

THE CHANNEL FOR GROWTH
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May 1998

Infrastructure is vital for the acceleration of the economy. The government has accorded top priority to investments in power, telecom, roads, irrigation, ports and railways.

The growth of the economy is projected to accelerate from the current 5.5 percent to 8.5 per cent by 2005-06. In order to support such a growth rate investments must increase from 25 per cent of GDP to 31.50 per cent of GDP by 2005-06.

The Rakesh Mohan Report on Infrastructure Projects that domestic savings generated will be adequate to increase investment in infrastructure from 5.5 per cent of GDP to 8 per cent by 2005-06. This works out to Rs.1, 100 billion by 2000-01 and Rs.1, 800 billion by 2005-06.

The market perception is that external savings can finance upto 15 per cent of the total capital requirement for infrastructure. The total cumulative investment requirement in infrastructure till 2005-06 works out to Rs.12, 000 billion.

The complex nature of infrastructure projects makes them different from traditional industrial projects. They require a deep understanding of legal, regulatory and institutional arrangements under which the project promoters would operate. As these projects are based on limited resources, they bear a high risk. These factors act as a bottleneck when raising funds.

In order to give a boost to infrastructure financing, the government has made a number of beneficial packages. Tax sops have been announced, and norms for international financing have been relaxed.

In the wake of this a number of state government undertakings have raised debt from the domestic market through Special Purpose Vehicles for funding infrastructure projects. Foreign funds have found their way in for financing these projects. Structured finance have also become a major source for such projects. The central and state governments have extended their guarantee to such companies for their fund raising programme.

The huge requirement of funds from the domestic market makes it imperative for the central government to develop the capital market and to bring about changes in the policies so that it will be easier to solicit investments for infrastructure projects.

The government can encourage investment in several ways. In order to move household savings into infrastructure, pension, gratuity and provident funds should be channelised into long-term debt securities for infrastructure projects. This can be done by setting up an asset management company for managing the investment of these funds.

The insurance sector should be privatised. It is one of the major sources of long-term funding and competition would lead to an increase in insurance activity. This will lead to an increase in the balance of investible funds.

The capital market should be revived and a boost given to the growth of intermediaries who would play a vital role in syndicating funds for financing infrastructure projects.

It is necessary to kick start the debt market and reactivate the secondary market for debt as this will enable organisations to raise funds from the debt market while providing liquidity to investors.

The government's participation in funding these projects should be increased. This would lead to a revival of the economy and create more demand, subsequently moving towards development, Joint Ventures must be encouraged. More financial products, including long-term hedging, should be introduced to boost investment.

The various policies announced by the government clearly show its intention to continue the emphasis on the development of infrastructure. However, it is to be seen if these policies will be backed by adequate schemes for raising structured finance to enable the execution of such projects.