

Reviving the Indian economy- does infrastructure hold the key?

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The June 2020 World Bank Global Economic Outlook predicts that 90 per cent of the countries in the world will go into recession in the coming months.¹ The Indian economy was facing headwinds much before COVID-19 and is currently looking at its fourth recession since independence, although the reasons are very different from the earlier ones. The tough question our policy makers and industry leaders are faced with is: how do we get back on the recovery path? There may be a silver lining.

The decision to go into lockdown and shutdown for most production activity was a conscious one taken by the government as a precautionary move to slow down the spread of the virus. There wasn't a structural or fundamental fault in the economy that has caused this deep and sudden decline. The most damaging and lingering effects of the COVID-19 crisis will be the psychological impact, and, most importantly, the loss of human lives. There are already a few green shoots like power demand and manufacturing activity picking up. With private investment, consumption-led demand and exports all looking weak, the thrust to revive growth would have to come from government-driven expenditure. Building future-ready, intelligent, resilient and sustainable infrastructure could help restart capital goods production, provide employment and revive private sector confidence. While there may have been underlying challenges earlier, neither is our human capital, natural resources nor existing industry been physically dented in the last three months.

Post COVID-19 NIP – importance of funding, people and technology

Home to nearly a fifth of the world's population, and with almost 65 per cent below the age of 35², it is imperative that we use the next few years to meaningfully employ this workforce. Investment in infrastructure could prove to be an important way to achieve this objective. The USD 1.5 trillion (INR 111 trillion)³ National Infrastructure Pipeline (NIP) built on Infrastructure Vision 2025 was announced in the pre COVID-19 world in December 2019. The NIP, as the umbrella programme, integrated multi-sector infrastructural projects with the goal to improve overall quality of life. In the attempt to revive the economy post COVID-19, the success of the NIP will be dependent on three critical factors – human capital, innovative funding models and greater technological integration. This would not only provide a timely stimulus for turning the tide on industrial activity but also improve national competitiveness. Two examples, one where National Highway Authority of India (NHAI)⁴ has digitally transformed itself moving to online project management workflows and adopting advanced analytics, and two, multiple command controls centres that were built as part of smart city projects were swiftly repurposed into COVID-19 war rooms,⁵ demonstrate and should encourage more such innovation in public infrastructure companies and assets.

Re-prioritisation and key sectors

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India's goal of becoming a USD5 trillion economy⁶ rests on the completion of critical infrastructure under the NIP. As a part of the NIP, the annual expenditure for FY21 was earmarked at INR19.5 trillion and a similar number for FY22 as well. Given the sudden shock to the economy and the resultant recessionary pressures, there would be a strong re-prioritisation of resources. The following key sectors and themes will warrant immediate attention:

- Healthcare to remain the top priority with features such as an expanded primary healthcare network, multi-functional infrastructure, national health protection coverage and adoption of digital tech
- Greater focus on achieving the ideal state of mobility with convenient, affordable and enhanced last-mile connectivity through public transport
- Transforming the energy mix in favour of renewables and natural gas, reviving the ailing discoms and digital intervention to ensure affordable, clean and reliable power supply
- Better urban planning and design with urban local body (ULB) level financial sustainability embedded in urban development, including implementation of clear land use, industrial corridors and clusters
- Strengthening rural infrastructure to promote growth of agro-based industries, better access to markets for farmers and creation of job opportunities for the rural population
- Recognition of the criticality of digital infrastructure for business continuity and continued focus on optical fibre deployment
- Growing importance of sustainable and disaster-resilient infrastructure.

States and regions in the country have witnessed varying rates of economic growth over the last three decades (post the 1991 liberalisation). Regions that lacked investments in infrastructure and core industries failed to retain human capital and talent. While the western and southern coastal states and National Capital Region have been severely impacted due to reverse labour migration, there is an opportunity to reset this geographical imbalance. Some of the steps taken by the centre and states provide an opportunity to attract industry (including companies shifting base from China) and create localized employment opportunities, as large labour forces migrated back towards the states of UP, Bihar, Chhattisgarh, Madhya Pradesh and Jharkhand (legacy labour-exporting states). With economic activity beginning to pick up, some of these states have made changes in labour laws to attract private investments and revive industrial activity, these measures should be seen through with close monitoring and accountability right up to new operational capacities going live.

Atmanirbhar Bharat Abhiyan – some hurdles to cross and stakeholders to engage

The USD266 billion (INR20 trillion) COVID-19 stimulus package titled 'Atmanirbhar Bharat Abhiyan' aims to build a self-reliant India by prioritising MSMEs, liquidity and welfare, agriculture, power distribution, mining, health, rural employment and housing sector reforms.⁷ The focus on import substitution, reviving demand and export-oriented industrialisation are key underlying themes. Mining-sector reforms and the recent launch of commercial coal block auction⁸ is another transformational agenda and can potentially fast track growth in the central and eastern states.

Over the short to medium term, putting in place a strong framework for bankable projects, investment monitoring from commitment to actual completion and achieving steady-state operations for infrastructure projects will be critical. Investor and private sector confidence can be revived if the certainty and reliability of fund-flow commitments are brought back. There are, however, some challenges in the way ahead that must be overcome to achieve this acceleration in the economy.

- Centre-state alignment on identified policy changes and sectoral reforms, such that intended outcomes do not get impacted

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- Lessons to be learnt from the banking sector crisis and credit slowdown for infrastructure lending, when short-term money was lent for long-term projects
- Related to the earlier point is the setting up of a national-level, multi-tiered governance framework for quick resolution and decisions is essential to make projects run smoothly
- Reforms in public procurement for capital expenditure and works/supplies contracts for projects incorporating pertinent evaluation procedures
- Need for end-user participation both as a consumer and as an investor (especially if models around public financing can be expedited)
- Easing delivery bottlenecks around blocked capital, e.g. contractor bank guarantees on delayed projects
- Labour reforms to enable performance and shift towards outcome versus output for example project productivity and schedule acceleration using advanced technologies.

Going from 'pause' to 'play'

The ongoing pandemic forced us to press the pause button. Never before in the modern world have governments, industry and civil society been united and forced to reassess how we lead our lives, work and plan for a safer, healthier collective future. This unprecedented crisis has also presented us with an opportunity to revisit how we conceive, design, regulate, build and operate physical infrastructure in our country. The multiplier effects have been long well established. The NIP provided a sound blueprint; with post COVID re-prioritisation and strong implementation, building future ready infrastructure holds the key to reviving economy and getting back on the growth agenda.

¹ Pandemic, Recession: The Global Economy in Crisis, the World Bank, June 2020

² "India's demographic dividend" Basu, Kaushik ,25 July 2007. BBC News.

³ Task Force on National Infrastructure Pipeline presents its final report to Finance Minister Smt. Nirmla Sitharaman, Ministry of Finance, 29 April 2020

⁴ NHAI becomes first construction sector organisation to go 'Fully Digital', Ministry of Road Transport & Highways, June 12, 2020

⁵ 45 smart city command control centres turn into COVID-19 war rooms, Economic Times, March 31, 2020

⁶ Interim Budget 2019-2020 speech of Piyush Goyal, Minister of Finance, February 1, 2019

⁷ Finance Minister announce measures for relief and credit support related to businesses, especially MSMEs to support Indian Economy's fight against COVID-19, Ministry of Finance, May 13, 2020

⁸ PM launches Auction process of Coal blocks for Commercial mining, Prime Minister's Office, June 18, 2020

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