

# Public investment and infrastructure

Workshop on budget 2016 in Chandigarh on  
7.1.2016

# Where Does India Stand

- ▶ World Economic Forum Global competitiveness Report 2014 ranks India at number 85 out of 144 countries in terms of infrastructure quality. Suggesting urgent need to focus on this area.

# Where Does India Stand

- ▶ Actual Infrastructure investment(both public and private investment) in the eleventh plan ( 2007–12) was 7% of the GDP in which share of private sector investment was 37% of the total.
- ▶ Twelfth plan target has been stepped up to 55.75 lac crores from 23.74 lac crores in eleventh plan with share of private sector targeted to go up to 48 % from 37%.

# Where does India stand

- ▶ experience in the first two years of Twelfth Plan suggests that the infrastructure investment has slowed down and there is a likely shortfall of about 30 per cent, with the shortfall in public investment (central and states combined) and private investment at 20 per cent and 43 per cent respectively.
  - ▶ The rate of growth of gross fixed capital formation has plummeted from a peak of 24 per cent in the last quarter of 2009–10 to around zero in third quarter of 2014–15.
  - ▶ Indications are that the Union Government's 2016–17 Budget will address this trend.
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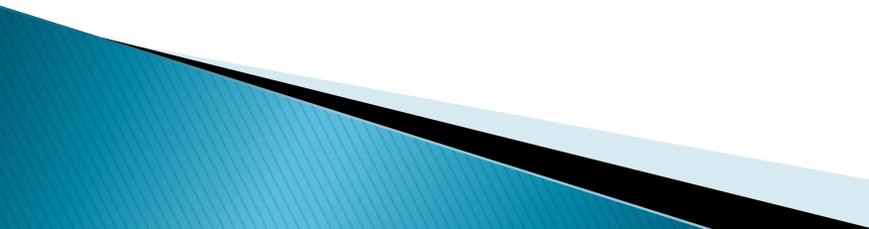
# Where Does Haryana Stand

- ▶ Capital outlay to GSDP percentage of Haryana is 1.3% and which is lowest among the 18 NSC. Its ranking is also lowest among all states except NCT Delhi. Average of all states is 2.6%.
- ▶ Developmental expenditure to GSDP is 9.4% and it ranks 16 among NSC. It ranks at place 26 out of 29 states. Average of all states is 11.6%
- ▶ Social sector spending to GSDP is 6.0% and in this it is ranked last in 18 NSC. Ranking of Haryana is also last in all 29 states. Average of all states ratio is 7.6% except that of NCT Delhi which is 4.1%

# Public investment and effect on Growth and Productivity

- ▶ Countries that devote more of GDP to Public investment also grow faster than those that invest little (Growth Commission Report, 2008 of World Bank and least Developed Economies Report Series UNCTAD 2006)
- ▶ Investment in public capital could **crowd in** private investment, if conditions suggested in the next slide are met.

# Public investment and its impact on Growth and productivity

- ▶ Economy survey 2014–2015 acknowledged that the expectation that the private sector will drive investment may not fructify and the public investment may need to step in recreate environment to crowd in private sector investment
  - ▶ But there is need to improve the productivity and quality of the public investment by identifying the type of investment that have positive net returns and are likely to be complementary to the private sector.
  - ▶ This implies that capital expenditure planning, adequate Operation and Maintenance (O &M) expenditure; and managing of links between current and capital expenditure becomes crucial for realizing desired outcomes of public investment.
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# Public investment and PPP

- ▶ PPP method of public investment could help in harnessing private sector efficiencies in project implementation.
  - ▶ Kelkar Committee has submitted a report on PPP modalities and financing methods to the MOF. This report and NITI Aayog's suggestions on PPP deserve study by the State for relevance.
  - ▶ For Haryana, partnering other government organizations such as the Indian Railways could be quite useful and merits exploration.
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# Public investments Type and its rate of return

- ▶ Investment in infrastructure and investment in human capital formation are the two major components of public investment
  - ▶ Some initial studies showed that ROI is as high as 100% which is contested by many other studies.
  - ▶ What is undisputed, however, is that components of public investment which are complementary to private investment are beneficial for growth
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# Public investment types and Rate of return thereon

- ▶ Complementarity may arise in the use of public investment in infrastructure which increase the marginal product of private capital
  - ▶ Developing economies where the existing stock of infrastructure capital is low/inadequate, high ROI occurs
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*THANK YOU*