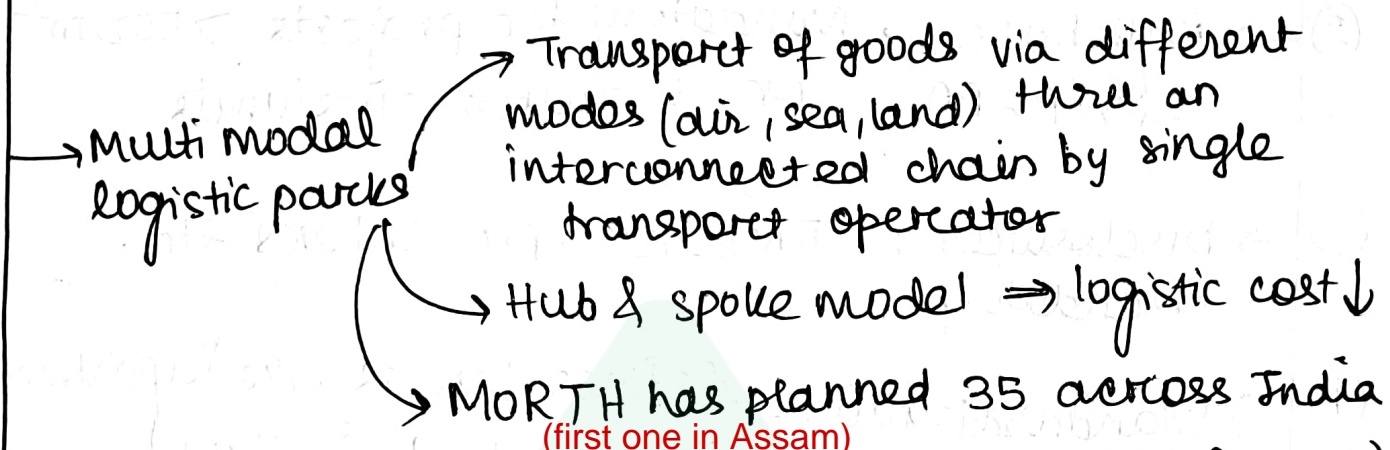
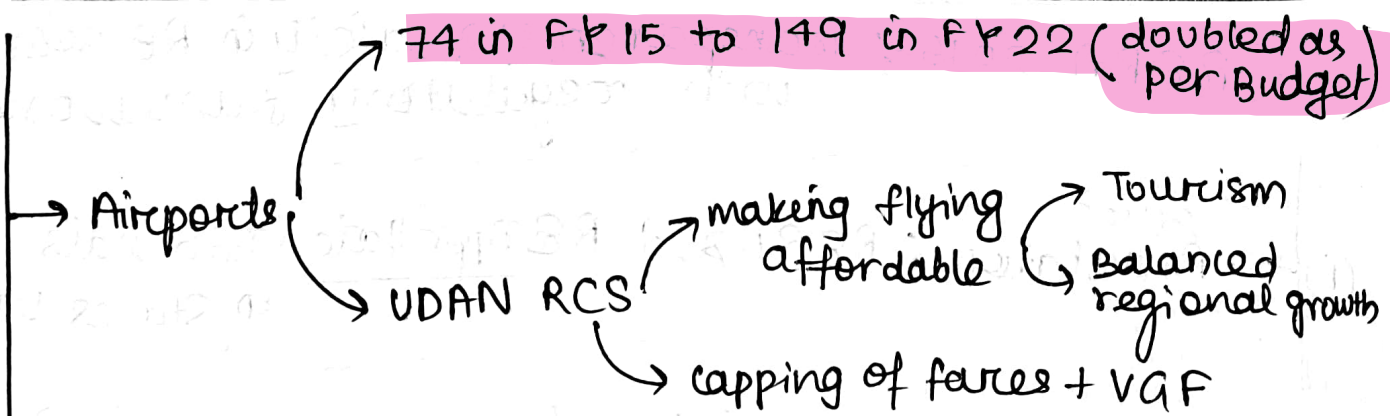
- connect economic agents along a geography → complementary urban infra
- world class infra
- Rail, road, port, airport, SEZ, logistics park etc.
- 12 announced in Budget ⇒ support Make In India targets
- Synergy with 14 CEZs & 35 MMLPs for logistics ecosystem

→ **Ports**

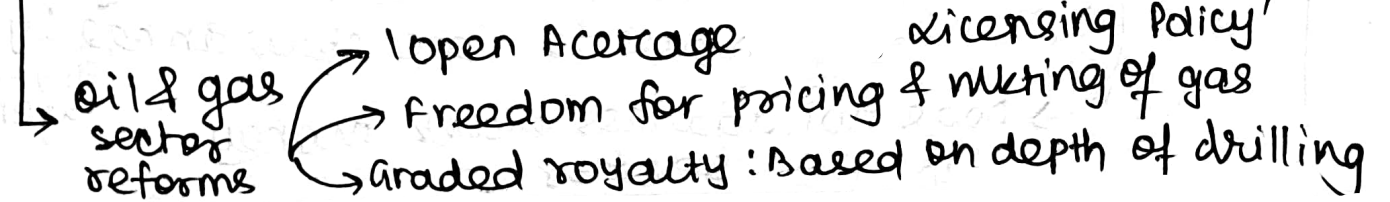
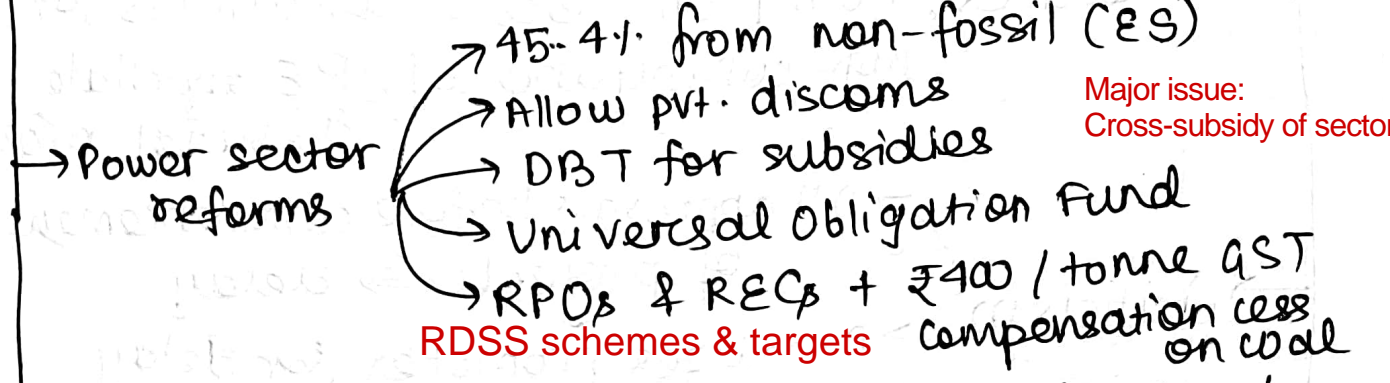
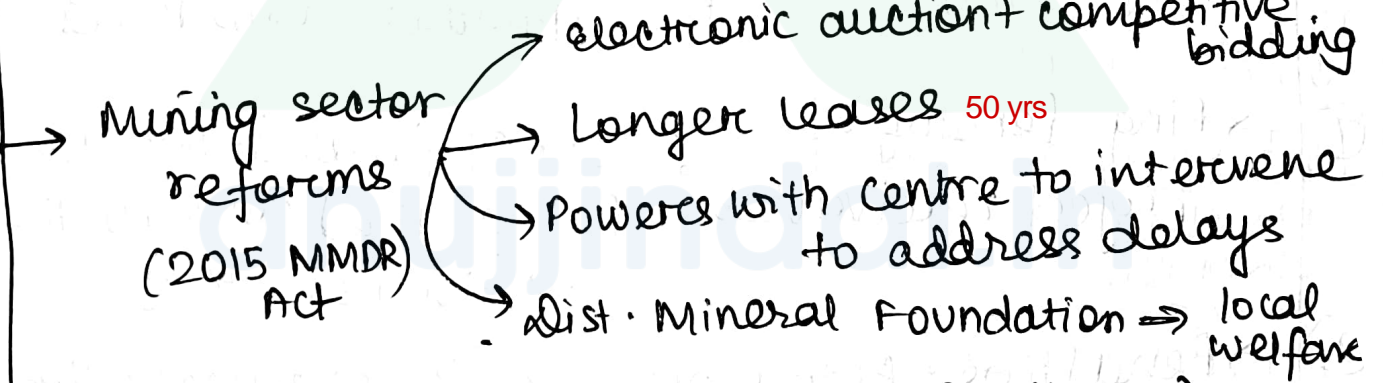
- 13 major ports
- Vadhavan port → India's first mega port
- aimed to be (INSTC + IMEEC node) within Top 10 globally
- Sagarmala initiative ⇒ port-led development
- Maritime logistics infra
- synergy with industrial corridors
- 14 CEZs of 100km radius each

PPP in Ports (Major Port Auth.) Act 2021





Most ambitious reform of the coal sector since its nationalization in 1973. We spend billions of dollars on coal import, despite sitting on the 4th largest coal reserve in the world.



# - RERA 2016: transparency & safety in RE sector with regulatory framework

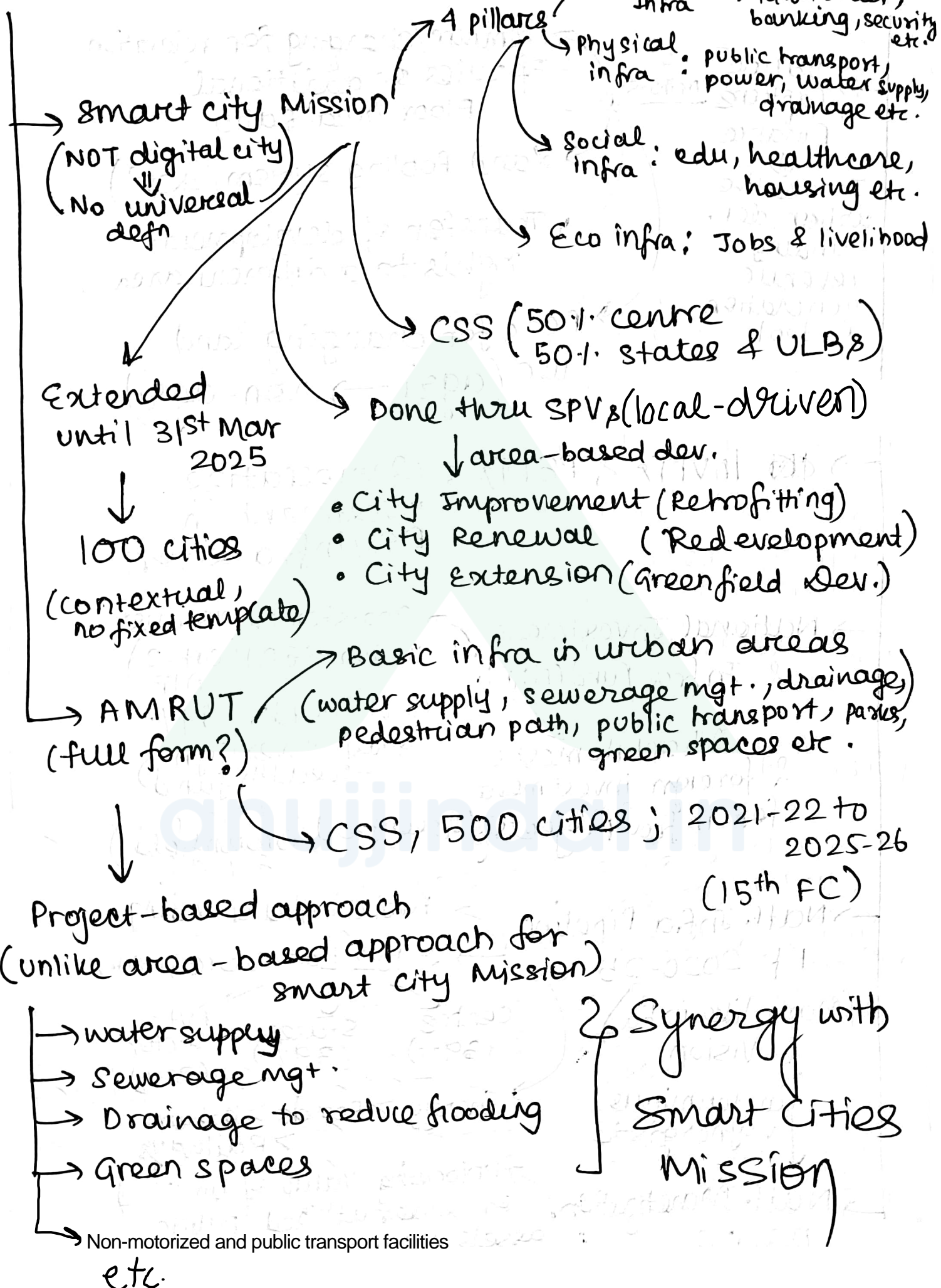
- ① → Regulator: RERAs + RE Appellate Tribunals in States/UTs
- ② → Registration: mandatory for projects  $> 500m^2$  with RERA or 8 apartments/units
- ③ → Disclosures: Timeline, promoters etc. (Mandatory)
- ④ → Standardization: defines terms like 'apartment', 'carpet area' to avoid misleading of customers
- ⑤ → Project sanctity: No altering of plans w/o consent of 2/3rd allottees
- ⑥ → Legal Recourse: Time-bound resolution by RE appellate tribunals
- ⑦ → Ring-fencing of Project receivables: 70% of funds in Acc. used for specified construction activities only
- ⑧ → Penalties: Both promoters & consumers for non-compliance of RE appellate tribunal orders.

→ Criticism

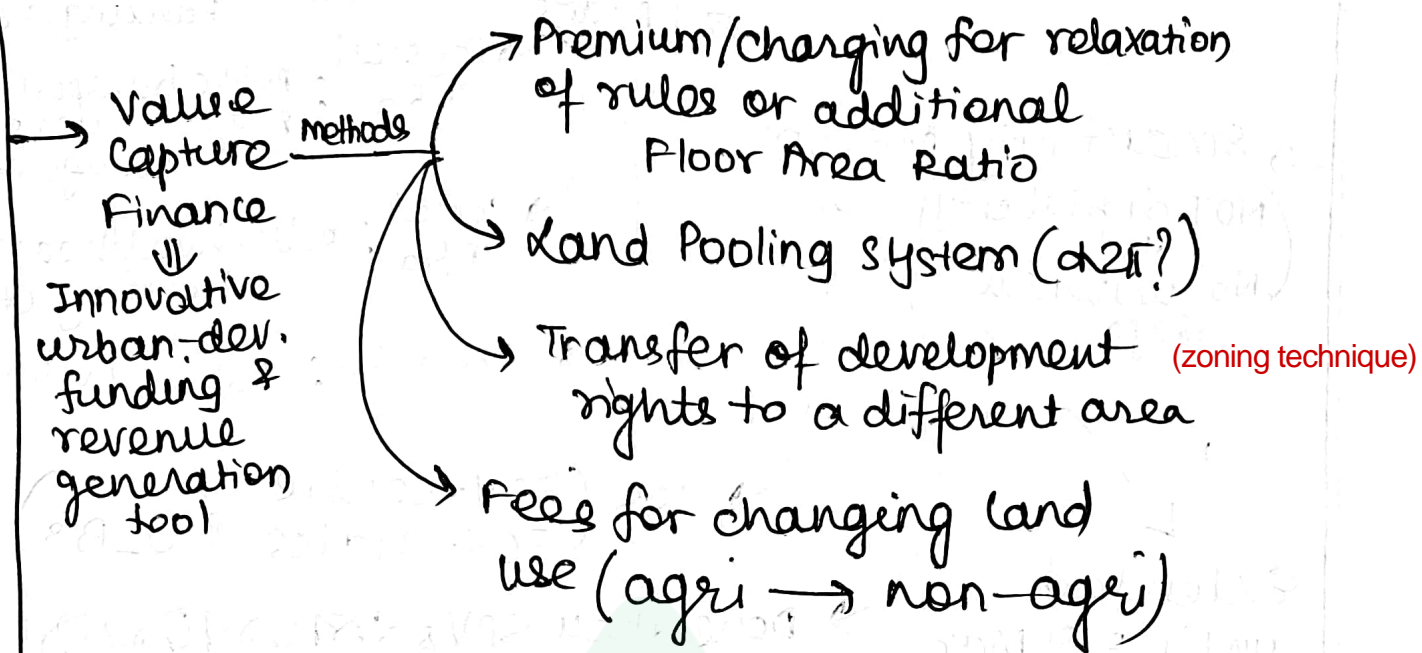
- All approvals before commencement of projects ⇒ delay
- Penalizes promoter for delay ⇒ often due to late clearances by govt. agencies
- Does not address black money in RE sector



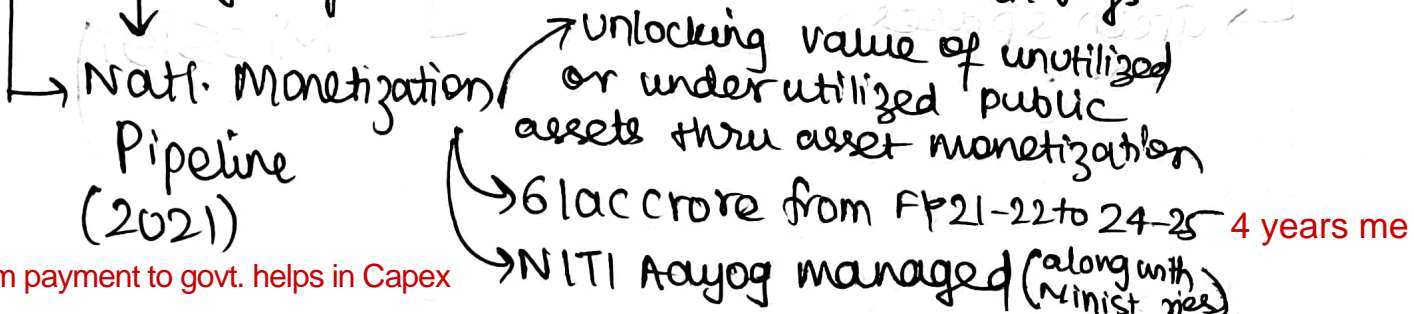
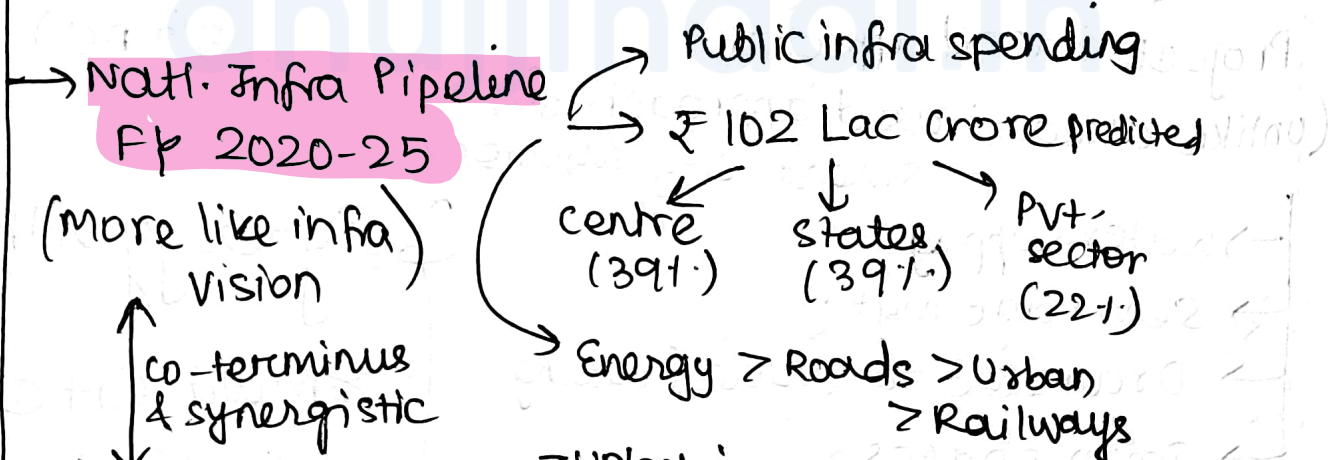
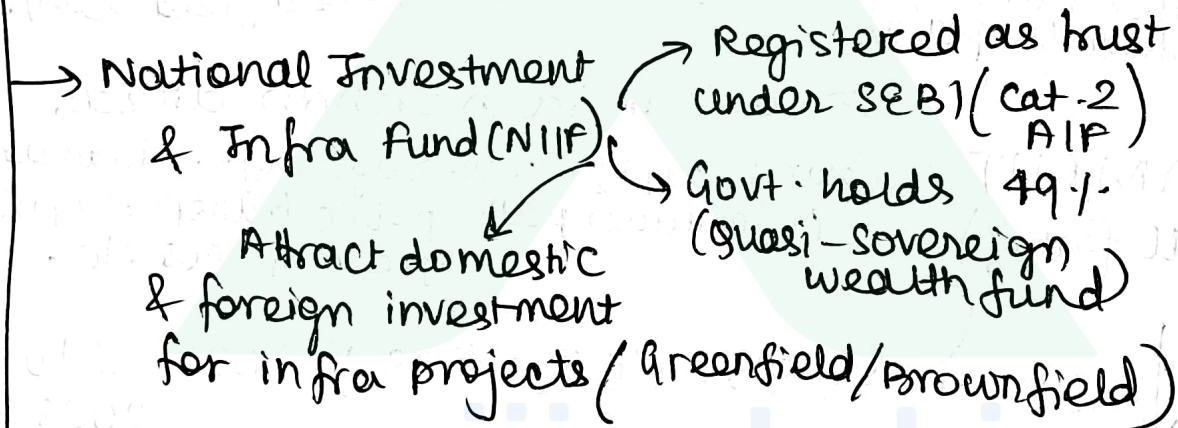
# Urbanisation initiatives



# - Infra finance mechanisms

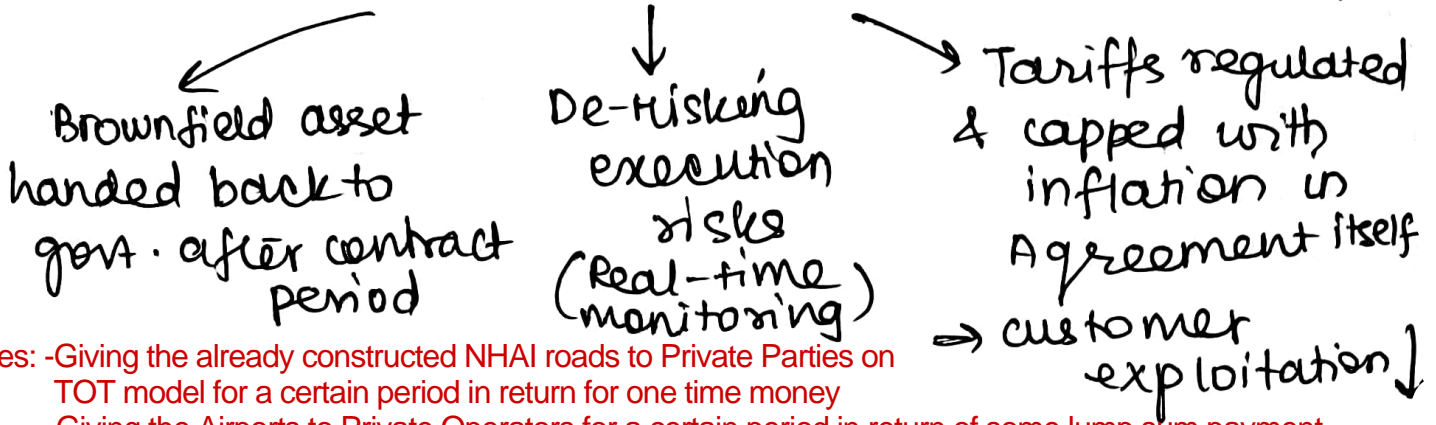


→ INVITs & REITs : Democratize investment in RE (infra sector)  
 SEBI regulated, other details in finance



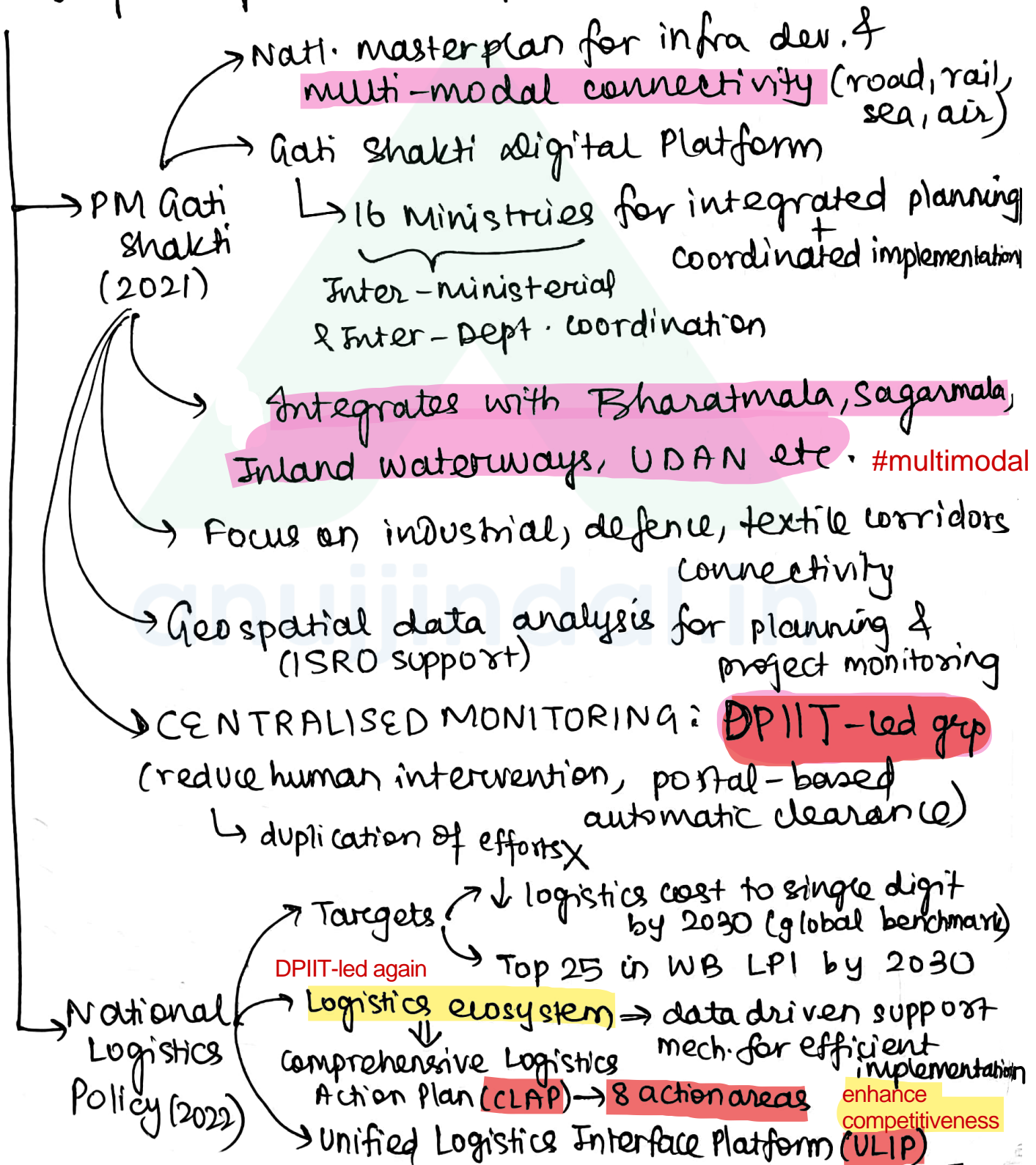


\* Note: Asset monetization  $\neq$  privatization/disinvestment  
= structured PPP contracts thru INVITs



Examples: - Giving the already constructed NHAI roads to Private Parties on TOT model for a certain period in return for one time money  
- Giving the Airports to Private Operators for a certain period in return of some lump sum payment

## - Imp Infra masterplans



- Creating an Integrated Digital Logistics System to streamline data mgt. & improve coordination among stakeholders.
- Standardization of physical assets and service quality stds. to enhance efficiency & reduce risks => improved competitiveness
- Develop logistics human resources, streamline processes & plug regulatory loopholes thru logistics park (mention data) to centralize supply chains to augment export-import competitiveness thru seamless movement of goods.

## Note:

1. Unified Logistics Interface Platform (ULIP) has been developed as an integrated portal in which information about the location of goods can be obtained on a real-time basis with considerable ease and it will help bring all digital services in the transport sector to a single portal.
2. Present logistics cost as % of GDP is varying across sources.
  - According to a survey by the National Council of Applied Economic Research (NCAER), India's logistics cost as a percent of GDP was between 7.8% and 8.9% in 2021-22.
  - Some govt. ministers (Gadkari esp.) place it at 13-14%.
  - Other estimates put it at 16%.

Logistics industry accounts for 13-14% of GDP (as per Economic Survey 2021)

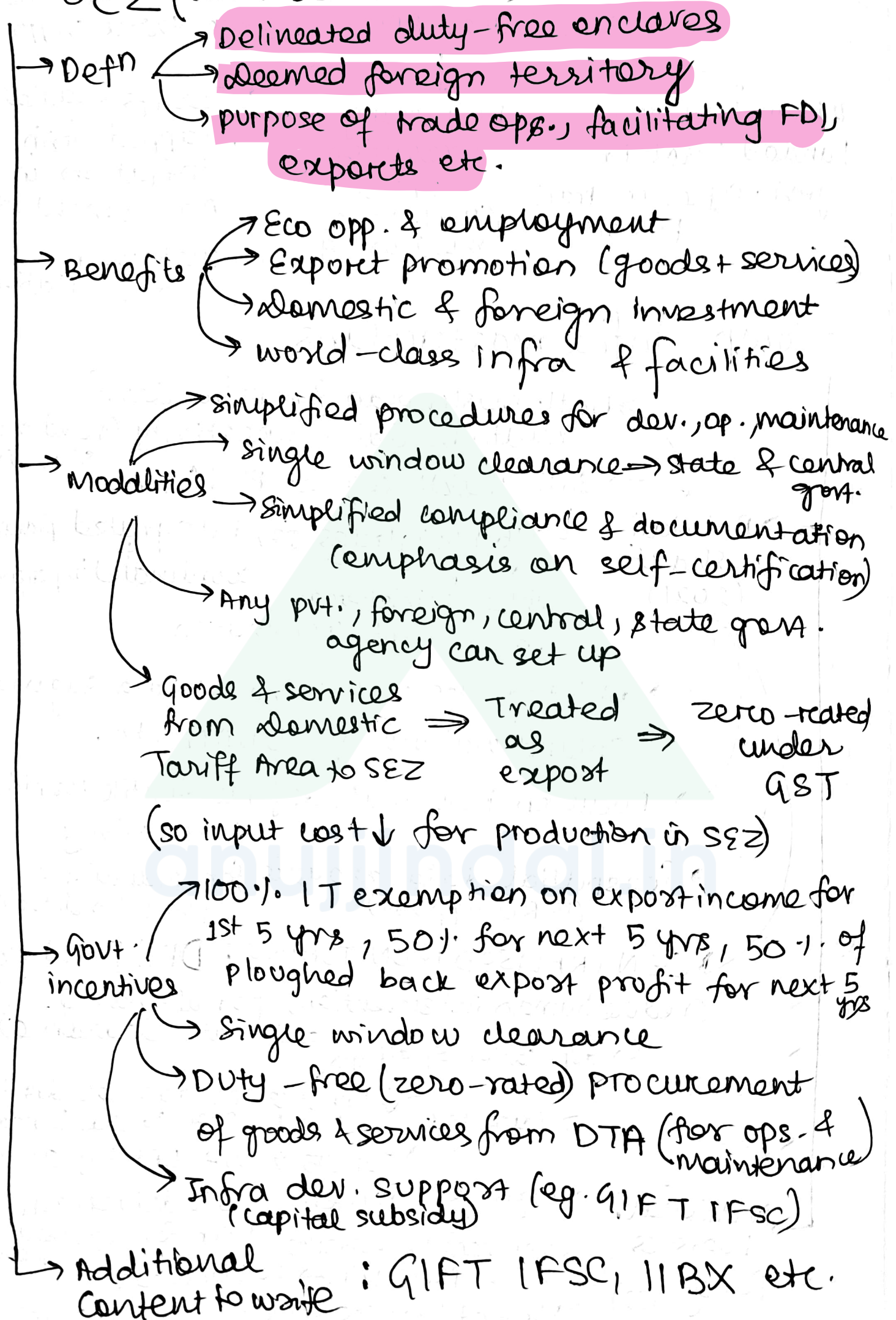
Logistics Costs: Equals to 14-18% of GDP against the global benchmark of 8% (as per Economic Survey 2022-23)

Final figures for us

anujjindal.in



# - SEZ (under SEZ Act 2005)



Unutilized land in SEZ due to lack of flexibility in land utilization

Multiple eco zones: SEZ, CEZ, Industrial Corridors, Food Parks, MMLPs, Textile Parks

Not synergistic

Challenges

- Domestic sales in SEZ face double-whammy → IGST → custom duty
- Lack of consistent govt. support (flip-flops on tax exemptions) MAT introduction
- Land acquisition issues + poor infra + delays in reg. clearances (env.)
- Competition from SEZs in China, Vietnam, Indonesia, etc. that provide additional incentives like labour law dilution
- Too much focus on services like IT than manufacturing + treating SEZs as real estate commercial zones than industrial zones
- Global eco situation since 2008 hasn't been very conducive to SEZs

SEZs have not lived upto the hype in India (don't be too -ve in tone)

Conclusions

Mass industrialization everywhere all at once impossible

⇒ SEZs ⇒ Industrial hubs in certain areas



Ancillary industrialization in rest places

⇒ Improved operational flexibility

GIFT  
IFSC  
has bright  
future

SEZ (Amendment)  
Act  
2023



## Logistics Sector

good defn  
↓  
Note

As per the *National Logistics Policy, 2022*, "Logistics means transportation & handling of goods between points of production and consumption, storage, value addition and allied services."

- **Growth:** logistics industry accounts for 13-14% of GDP (as per Economic Survey 2021)
- **Logistics Costs:** Equals to 14-18% of GDP against the global benchmark of 8% (as per Economic Survey 2022-23)

### Challenges of Logistics Sector in India

High transportation costs	Inadequate infrastructure	Complex regulatory frameworks
Inefficient warehousing	Fragmented supply chains	Skill shortages

## Government Initiatives

