

Smart Approach

New programmes set the stage for urban infrastructure growth

It was a mixed year for the urban infrastructure sector. The government announced the launch of several new schemes and programmes for improving urban infrastructure facilities. However, the involvement of the private sector remained limited. Sector experts give their perspective on the major developments in the sector and the key measures to be taken going forward...

How has the urban infrastructure sector progressed in the past one year?

Neeraj Gupta

The past year has seen a renewed government focus on the urban infrastructure sector, with the announcement of the Smart Cities initiative and the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), the push for waste-to-energy under the Swachh Bharat Mission (SBM) and the roll-out of Energy Efficiency Services Limited's street lighting programme with urban local bodies. There has been limited progress so far, since it remains to be seen how the policies translate into tangible projects.

In the past decade or so, the private sector's outlook towards investing in the urban sector has been pessimistic. Over the past one to two years, the sentiment has improved and there are increased expectations that the states will now come up with good, bankable projects for the private sector to invest in.

Arun Lakhani

Although there have been significant announcements with regard to creating infrastructure over the past one year, it will take some time before we start seeing results on the ground. Schemes like Smart Cities, AMRUT and SBM are aligned to address the growing urbanisation-related issues, wherein the focus is on

retrofitting, redevelopment and greenfield projects, as well as on initiatives that improve the existing infrastructure, thereby improving living conditions.

Sharing of resources and decision-making in consultation with the states are moves that will improve the pace and effectiveness of these national schemes in the urban sector, as the states are closer to the ground realities and needs of the people. Therefore, while it may take some time before the new methods stabilise and start yielding results, they promise to be much more effective.

Rishabh Sethi

There has been some progress in the past year in terms of installed schemes approved by the cabinet. The ambitious Smart Cities programme will begin this year with the first 20 cities, and central grants of Rs 1 billion will be provided to each selected city for infrastructure development. The AMRUT scheme for the 500 towns and cities to develop infrastructure for drinking water, sanitation and transport is another ambitious plan. The sanitation sector also received attention and the much-acclaimed SBM was initiated with a dedicated budget.

The past year has shown mixed results for infrastructure, with some schemes being initiated and some installed projects being cleared.

We expect the sector to gain momentum this year onwards, with new policies being announced for land acquisition and environmental clearances becoming faster and smoother than before and funds becoming available for large infrastructure development projects.

What, according to you, have been the biggest achievements of the new government in the sector?

Neeraj Gupta

One of the biggest achievements of the government has been its focusing the spotlight on India's urban space in the global market. Global developers are now showing keen interest in investing in India's Smart Cities initiative. Global alliances have been formed to support various state governments, developed countries are "adopting" Indian cities for development, and various companies are making a beeline to offer their expertise and play a role in this initiative. This is a significant opportunity for India to attract private capital for the development of Indian cities. However, the next step has to be taken by the states, as this is a state subject. The policy announcements need to be translated into tangible, bankable projects for the private sector.

Arun Lakhani

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Neeraj Gupta, Principal Investment Officer, International Finance Corporation



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Arun Lakhani, Chairman and Managing Director, Vishvaraj Infrastructure Limited

states, as well as the shifting of the decision-making process for centrally funded schemes to the states has been a major game changer, which will yield positive results in the long run. The emphasis on large infrastructure programmes like Smart Cities and Namami Gange will kick-start the economy with government spending, and private sector funding through the public-private partnership (PPP) mode, and boost the economic ratios significantly.

Rishabh Sethi

There has been a growing emphasis on infrastructure development in the past few years. One of the early projects under the development plan of the Pithampur-Dhar-Mhow Investment Region is the development of a smart city named Vikram Udyogpuri.

Last year, the government launched the SBM to make India clean and to set up affordable sanitation facilities. This scheme will provide Rs 2 million to each of the 650,000 villages it plans to cover each year for the next five years. The overall project cost for both rural and urban India, has been estimated at Rs 1,960 billion, which will help in the construction of 120 million toilets across the country by 2019. Of the total project expenditure, Rs 620 billion will be spent in urban India.

The National Mission for Clean Ganga (NMCG) has been initiated to clean the holy river and to facilitate the construction, rehabilitation and upgradation of the sewage treatment plants (STPs) installed in several states. Under the mission, the municipalities and state

governments have been asked to augment treatment facilities and install the requisite equipment, real-time monitoring system, etc. The programme has a budget outlay of Rs 200 billion for the next five years.

The government has taken several steps in the right direction by attempting to make the policy favourable and ensure ease of doing business by undertaking a number of reforms and planning for the future.

What role can the private sector play in implementing urban infrastructure projects? What are the key challenges?

Neeraj Gupta

The private sector can play a meaningful role in improving service delivery in cities. Basic municipal services such as waste collection, treatment and disposal, street lighting, and bus transport can be delivered more effectively by leveraging private sector efficiencies. However, there is a real risk that, given the challenges of unavailability of land, lack of bankable transactions and reluctance of banks to consider providing financing for municipal projects in these sectors, the current momentum will not be sustained and sluggishness will return. There are considerable opportunities for the private sector under the various schemes announced. However, unless fundamental sector reforms are undertaken, sustainable private sector solutions will continue to elude us.

City governments need to progress towards financial sustainability so that lenders

have confidence in their credit risk. A concerted effort needs to be made by all state-level agencies to facilitate the implementation of projects. Even a small waste management project in India can be held up for several months due to rigid approval processes and lack of capacity at the ground level. Mechanisms aimed at streamlining approval processes need to be put in place.

Arun Lakhani

Across the world, PPP has been a successful model for private participation in creating urban infrastructure. The government and Niti Aayog have shown keen interest in refining the model and applying it in various sectors. The openness to accepting new ideas is the biggest advantage of the current government and procurement processes like the Swiss Challenge have been included in official policy by many state governments and some ministries. This openness to inviting private sector participation is very welcome. The challenge is to structure proposals that satisfy all stakeholders like private institutions, lenders, the government and, in particular, the people who are going to be benefited as well as charged for the facilities. A review of international best practices in PPPs suggests a number of core issues that public authorities must address when considering the PPP model for procuring public infrastructure projects. Potential challenges to be overcome in this context include the systematic implementation of administrative measures, equitable



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distribution of risks between all stakeholders, erratic decisions pertaining to corporate governance, which might lead to confusion and perplexity, multiple-window clearances and approvals, unbalanced demand and supply of basic resources, and lack of harmony among various stakeholders.

Rishabh Sethi

The infrastructure sector in India has evolved from being purely government funded to adopting newer business models involving partial or complete ownership by the private sector. The past few years have witnessed increased investments in the infrastructure sector, as well as a transformation in the business models, with more proactive participation from the private sector in the form of PPP projects.

Higher levels of investments by both the public and private sectors in infrastructure development are necessary. Private players bring the much-needed knowledge and expertise to the table, which is necessary for the development and management of urban infrastructure with modern technology, while the public sector can bring in land, funds and facilities.

There are many issues that need to be addressed, including land acquisition and environmental clearance issues, lack of coordination between various government agencies, inappropriate structuring of projects, lack of a proper dispute resolution mecha-

nism, execution delays, and slow adoption of innovative technologies.

What is the sector outlook for the next one to two years?

Neeraj Gupta

There is ample demand and opportunity, but there has been a serious dearth of good projects in the urban infrastructure sector. Currently, states are rushing to leverage the funding made available by the government for the Smart Cities initiative. However, proper project preparation often takes more than one to two years, so the expectations must also be realistic and in tune with the time frame. I expect that in the next year or two, states will look to undertake meaningful preparations and design priority projects to improve service delivery in cities, which will attract credible investors. A good start would be for a few states to offer well-prepared projects to the private sector, which could become success stories and encourage other states to follow suit and attract more private capital.

Arun Lakhani

The opportunities are fairly large and we expect a significant number of projects to be rolled out across the country over the next year through the various national initiatives that have already been announced. Given that the central

government has already undertaken several large initiatives, it will be interesting to see how well the states are able to cope with them as well as align their plans with them so as to take advantage of such schemes.

To sum up, infrastructure development in India will continue to accelerate and efficient construction and maintenance of assets will be critical to the pursuit of higher economic growth. Fiscal support will continue to be a dominant factor for infrastructure development, but equally important would be enabling policies that could lead to the streamlining of procedures and protection of the interests of all stakeholders.

In order to make PPPs a success, the state governments need to establish full-fledged PPP departments with the mandate of developing core competencies, policy frameworks and public discourse. Rigorous assessment of the costs and benefits of large projects would also be critical for achieving broader public support for the completion of projects and for obtaining results in both the central and state sectors.

Rishabh Sethi

There is renewed optimism about the infrastructure sector as the government is serious about it and a favourable environment is being created with a number of reforms. The government has taken various measures to increase the speed of construction. The increasing emphasis on infrastructure development is in line with the growth plans that the government has fixed for itself. The proposed investment over the next five years in several new schemes will ensure the healthy growth of the infrastructure sector. Newer opportunities are expected to arise in the area of urban infrastructure, including the development of smart cities, large urban transport, sanitation and water supply projects.

Going forward, the sector is poised to rebound with new opportunities. However, the growth of the infrastructure sector is dependent on the resolution of certain key challenges related to reducing regulatory uncertainty, developing appropriate financing mechanisms and ensuring efficient project management. ▀

