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Presentation:

"Sustainable Infrastructure Development – Role of
the Private Sector"

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Sustainable Development

The Core Idea

The development that meets the present needs without compromising the ability of future generation to meet their own needs.

Issues in Sustainable Development

- To help the less privileged, who tend to disturb the eco systems for their survival.
- Self-reliance Development
- Cost-effective Development
- Health Control
- Appropriate Technologies.

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- Self-reliance for food, water, and air.
- Shelters for all.
- People-centered initiatives

Issues in Sustainable Infrastructure Development

- To provide environmentally sound infrastructure
- Increasing demands on infrastructure due to :
 - Population growth
 - Rapid urbanization
 - Growth in income of the average consumer; therefore more spending power

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- Decline in Official Development Assistance (ODA)
- Decline in subsidies and initiatives
- Increasing demand for environmental related funding.

- Inability of cash-strapped public utilities to provide funds for development
- Private sector participation in infrastructure development

Problems with Publicly Operated Infrastructure

- Quality of service is dismal
- The coverage of service is limited with very low scope for autogrowth
- The services cannot cope with expanding population.
- Inefficient operation
- Poor maintenance

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- Excessive wasteful usage
- Poor cost recovery leading to financial problems
- Low labour productivity and high labour cost
- Poor management – inability to attract management talent and qualified technical staff on a dynamic basis
- Needs substantial subsidization
- Lack of clear regulatory responsibility
- Environmental problems

Promise and Challenges of the Private Sector in Infrastructure Development

- The promise of private sector lies in:
 - Better management
 - Better access to private capital
- The challenges are:
 - Investments are capital intensive and rely on state support indirectly.
 - The projects have long gestation period

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- Long payback period
- Risks in Private Sector – given as under
 - Demand may turn out to be low
 - Tariffs may be too high
 - Delays in construction
 - Condition of infrastructure may turn out to be worse
 - Higher costs
 - Financial risks due to currency devaluation

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- Legal risks in disputes.
- Political risks
- Risks faced by Public Sector inviting Private Sector are:
 - The procured service may be sub-standard
 - Cost may turn out to be too high
 - Public opposition – especially from labour unions.
 - Difficulty in achieving competition

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- Lack of adequate legislation for private sector involvement.
- Non enforcement of property rights and contracts due to lack of proper legislation
- Bureaucratic inertia.
- Lack of confidence in Private operator.
- Fear of Foreign Operator
- Reluctance to deal with labour problems
- The private sector may show too little interest to ensure competitive bidding.

Private Capital Flows - Trends

- The developing countries have been experiencing increase in Private Capital since 1990s due to liberalization of economies
- The share of Private Capital has doubled from 40% in 1990 to 80% in 1996
- Foreign Direct Investment (FDI) is nearly \$100 trillion globally

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- Growth in foreign investment in developing countries is expected to be at the rate of 7-10% per year (estimated by World Bank).
- Traditionally, Private capital flow has not been directed towards social and environmental sectors due to :
 - Legal restrictions against private sector involvement in public services monopolies.
 - Non- enforcement of environmental regulations.

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➤ No freedom to charge user fee to raise tariffs to cover costs.

- FDI tends to flow to countries having seemingly sound macro-economies.
- Recent years have seen strong trends towards privatization of state-owned enterprises and public utilities.
- Private sector participation is being encouraged to invest in sustainable infrastructure
- FDI has gradually shifted from resource extractive industries towards infrastructure.

Options for Private Sector Participation

- A wide spectrum of options for private sector participation in infrastructure is available
- The options reflect the variations of the role of the private and public sectors.
- The options offer great flexibility.
- The options allow the parties to progressively move from less risky arrangements to more risky ones.

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- The options can be divided into the following two groups :

1) That retain public ownership and include the following:

- Service contracts
- Management contracts
- Lease arrangements
- Concessions.

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2) That involve partial or temporary ownership of assets. This group includes:

- Build, own, operate systems and their variations
- Joint Ownership or mixed companies, where public and private Sector operate jointly
- Sale / divestiture to the business entities having more benign postures.

Mobilizing of Resources from the Private Sector

To attract private capital a series of economic, financial, legal and institutional reforms are necessary which are summarized below:

- Product macroeconomic management practices.
- Stable and convertible currency
- Enforcement of contracts
- Demonopolizing niche areas

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- Overhauling regulatory framework
- Removal of subsidies
- Removal of barriers to foreign capital
- Allow tariffs to reflect costs.
- Allow repatriation of profits.
- Encourage foreign participation
- Strengthen local capital market
- Improve access to international capital market.

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Conclusion

- Certain basic reforms are essential to attract long term investment.
- Near perfect policy environment is not necessary to begin with. This is because of following reasons:
 - i. Few successful initial transactions help to evolve policies and allow reforms to deepen.

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- I. Even poor countries having difficult environment can attract private investment if rewards are structured properly. Investment of multilateral agencies enhance the comfort of the private investor.
- II. There is a wide spectrum of options and arrangements available for private sector participation.

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- The international community can play a crucial role in enhancing private capital flow.
- World Bank is taking serious initiatives to reduce risks and leveraging FDI.
- World Bank is offering loans and other financial instruments to help private sector in developing countries.
- The UN can play a catalytical role to encourage developing countries to adopt sound macroeconomic policies which would attract private sector capital.

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- UNDP has initiated public-private partnership programme to share and mitigate risks in private sector capital flow.
- The Global Compact, a networking organization, constituted under the auspices of U.N. is a forum where the good practices adopted are deliberated upon and the information disseminated.

India - Review of Private Sector in Infrastructure

Introduction

- Indians receive infrastructure services through public entities—usually part of a Government Department.
- The estimates for investment in Infrastructure Projects is as follows :

Sl.	Period	Estimate
1.	1996 – 2001	\$115 - \$130 billion
2.	2001 – 2006	\$215 billion

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- A high-level task force has been constituted by the Government to attract investment for projects of national and regional importance.
- The task force is currently concentrating on the following: -
 - developing expressways
 - adding lanes to national highways, and
 - building five world-class international airports.

Telecommunications

- Private players entry has generated opportunity for competition and investment
- Market structure and license conditions have undermined incentives for large investments and new entry.

Power

- The poor financial standing of most Electricity boards have been the reason for undermining Govt. efforts to introduce private sector in power generation.

Airports

- Government is planning to lease operations at the Calcutta, Chennai, Delhi, and Mumbai airports.

Urban water and municipal services

- Inadequate revenues and cumbersome institutional approach have to undermined private participation in this sector.

Roads

- Bridges, bypass and stretches in National Highways have been privately funded.
- Toll collection have been introduced and is steadily increasing.
- Government is upgrading the National Highway network which includes the private sector participation.

Ports

- Broad policy measures have been adopted by the Central government must open ports to the private sector for investment and operating.
 - Developing expressways.
 - Adding lanes to National Highways.
 - Building 5 world-class international airports.

Improving the public-private interface

- The increasing emphasis on private provision of infrastructure services is placing new demands on the public sector's contracting and supervision skills.
- Greater interministerial coordination at the central and state levels for pushing the desired reforms.

Thank You