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A STUDY OF RECENT GOVERNMENT INITIATIVES TO INFRASTRUCTURE FINANCING IN INDIA

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Abstract

This study elaborates on the changes that have taken place in the realm of infrastructure investment in India and its mode of financing. In India in the initial stages of development, the Government played a dominant role in infrastructure financing. Today, India gives top priority to the Private-Public Participation mode of financing infrastructure. Considering the importance of infrastructure, new schemes like PM Gati Shakti, the National Infrastructure Pipeline, and National Monetization Pipeline have been introduced by the government to give a fillip to the infrastructure sector in India. All these programs will enrich the 'Amrit-Kaal' to take India to the galaxy of developed countries in the world .

Keywords: *Infrastructure Financing, PM Gati Shakti, Amrit-Kaal, Innovative Schemes.*

Introduction

Indeed, infrastructure has been singled out as the key driver of growth in most developing economies like India. For India to take forward its celebrated growth trajectory even in the aftermath of the Covid-19 pandemic, and the global headwinds exacerbated by unabated geopolitical tensions, the country needs to step up its investment in the core economic infrastructure areas viz. roads, railways, ports, and the like. Over the last few years, India has witnessed tremendous and envious progress in infrastructure, particularly in the construction of road networks. The ambitious dream of realizing an economy of the size of US$5 trillion by 2025 makes it necessary for the country to scale up its infra invest at least to the tune of US$1.4 trillion. The real problem in infrastructure development in India often comes in the form of a growing demand for adequate and affordable finance far exceeding its supply. The problem of infrastructure financing is rampant everywhere in the world. By 2040, it is estimated that the global infrastructure financing gap will be accentuated to the extent of $15 trillion (Mohseni Cheraghlou & Aladekoba, 2022). It calls for the world to spend not less than $1 trillion every year to catch up with the estimated figure. What worries us is the growing inability on the part of developing economies to catch up with their growing demand for infrastructure finance. This article looks into the recent trends in initiatives of infrastructure investment in India by the government to address the issue of the mounting mismatch between the demands for infra funds and its supply .

The objective of the study

The present study intends to look into the changes that have been rampant in the field of infrastructure financing in India. The study attempts to bring out the change in the role of government over the years and the progress of infrastructure development under different modes of financing. Apart from this, the study also throws light on the recent experiments in infrastructure plans and their financing especially taking into account the 'Amrit Kaal' before the economy.

Methodology

Collecting and collating data on infrastructure financing is rather a herculean task primarily due to two reasons: Firstly, there has been no consensus among development economists and policymakers as to the definition of the term infrastructure itself, although some would assert that as the word 'infrastructure' need not be defined as it is identifiable and recognizable (Grimsey & Lewis, 2002). Sometimes, in certain studies, the data on fixed capital formation has been taken as a proxy for the financing of infrastructure. Secondly, reliable data on the infrastructure financing has been seldom available. Nevertheless, the present study makes use of secondary data available from different sources. Besides these sources, data published in research articles, government reports, and policy documents have also been used for the study

Infrastructure Deficit and the Role of Government

In the recent past, in India, the strenuous fiscal space of the government has been excessively used to finance big-ticket infrastructure projects citing the reason that the private sector would no longer be interested in the long term infra investment where the possibility of quick return seems remote. Around 70 percent of the total financial commitment of high-scale infra projects has been met using budgetary provisions. For instance, during the period till the Tenth Plan in India, of the total plan outlays, near about fifty percent went to the infrastructure sector in India. In the first plan, 56.2 percent of the plan outlay was used for infrastructure whereas in Sixth Plan it declined to 42.9 percent, and thereafter with the Tenth Plan, it went up to 54.5 percent. This clearly shows that the plan support for the infrastructure development in India has been substantial in the Indian economy. But with the dismantling of the five-year plans, the outlay on infrastructure from plan allocation was discontinued. It is important to note that in many countries, private participation in infrastructure investment kicked off only after 1991 (Agrawal, Gupta , & Gupta, 2011).

This has not only put much strain on the fiscal position of the government but also brought in inefficiencies in the execution of the projects. India, perhaps as in the case of every developing economy, has been marred with the issue of finding enough resources for infrastructure financing. As is obvious, the Indian economy given its huge size, demographic factors, and diversity in many spheres quite unlike many of the presently developed economies need to invest heavily in the field of both economic and social infrastructures to enhance the quality of life of its people and to step up the pace of GDP growth. Nevertheless, it is apparent that despite many steps towards increasing infrastructure investment, for a long time India has never been able to realize its objective of enhancing both economic and social infrastructure. The low income of the people has not permitted the economy to raise sufficient internal sources for investment. This has put a lot of limitations on the economy, and consequently, the problem of infrastructure financing has continued to exist. To tackle the issue of infrastructure deficit, the governments both the center and state governments have continued to put a lot of money in infrastructure projects in India. For instance, in 2013 Rs.5.3 lakh crore was used for infrastructure investment out of which Rs.1.4 lakh crore was contributed by the Centre government, but by 2019 the contribution of the Center went up to Rs.3.8 lakh crore. This shows that the Center government has been increasingly financing infrastructure project in India.

Recent Changes in Infrastructure Financing in India as India has started growing at an unprecedented rate barring the period of the pandemic, there has been a growing demand for newer and innovative avenues for infrastructure financing in India. The conventional way of relying on budgetary sources and allocations under plan support for infrastructure financing has proved to be unproductive and inefficient in light of the growing fiscal deficit on the part of the government. As the fiscal deficit enlarged, it put enormous pressure on the government which included tightening the key monetary rates in an attempt to tame the escalating inflationary pressures. In the pre-reform period, it is obvious that India failed to attract private investment in the field of infrastructure mainly on account of the nature of economic policies followed at that time. But, since the liberalization was introduced in 1991, efforts at attracting private investment in infrastructure have gathered momentum. Policy changes have been made effectively to pave the way for the entry of private players into the field of infrastructure in India. As the private sector has been averse to investment requiring a long gestation period, the government first came out with a strategy of Private Public Partnership (PPP mode). It ensured a shared responsibility for both the private sector and the government to build and operate big-ticket infrastructure projects in India. During the period 2005 to 2021, projects worth 458079.17 cores rupees were either sanctioned or executed in India which shows the wide popularity that the PPP mode received amid growing apprehensions about the likely success of this mode of infrastructure financing and implementation. It is interesting to note that most of the studies that dealt with infrastructure issues in India during the period between 1989 and 2015 discussed the importance and dominance of Public Private Partnership as an effective mode of financing and running key infrastructure projects in India (Kumari & Sharma, 2016). It is worth mentioning here that India witnessed the establishment of a specially designed financial institution called The India Infrastructure Finance Company Ltd (IIFCL) in 2006 with the objective of fostering a private sector stake in infrastructure development in many key areas of growth in India through PPP Mode. One of the intentions behind the setting up of IIFCL was that it would reduce the fiscal pressure on the governments in finding funds for necessary and indispensable infrastructure investment in India. IIFCL has been envisioned to assist infrastructure companies to find out long-term finance from the financial markets. It is obvious that some infrastructure projects may be economically significant from the standpoint of the larger interest of the economy but may not be commercially viable through the lens of profit motives and quick return, and in such cases, the government would give 40 percent of the project cost as the capital grants.

Post-immediate liberalization period did not witness tremendous improvements in infrastructure investment in the country despite taking many measures towards ensuring private participation in the field of infrastructure. For instance, during the period 2002-07, India could do only US$55 billion investment against the expectation of a much higher level of investment to the tune of US$240 billion (Roy, 2015). The emerging East Asian Economies were investing around ten percent of their Gross Domestic Product in infrastructure projects whereas India was struggling to spend at least five percent of her GDP on the infrastructure sector. This dwindling infrastructure investment had a negative consequence on the growth prospects of the Indian economy. In these circumstances, IIFCL lent ears to the growing demand for infrastructure investment in India, and it succeeded in raising finance from the Indian capital market, thereby contributing to the development of 20000 kilometres of roads in India, in addition to building ports, airports, and power projects.

PM Gati Shakti

With the intention of ensuring multi-level infrastructure connectivity and speeding up infrastructure projects in areas like roads and railways, Prime Minister Sri Narendra Modi launched this ambitious platform called P M Gati Shakti. This will ensure the uninterrupted flow of merchandise items, services, and people from one particular mode of transport to another mode of transport, thereby ensuring a fruitful and productive integrated transportation infrastructure. This will cover schemes presently in operation by various ministries of the Centre government and State governments in India. A single window platform will ensure connectivity among different schemes, which will provide unending synergy in the actions of various entities of governments at different levels.

National Infrastructure Pipeline (NIP)

The key objective of this program is to enhance the quality of life of people living in India by enabling them to enjoy infrastructure at par with what is available in the world. In a way, it is an extension of the PPP mode discussed above, and beyond that, it is a step forward in the PPP mode of infrastructure investment in India. It also attempts to ensure private participation in infrastructure investment to a greater extent. This program recognizes that for 'Make in India' to be successful, the support of a vibrant and resilient infrastructure is of utmost priority.

National Monetization Pipeline (NMP)

This is yet another initiative on the part of the central government to give a fillip to the financing of big-ticket infrastructure projects in India. Here the ownership of the assets of ministries is not monetized but only the right to use such assets is monetized which means ownership still rests with the government. Therefore, it is not a privatization attempt. This scheme aims at giving the right to use brownfield assets under the control of the Centre government. It is expected that NMP will fetch Rs.6 lakh crore to the exchequer of the government which shall be used for financing infrastructure projects in India.

Government Initiatives And Investments

Some of the recent government initiatives and investments in the infrastructure sector are as follows:

In Union Budget 2022-23:

• The government has given a massive push to the infrastructure sector by allocating Rs. 10 lakh crore (US$ 130.57 billion) to enhance the infrastructure sector.

• The government allocated Rs. 134,015 crore (US$ 17.24 billion) to National Highways Authority of India (NHAI).

• The government announced an outlay of Rs. 60,000 crore (US$ 7.72 billion) for the Ministry of Road Transport and Highways.

• The government announced Rs. 76,549 crore (US$ 9.85 billion) to the Ministry of Housing and Urban Affairs.

• The government allocated Rs. 84,587 crore crore (US$ 10.87 billion) to the Department of Telecommunications to create and augment telecom infrastructure in the country.

•The total revenue expenditure by Railways is projected to be Rs. 234,640 crore (US$ 30.48 billion)

• 100 PM-GatiShakti Cargo Terminals for multimodal logistics facilities will be developed over next three years.

• Focus was on the PM GatiShakti - National Master Plan for multimodal connectivity to economic zones. Everything, from roads to trains, from aviation to agriculture, as well as many ministries and departments, will be integrated under the PM GatiShakti National Master Plan.

• In September 2022, the government approved rail-cum-road bridge across Brahmaputra river near the existing Saraighat bridge at Guwahati at the cost of Rs. 996.75 crore (US$ 122.27 million) which will be shared by NHAI & Ministry of Railways.

• In FY 2022-23 (until October 20, 2022), passenger earnings stood at Rs. 33,838.16 crore (US$ 4.15 billion).

• In August 2022, Mr. Nitin Gadkari, Minister of Road Transport and Highways laid foundation stone of six NH projects worth Rs. 2,300 crore (US$ 287.89 million) in Indore, Madhya Pradesh.

• In FY23 (until September 2022), the combined index of eight core industries stood at 142.8 driven by the production of coal, refinery products, fertilizers, steel, electricity and cement industries.

• In June 2022 Mr. Nitin Gadkari, Minister of Road Transport and Highways inaugurated 15 National Highway projects in Patna and Hajipur in Bihar worth Rs. 13,585 crore (US$ 1.75 billion)

• FDI in construction development (townships, housing, built-up infrastructure and construction development projects) and construction (infrastructure) activity sectors stood at US$ 26.22 billion and US$ 28.64 billion, respectively, between April 2000-June 2022.

• In March 2022, Mr. Nitin Gadkari, Minister of Road Transport and Highway inaugurated 19 National Highway projects in Haryana and Rajasthan totaling Rs. 1,407 crore (US$ 183.9 million).

• The government expanded the 'National Infrastructure Pipeline (NIP)' to 9,335 projects. 217 projects worth Rs. 1.10 lakh crore (US$ 15.09 billion) were completed as of 2020.

• In November 2021, the Asian Development Bank (ADB) has approved a US$ 250-million loan to support development of the National Industrial Corridor Development Programme (NICDP). This is a part of the US$ 500-million loan to build 11 industrial corridors bridging 17 states.

• In November 2021, India, the US, Israel and the UAE established a new quadrilateral economic forum to focus on infrastructure development projects in the region and strengthen bilateral co-operation.

• The initiative 'Infrastructure for Resilient Island States' (launched in November 2021) will give India a huge opportunity to contribute to the betterment of other vulnerable countries in the world.

• In October 2021, the Union Cabinet of India approved the PM GatiShakti National Master Plan—including implementation, monitoring and support mechanism—for providing multi-modal connectivity.

• In October 2021, the Dubai government and India, inked an agreement to develop infrastructure such as industrial parks, IT towers, multipurpose towers, logistics centres, a medical college and a specialised hospital in Jammu & Kashmir.

• In FY22, government initiatives such the National Infrastructure Pipeline, National Monetisation Pipeline, Bharatmala Pariyojana, changes in the Hybrid Annuity Model (HAM) and fast pace of asset monetization to boost road construction.

• To encourage rooftop solar (RTS) throughout the country, notably in rural regions, the Ministry of New and Renewable Energy is undertaking Rooftop Solar Programme Phase II, which aims to install RTS capacity of 4,000 MW in the residential sector by 2022 with a provision of subsidy.

• In May 2021, Minister for Road Transport & Highways and Micro, Small and Medium Enterprises, Mr. Nitin Gadkari stated that the government is giving utmost priority to infrastructure development and has set a target of road construction of worth Rs.15 lakh crore (US$ 206 billion) in the next two years.

• The Ministry of Railways plans to monetise assets including Eastern and Western Dedicated Freight Corridors after commissioning, induction of 150 modern rakes through PPP, station redevelopment through PPP, railway land parcels, multifunctional complexes (MFC), railway colonies, hill railways and stadiums.

• Mega Investment Textiles Parks (MITRA) scheme was launched to establish world-class infrastructure in the textile sector and establish seven textile parks over three years.

• The government announced Rs. 305,984 crore (US$ 42 billion) over the next five years for a revamped, reforms-based and result-linked new power distribution sector scheme.

Conclusion

To sum up, it could be said that India has been witnessing changes in the way of financing infrastructure projects. The conventional way of government investment in infrastructure has been replaced by more private participation. For this to happen, a lot of supportive initiatives have been taken up by the government. At the same time, through innovative schemes like National Monetization Pipeline, new avenues for financing infrastructure investment have been opened up by the government, and that too without selling the brownfield assets of government departments. All these programs will enrich the 'Amrit-Kaal' to take India to the galaxy of developed countries in the world.

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