

## ‘LEARN FROM HIGHWAYS TO PROMOTE INFRA’

Relevant for: Indian Economy | Topic: Investment Models: PPP, SEZ, EPZ and others

*Reviving private sector investment in infrastructure will need an innovative sector-by-sector overhaul of the existing PPP models, CRISIL MD & CEO Ashu Suyash explains in an interview. Excerpts:*

**The main takeaway from the CRISIL report is that the share of private investment has come down this year but the main reason given is that the share of public investment has grown. What happened to private investment itself?**

The share of public spending has grown but the overall pie itself has also shrunk. So, not only in percentage terms has the private sector shrunk, if you add to it that the pie itself has shrunk, it is a double whammy. If you look at the consolidated Centre and States' fiscal deficit, it needs to come down. Therefore, going forward, the ability for the Centre and States to continue to provide that funding support may not work.

And, when one thinks about why did private sector contribution to infrastructure come down, there are a couple of key reasons.

One, if you look at capacity utilisation across most of the industries, and then, if you look at infrastructure, it is quite sharply lower.

If you are not at peak utilisation levels, you are not going to make the investments. Across the board, the capacity utilisation is still under 70%. And it hurts growth eventually, because if private investment doesn't kick in and you continue to be a consumption-oriented economy, then at some point it will catch up to you.

**This is not a new story of private investment not picking up and government having to shoulder more more burden...**

You've had pockets of growth and pockets of challenges, so it's not all gloom and doom. A good example is the highways sector. We have seen the maximum increase in investments in highways. It's not only the hybrid annuity model or the TOT (toll-operate-transfer) model, but the key takeaway is that there was a lot of focus and effort to tweak the PPP framework and make it more bankable.

I would say that's the need of the hour. The learnings from this should be taken to other sectors. Another example would be a sector that has struggled the most, power transmission. There are bankable assets. You have to look at ways of unlocking value there.

The traditional models will not work, you need a wider array of PPP frameworks to be done. The third thing is to look at some asset-light models, because in some cases, it might make sense for the government to get the project live but the maintenance, the ongoing running should be bid out. It's not that these dialogues are not happening. But they haven't happened at the pace they should and across all the areas.

When the framework is right and the risk allocation between parties is fair, then things will happen.

**What is your estimation of the UDAY scheme?**

So, I am going to start by saying that the move was very well intentioned. Because as the debt moved from being on the banks' head to the State, there were very strong riders to cut down transmission losses and to raise tariffs. I think the challenge we have seen is that the tariff regime itself has undergone a dramatic shift and change and one material input into it has been solar.

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