

Outlook

9.62 The performance of most of the infrastructure and core industries has improved in 1999-2000. Electricity generation, petroleum products, transport and telecommunication are doing well. The steel industry is showing signs of recovery and the growth prospects of the cement look good.

9.63 However, the demand for infrastructure facilities and services continue to outpace supply. The signs of shortfalls in capacity are more clearly reflected in sectors such as roads, power and telecom. In an aggregate sense, the widening gap between demand and supply of infrastructure continues to raise questions concerning the sustainability of economic growth in future.

9.64 In order to sustain infrastructure growth, it is necessary to evolve an organizational format where development of the sector is less dependent on Government funds and where investment can be financed from the capital markets and internal resources on a self-sustaining basis. The efficacy of private sector participation in infrastructure development would be contingent upon the capability to commercialize these projects whereby recovery of investments would be through a system of user charges. In fact, the potential for commercialization and competition in infrastructure is more widespread than is commonly perceived.

9.65 The lack of bankable financial solutions has led to the stagnating of disbursements from term lending financial institutions to infrastructure projects. Given the increase in the volume of sanctions, financial institutions are evidently keen to finance the infrastructure sector for accelerating credit demand. While efforts have been made to start new efficient projects, more needs to be done in areas such as reform of State Electricity Boards and Port Trusts.

9.66 Private power projects cannot be sustained purely through credit enhancements like government guarantees and escrow mechanisms. This can only be done through reform of the SEB structure to bring efficiencies in generation, transmission and distribution operations. While the potential for IPPs is well known, the opportunities in power distribution are not so widely recognized. Privatization of distribution would bring forth better monitoring of power supplied because the private entrepreneurs would have a stake in it. This, in turn, would be reflected in improved revenues by cutting distribution losses that originate from uncharged supplies.

9.67 With the setting up of a statutory road cess, the proceeds of which will go towards development of roads, it will be possible to finance the construction of roads and highways, without necessarily imposing a direct toll on the consumer. A significant policy issue under consideration is on the desirability of shifting to annuity-based payments to operators and doing away with direct tolling. Annuity-based payments would imply that the Government would have the advantage of deferred payments. However, it is important to note that unlike direct tolling in a Build-Operate-transfer (BOT) approach or the concept of shadow tolling, under annuity-based payments, the concessionaire assumes no revenue risk.

9.68 Indian ports continue to show lower productivity in comparison to efficient ports in the Asian regions in terms of average-turn-around-time. There is need to enhance port productivity by developing a series of specialized minor ports, along the coastline in order to divert traffic from the congested major ports.

9.69 The Railways need to regain its share in freight traffic through qualitative capacity augmentation aided by corrective pricing policies and organizational changes. Over the years the Railways have kept passengers fares low and the consequent losses are being met through cross-subsidy by the freight business. This cross-subsidization needs to be contained.