Outlook

51. The obvious inference to be made from this review of the infrastructure sector, is that the demand for infrastructure services continue to outpace supply. With the ongoing development of the Indian economy, both the magnitude and the composition of demand for infrastructure services will evolve accordingly. The process of economic reforms have placed a heavier demand on sectors such as power, telecom and surface transport. Social welfare considerations make it imperative that a minimum supply of water, power, housing and access to transport are made available to every citizen. In fact, one of the biggest challenges facing the Indian economy as we enter the new millenium, is to step up infrastructure investment and improve its delivery mechanism.

52. Since infrastructure projects have high upfront costs and long payback periods, there are real cost savings by building facilities more quickly. The experience, hitherto, suggests that dependence on budgetary allocations has been partly responsible for the delays in the implementation of projects, due to paucity of funds and procedural constraints. The cost overrun witnessed in these projects can be attributed to their delay in commissioning and the degree of cost overrun largely stems from the extent of time overrun. Better internal generation of resources through appropriate pricing and other policies and more reliance on commercial funding could help speedy completion of projects and thereby strengthen their commercial viability.

53. The India Infrastructure Report has projected gross domestic investment in infrastructure in India to grow from the existing level of about 5.5 per cent of GDP to about 7 percent in 2000-01 and 8 percent in 2005-06. Keeping this in view, the Government has, on its part, substantially increased the plan outlay for the key infrastructure sectors like energy, transport and communications. But to achieve investment levels of such a magnitude, there is an urgent need to mobilize adequate private sector investment in infrastructure. Private sector participation would, in turn, be contingent upon the capability to commercialise these projects whereby recovery of investments is through a system of user charges. These user charges need to be fixed in a manner that would enable the investor to realise an appropriate level of return. At the same time, the rates should be affordable if the infrastructure facility, in question, is to remain viable as a commercial entity.

54. Whilst designing policies for providing the desired momentum to infrastructure, importance should be accorded to sectoral reforms and the development of an appropriate institutional and regulatory framework for ensuring fair competition among public and private operators and protecting consumer interests. Although considerable progress has been made in evolving the requisite regulatory and legal framework for most of the infrastructure sectors, resolution of some “last-mile” issues will not only help to mitigate policy risks, but also create a level playing field which will help to make private sector participation more viable.

55. One of the constraints to private investment in infrastructure has been the relative paucity of market mechanisms for making available funds with the requisite maturities, structures, and volumes. Infrastructure, being a non-tradable commodity, confers Rupee earnings and the revenue streams of most infrastructure projects are incapable of supporting exchange risk. Therefore, private financing of infrastructure projects will require a major domestic focus. As of now, the all-India financial institutions and banks have been constrained by the time profile of their liabilities whilst extending debt capital of longer maturities. To mobilize long-term finance, domestic capital markets will have to be reformed so as to create a vibrant debt market, characterized by diverse participants across market segments and instruments. Apart from infrastructure companies, municipal corporations and other urban development bodies will also have to issue bonds to fund their requirements. In order to access the market, most of these entities will require credit enhancement and therefore the role of specialised financial institutions like IDFC assumes greater significance. While some efforts have been made towards widening and deepening the debt market, a lot more needs to be accomplished. Attracting private equity capital to infrastructure projects is of equal importance and, notwithstanding the tax concessions granted, it is imperative to maintain a favourable investment climate. The investors’ perception of the capital market will also undergo favourable change if contractual savings in the form of insurance, pension and provident funds, that are long term in nature, can be boosted through appropriate financial sector policies.