

EXECUTIVE SUMMARY

The early nineties saw a dramatic shift in the structure of the Indian economy. Domestic industry was freed from licensing and other controls, while the external sector was opened up to let in foreign capital and other resources. The growth record of the last decade has been healthy, with the annual GDP growth averaging 6.1 per cent. However, the Government recognises the need to step up the growth rate with the Tenth Five Year Plan (2002-2007) targeting an average annual growth rate of 8 per cent.

Realising that this target would need a sharp increase in investments; in the post-liberalisation regime, the Government has reduced its role of a direct investor and has taken on the mantle of providing an 'enabling' environment for the private sector. The package of economic reforms introduced through the nineties, has led to a significant improvement in the investment climate. Besides, the Government has taken a series of steps to improve the quality of governance and the quantum and quality of infrastructure. Both should translate into stronger flows of private investment and help the economy move on to a higher growth trajectory. Besides this, the Government remains a key participant in the social sector where private involvement is often found to be inadequate.

Providing the optimal quantum of infrastructure remains the critical challenge that the Government needs to meet. While a number of significant measures have been taken in the past, a fair gap remains between the current and actual levels of infrastructure availability and the optimal level required. Going forward, a number of policy initiatives announced by the Government should address this gap. Quite clearly, domestic funds alone cannot support the entire investment requirement of infrastructure. Foreign investment, from both the private sector and multilateral agencies is needed to bridge the gap. Some of the policy initiatives in the infrastructure sectors and the resultant investment opportunities are given below:

Power

- Central Electricity Regulatory Commission and State Electricity Regulatory Commissions set up
- Indian Electricity Grid Code established
- Accelerated Power Development and Reforms Programme formulated
- Electricity Act notified in 2003
- Automatic approval (RBI route) for 100% foreign equity in power generation and distribution
- Thermal Power completely delicensed

Telecommunications

- Introduction of 'Calling Party Pays' in May 2003
- Unified Access Services Licensing Regime introduced in Oct 2003
- Communication Convergence Bill 2001 to oversee national infrastructure for information based society
- Interconnection User Charge introduced in 2003-04
- No industrial licence required for telecom equipment manufacturing

Civil Aviation

- Private equity participation in airport infrastructure modernisation permitted
- Private sector participation in greenfield airports with FDI up to 100% equity stake

- Inland Air Travel Tax abolished
- Bilateral aviation agreements based on reciprocity initiated

Roads

- Private participation through BOT toll-based and annuity based structures
- 100 per cent FDI allowed in the roads sector
- 10 year corporate tax holiday
- National Highways Authority of India (NHAI) permitted to participate in equity in BOT projects up to 30 per cent
- Duty-free import of specified modern high capacity equipment for highway construction
- Capital grant of 40 per cent of project cost by NHAI

Railways

- Computerised Freight Operation Information System
- Online passenger reservation system
- Private participation in projects through BOT scheme
- State participation through cost sharing and SPVs
- Tariff rebalancing and rationalisation of fare and freight structures
- National Rail Vikas Yojana announced in August 2002

Ports and Shipping

- Increased emphasis on modernisation and restructuring of ports
- Increased thrust on public-private partnerships for the development of ports and infrastructure for inland water transport
- Private investment to the tune of US\$ 2345 million is expected
- Private participation with respect to inland transport infrastructure connecting ports
- Investment requirement of US\$ 20 billion in maritime sector upto 2012

India presents unique opportunities to investors. A growing middle class and a process of demographic transition that puts a significant percentage of the population in the working age group creates large markets for a wide range of goods and services. The right set of policy measures will enable investors to leverage these opportunities. This background paper covers the policy changes and investment opportunities in the infrastructure sectors in India.