India's infrastructure: A reality check

By : Mukesh Kacker

That India's physical infrastructure is pretty abysmal is an accepted fact. What is heartening is that it has started getting the kind of attention which is essential for catapulting it to the top of the national agenda.

Earlier this year when rising inflation caused serious concern, a debate ensued on its causes. Though the monetarist view is that inflation is largely a monetary phenomenon, many scholars were of the view that in this particular case infrastructure bottlenecks were also responsible for overheating the economy, since the massive demand generated by an economy growing at 9% for close to four years could not be satiated by the supply of inputs reduced to a trickle by infrastructure bottlenecks.

The Planning Commission has, in a recent paper, made projections of investment in infrastructure during the eleventh and the twelfth plans. It has been estimated that for the economy to continue to grow at 9%, the total investment in infrastructure during the eleventh and twelfth plan periods would have to be of the order of Rs 20,18,709 crore and Rs 40,55,235 crore respectively.

This concern is welcome. Despite the fragile nature of contemporary Indian coalition governments and the divisive politics being played out on the national political stage, a stage has been reached from where no future Indian government could turn its back on infrastructure creation. What remains an area of concern, is the excruciatingly slow pace of infrastructure improvements at the ground level.

Given the current state of boom in the economy and capital flows, lining up investments in infrastructure do not appear to be too serious a challenge. Spending and utilising these massive amounts quickly and constructively are far more challenging tasks. Even if the required funds are made available, the economy does not have the absorptive capacity to spend them within the projected time-frame.

The capacity of the Indian economy to absorb investment of this scale would largely depend on three crucial factors - the regulatory environment for attracting private investment, the intellectual capacity of managers, both public and private, to structure projects in a transparent and achievable way, and a 'fire-in-the-belly' attitude to deliver quality products before deadlines. Much is made of the different political structure in China to explain its ultra-quick advances in infrastructure and to justify why we lag behind. While it will be fair to accept that democracy does bring in extra dimensions that sometimes make project completion difficult, in the ultimate analysis a country progresses only when it breaks free from the 'business as usual' syndrome.

The Union government has rightly realised that the way forward is either through PPP projects or through pure private investments. A number of initiatives have been taken in streamlining contract award procedures, formulating model concession agreements, building viability-gap funding windows and finalising a panel of advisers to structure projects for the private sector. These are good initiatives but there is no permanent mechanism specifically created for infrastructure development.