Infrastructure Service Delivery – Background Note for Thematic Meeting

1. **India needs better infrastructure for growth to be sustained and to be shared.** Rapid overall growth in India is at risk if the modernization of economic infrastructure cannot keep pace with the demands. However, infrastructure is about more than just sustaining rapid growth, it is also central to making growth more inclusive—while airports and ports are crucial for linking India to the world, rural roads are central to connecting India’s villages to the modern economy, access to electricity can transform the rural economy, and better irrigation and rural water infrastructure are essential to progress in agriculture. Access to reliable and clean drinking water is a fundamental need, just as adequate sanitation (in both urban and rural areas) is a must.

2. **India’s infrastructure deficits have been both recognized by policymakers and suffered by its citizens for some time.** India actually had higher levels of infrastructure stocks than China did in the 1980s, but has slipped far behind as China has invested roughly double in infrastructure, as a percentage of GDP, than India, over the past two decades or so. More telling are the statistics on the poor quality of infrastructure, which show that Indian companies suffer from poorer transport and electricity services than their competitors. Significant gaps exist in access to modern infrastructure services – electricity, water and sanitation – both between the rich and poor but also between and within states. The costs of coping with poor services are not restricted to businesses, and it is often the poor who bear a disproportionate burden of such costs.

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1. Indian firms suffer far more power outages per month and lose more output as a result than in China and Brazil (World Bank 2004). Due to these reliability problems and high power tariffs for industry, around 60% of Indian firms rely on generators compared to 21% in China, although there is some evidence of a reduced dependence on generators in recent years (World Bank 2004). The average small business in India holds around one month’s worth of inventory of inputs, compared to less than 20 days in Brazil and 25 in China. Businesses based in small cities in India suffer particularly, holding over 37 days of inventory input (World Bank 2004). A recently published report (Morgan Stanley 2005) finds that except for telecom, the cost of most infrastructure services is 50-100 percent higher in India than in China. Average electricity costs for manufacturing are roughly twice those in China, and rail transport costs about three times those in China. Freight payments average 10 percent of imports in India compared to 5 percent in developed countries and a worldwide average of 6 percent.

2. In Delhi it is estimated that households each pay around Rs 10 per liter of water in investment and recurrent costs of coping with poor water supply (World Bank 2006a). Much of the burden of coping with poor services falls on the poor. Studies in Haryana and Andhra Pradesh estimated that the costs of repairing irrigation pump motors, burnt out by erratic voltages, amount to 10% of gross income for marginal farmers but only 2% for large farmers.
3. The most pressing need is to improve the quality of service delivery from the infrastructure assets that are in place. The government has set ambitious targets for investment in new infrastructure assets, including rural roads, power and water supply as part of the Common Minimum Program. While India clearly needs further investment in infrastructure assets, India’s biggest infrastructure gap is between the quality of services produced by these assets compared to what could be achieved and what is demanded by consumers.

In the water sector, no major city in India provides 24x7 water to its residents. In Mumbai, Delhi and Chennai water is available on average for 5 hrs per day or less, and service levels are worse in smaller cities. Overall, evidence suggests that water availability has been declining over time. These deficiencies are not due to a lack of water for the system – rather it is due to high leakages, which in turn stem from inadequate maintenance. The water sector’s experience is repeated across the infrastructure sectors, including power, irrigation, and roads, where the country still has much of its infrastructure assets stuck in a “build, neglect, rehabilitate” cycle.

4. Improving services will require better accountability. This means empowering citizens to demand better services through reforms that create more effective systems of public sector accountability. The reform strategy must reflect the particularities of the situation, but there are some common features across them, which include the unbundling of roles, clear delegation of goals, autonomy for service providers, informed external accountability, and enforceability (though both consumer choice and citizen voice). These all form important parts of the reform programs that are being implemented by governments across India.

5. Reforms do not imply privatization or private participation, but the unbundling of roles and responsibilities is critical. The reforms in Andhra Pradesh’s power sector, designed with the Bank’s engagement, focused on the creation of a regulatory agency, corporatization and unbundling within a public sector framework, and a more transparent approach to subsidizing the power sector. Although the power sector has seen widespread institutional reform, this has yet to be introduced in the urban water and sanitation sector. Here, clarifying roles and responsibilities that are presently bundled into one entity (which is policy maker, regulator, financier, asset owner and service provider) will be an important step in improving sector performance.

6. Public-private partnerships (PPPs) will play an important role in meeting India’s infrastructure needs. The main advantage of private sector engagement in infrastructure finance is not that it puts additional resources on the table in net present value terms, but rather, that PPPs offer a transparent commitment to finance the additional infrastructure by users, not taxpayers.3 India has seen a major increase in PPPs in the transport sector. At the same time it is important that the government assess the value-for-money that is

3 For a more detailed discussion of these issues, see World Bank (2006b) and World Bank (2006c).
received from PPPs, and accurately measure and monitor the fiscal costs of PPPs. The Bank is working with the government on these issues.

PPPs can also involve merely the “contracting out” of specific services (e.g., ranging from such services as the management of airports, to local garbage collection services) by governments to the private sector, NGOs, communities, etc., without transfer of ownership of assets.

7. Decentralization can play an important role in improving the delivery of local services, including some infrastructure services. While there seems to be a new momentum in the Central Government for furthering devolution, commitment at the State-level varies considerably and is almost invariably hampered by the States' fiscal situations. The Bank is working with the government to advance local government development including through knowledge management and technical assistance but also through loans, starting with the Karnataka Panchayats Strengthening Project.

8. Increased community involvement in planning and delivering rural infrastructure is also important. Although much of the current expenditure on this sector is delivered through “top-down” approaches, an increasing number of states are delegating greater roles to the communities that are to be the beneficiaries of the projects. The Bank is making a concerted effort to ensure that projects which cover areas of nominal responsibility of local government – for example rural drinking water – are designed to ensure maximum community involvement through local governments.

References


