RGICS TALK SERIES on BUDGET 2019-20: EXPERT INSIGHTS

BUDGET 2019-20: IMPLICATIONS ON INFRASTRUCTURE SECTOR

A TALK BY MR VINAYAK CHATTERJEE

- Union Government proposes to invest Rs 1 lakh crores in infrastructure over the next 5 years. It also proposed to set up an expert committee to recommend the structure & required flow of funds through development finance institutions.
- This translates to a GCF (Gross Capital Formation) of 8-9% in Infrastructure, which planning commission had planned to achieve. Though, it is much less than that of other emerging markets such as China & Brazil at 12%.
- Budget was high on aspiration but low on pocket. It would be challenge for the government to mobilize resources as the infrastructure industry in India will require an investment of $270 billion every year at a time when barely half of the requirement is being put into the sector.
- Headroom has to be created by money locked in state owned enterprises at both central & state level. Government has proposed to offer more Central Public Sector Enterprises (CPSEs) for strategic participation by public sector & reduce stake of Government & Government controlled institutions at 51%
- PPP is the way forward. If you see the funding requirement, what the private sector can do is limited. There are issues like need for faster dispute resolution, Contract approvals, which require immediate government attention.
- Budget recognizes the need for long term capital finance & formed committee to study our past experience with development finance institutions and recommend future course of action.

The Speaker is Chairman, Feedback Infra, CII's National Council on Infrastructure

- Development Finance Institutions (DFIs) will focus on lending to the corporate sector, small and medium businesses, and the infrastructure sector. They may also offer services in the area of foreign exchange and trade finance. Further, they can act as market makers in instruments like corporate bonds and credit derivatives.

- As specialized institutions, they will be in a much better position compared with commercial banks in evaluating and funding long-term projects. It's not easy for companies to get long-term financing because of the underdeveloped corporate bond market and possible asset liability mismatch in the banking system. However, there is no guarantee that DFIs will succeed. India has tried the development finance institution (DFI) model in the past with limited success.

- Budget also talks of boosting municipal bonds in India for resource mobilization. Unlike in the US, India has not seen much success with municipal bonds. Only 1% of urban bodies' requirements are funded by municipal bonds in India, compared with around 10% in the US.

- Indian ULBs are weakest in the world in terms of financial autonomy and in terms of their capacity to raise external capital. Municipal corporations and ULBs need to adopt investor friendly accounting standards. Lack of transparency and availability of data at the ground level leads to opaque books.

- 'Nal Se Jal' (Water from Tap) scheme, which aims to ensure piped water for every household by 2024, is a laudable one. However, given the alarming water scarcity in the country, it may be difficult to achieve.

- Unlike electricity, we can't quite 'manufacture' water for all. As a precious natural resource, India has a share of close to 4% of global fresh water resources to provide for 17% of the global population. Even this 4% is in poor shape, affected by pollution, changing climatic conditions, and over extraction.

- Water is a state subject, making it that much more challenging to implement plans. With less than 18% of the country covered by a piped water supply network, this means the task of connecting unserved rural areas.

- Moreover, the existing network suffers from leakages of the order of 15% to 55%. Agricultural consumption of water is a problem. Despite the fact that barely 50% of agriculture in the country is rain fed, water consumption by the agriculture sector is at a high. And demand continues to be high. Till now, barely any effort has been made to conserve water used in agriculture.