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INFRASTRUCTURE DEVELOPMENT IN INDIA

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INTRODUCTION

INDIA has a large and fairly well developed infrastructure framework extending to all parts of the country. However, certain areas like power, telecommunications, transport etc. need further expansion and modernization. And, the public sector alone can no longer fully finance the requirements.

The 1998-99 Budget announced by the BJP government has given a major thrust to infrastructure development, particularly in energy and power, transport and communications, by stepping up public expenditure in these sectors. This increased government spending on infrastructure is expected to boost India's sluggish economy. The lack of a clear policy frame work for private sector participation has hampered the badly-needed infrastructure development, particularly in telecommunications, power, roads and ports. The public sector, which led the investment in infrastructure development until recently, has reduced its investments considerably, due primarily to its poor fiscal position.

Scope of this Study

Infrastructure development has a crucial role to play if India is to sustain its high growth, which must become more inclusive as the country matures, India's economic performance in recent years has been among the best in the world, leading to a decline in poverty. Despite these improvements, most poverty-related education and health indicators continue to show disturbing gender gaps, large rural-urban differences, and wide variation across the states. India was in danger of failing to meet several of the non-income Millennium Development Goals.

The Government is working to address these challenges, for example through the $39 billion Bharat Nirman program, which will connect villages and provide housing, clean drinking water, electricity, and telephone services across rural India. There was tremendous scope for providing infrastructure facilities for IT and BPO (business process outsourcing) companies.

India – Infrastructure

Transportation is a large and varied sector of the economy. Modes of conveyance for goods range from people's heads (on which loads are balanced) and bicycle rickshaws to trucks and railroad cars. The national railroad was the major freight hauler at independence, but road transport grew rapidly after 1947. Both rail and road transport remain important.

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The share of transportation investments in total public investment declined during the period from the early 1950s to the early 1980s; real public transportation investment also declined during much of that period because of the need for funds in the rest of the economy. As a consequence, by the early 1980s the transportation system was barely meeting the needs of the nation or preparing for future economic growth. Many roads, for example, were breaking up because of overuse and lack of maintenance; railroads required new track and rolling stock. Ports needed equipment and facilities, particularly for bulk and container cargo; and at many airports the national civil airlines needed supporting equipment, including provision for instrument landings. The government planned to devote 19 percent of the Eighth Five-Year Plan (1992-96) budget to transportation and communications, up from the 16 percent devoted to the sector during the seventh plan.

Although there is a large private-sector involvement in transportation, government plays a large regulatory and developmental role. The central government has ministries to handle civil aviation, railroads, and surface transportation. Counterpart agencies are found at the state and union territory level. Critical to improving the entire transportation sector in the late 1990s is the ability of the sector to adjust to the central government's national reform initiatives, including privatization, deregulation, and reduced subsidies. The sector must also adjust to foreign trade expansion, demographic pressures and increasing urbanization, technological change and obsolescence, energy availability, and environmental and public safety concerns. The investment in infrastructure will decide if India can keep up its growth tempo (Chionh).

India's success in attracting international capital can be attributed to four factors.

a) History, b) Competency, c) Opportunity and d) Transparency.

These factors directly affect India's financial markets and country's overall economy. Effective leveraging of the comparative advances of India's transparent financial markets the availability of "good Human capital"' and India's historical and cultural ties with the West has been the force behind India's transformation into one of the dominant economic powers among emerging markets (Haruhiko).

During 2005, the amount of foreign direct investment (FDI) into India was approximately one-twelfth of the foreign investment into China. Deputy governor of the Reserve Bank of India, was offset by a more extensive foreign portfolio investment ($9 billion last year) and other capital inflows into India, it remains symptomatic of a larger liability and impediments to greater direct investment in India's Infrastructure.

India's government recognizes that in order to continue to attract increasing amounts of foreign capital and to keep pace with its economic rival. China infrastructure improvements must be priority.

Investment Objectives and Policies

The scheme's investment objectives and policies (including the types of securities in which it would invest) should be clearly and concisely stated in the offer document so that they may be readily understood by the unit holders. Because the circumstances of each scheme would vary, it may not be possible to define precisely the asset allocation pattern. But as a general rule, the level of disclosure regarding the asset allocation patter should be consistent with the objective of the scheme. The offer document should emphasis the main types of investments the mutual fund proposes to make and the basic risk inherent in such investments. Accordingly, discussions of types of investments that would not constitute the scheme's principal portfolio should be as brief as possible and may be limited to identifying the particular type of investments (Nayak).

Approved Investments

The approved investments for general business comprise - two categories:

1. All approved investments specified in Section 27-B of the insurance Act excepting (a) United Kingdom Government / Government guaranteed securities. (b) immovable property situated in other country and (c) the first mortgaged on immovable property situated in India / any other country provided the property mortgaged is not leasehold property with an outstanding term of less than 5 years and the value of the property exceeds by one-third or if it consists of buildings, exceeds by one-half the mortgage money.

2. The additional approved investments in public limited companies declared by the IRDA, namely (a) loans to state governments for housing and for housing and fire-fighting equipment and (b) treasury bills, inter-bank response and bills rediscounting.

Policy

The government policy relates to (a) industrial policy, (b) FDI, (c) investments by NRIs/OCBs, (d) foreign technology agreements, (e) 100 per cent export oriented units/export processing zones/special economic zones and (f) electronic hardware technology park schemes.

Industrial Policy

The governments liberalization and economic reforms program aims at rapid and substantial economic growth, and integration with the global economy in a harmonized manner. The industrial policy reforms have reduced industrial licensing requirements, removed restrictions on investment and expansions, and facilitated easy access to foreign technology and foreign direct investment foreign collaborations.

Other Modes of Foreign Direct Investments

Foreign investment through Global depository Receipts (GDRs)/American Deposit Receipts (ADRs)/ Foreign Currency Convertible Bounds (FCCBs) are treated as FDI. Indian companies are allowed to raise equity capital in the international market trough the issue of GDRs/ADRs/FCCBs. These are not subject to any ceilings on investment (Avathani).

Procedure for Foreign Direct Investments in Industrial Park

As 100 per cent FDI is permitted under the automatic route for setting up of an industrial park, the procedure mentioned in relation to FDI would be applicable for seeking the requisite approved.

Tata Retail Venture (MNC)

The Tata group expects its chain of electronics goods shops to generate revenue of Rs. 8000 Cr. in two years. Infinite Retail Ltd., which opened its first shope will invest Rs. 400 Cr., to open 30 stores by March 2008, and double the outlets by the end of 2009 (Kohli, 2006).

IDFC

The Infrastructure Development Finance Corporation (IDFC), established in 1997, is a specialized financial institution, set up to provide credit enhancement to infrastructure projects, and to extend long term loans and guarantees that existing institutions may not be able to provide. IDFC provides loans and guarantees worth dols 17 million to five projects.

The Asian Development Bank and the International Finance Corporation are shareholders in the IDFC. A comprehensive funding package for infrastructure projects has been developed by the IDFC and the Power Finance Corporation (PFC). At the state level, the PFC is primarily focused on public sector projects, while the IDFC concentrates on the private sector. In the recent budget, the government proposed giving IDFC incentives and benefits available to other public financial institutions.

Reliance Industries (RIL) retail plans may include a tie-up with the Railways. To realize its target of opening 5,500 stores in 1,500 cities, the company has approached the Railways for the use its vast land resources. Railways own land at prime locations across India and lots of corporate are approaching RIL. RIL plans a Rs.2,500 crore investment in its retail foray. A tie-up with the Railways is a natural choice because of the latter's access to vast tracts of land in all cities, including the crowded metros. Other corporate that are in talks with the Railways for furthering their retail interests include pantaloon retail and Aditya Birla Group (Confederation of Indian Industry, 2006).

IT Telecom Field

The Telecom Regulatory Authority of India (TRAI) recommendations on the allocation of 3G spectrum will mean a windfall for the government. 3G license has to pay base price of Rs.1050 crore. Two development this month (October 2006) is put Qualcomm the developer of CDMA technology, back into action. The second development is the pact it has signed with Himachal Futuristic Communications (HFCL), under which HFCL can manufacture locally and sell CDMA 2000 handsets and other devices in India and in global markets. India is a key CDMA market fo Qualcomm, and for a while, it seemed like it was losing round here. Now its is betting big on 3G (Jayaram).

Trai's 3G Prescription

Spectrum allocated in 2.1 GHz, 800 and 450 MHz,
Hybrid plan of base price, auction
Base price for national licence at Rs.1,050 crore
Difference among the top five should be within 25 %

Source: Business World 0ct-2006.

Public-Private Partnership

Increasing investment into infrastructure-ports, airports, roads-combined with increased FDI will play a very critical role in India is to continue its sustained growth momentum.

Western bankers consider low spending on Indian infrastructure the single biggest macro constraint on the economy. As one remedy. The Indian government is emphasizing Infrastructural privatization selectively and public-private partnerships on a larger scale. At the moment, given the government's budget issues, privately managed financing of physical infrastructure is critical if the manufacturing sector is to grow to match the success of the country's information and technology (IT) services industries.

Improving the Roads

Tourism Department Commissioner insists that a lot has been done to improve the roads, especially in north Karnataka and from Bangalore to Hampli, but last-mile connectivity is a problem, need Rs.100 crore to improve the access to a dozen destinations.

Karnataka Tourism is pulling all the stops to attract more people from India as well as abroad to take in the splendors of its natural and architectural wealth with half a dozen packages designed specifically to show off its beaches, hill stations, heritage, including temples and royal palaces and of course, wildlife.

Foreign Exchange Reserves

India so eager to spend $15 Billion from Foreign Exchange Reserve is to improve infrastructure and the reason is simple, India earned this foreign exchange reserves through Western Companies transferring money to India for opening new shops in Bangalore, Mumbai and Delhi. India believes by investing some part of the same in infrastructure development, India will receive more foreign direct investment and after a while India will become a developed nation (Kohli, 2006).

It is a very shrewd move. The Planning Commission will use about $ 15 billion from the foreign exchange (forex) reserves for the country's infrastructure development. The panel had held discussions with the finance minister and Reserve Bank of India (RBI) on making best use of the huge forex reserve. "Though the proposal appears unusual, it is very innovative in the light of serious infrastructure deficit faced by the country.

Terming the current forex amount as very huge, out of the reserves of $ 120 billion, if $ 30 billion of non-resident deposits were set aside on the grounds that they were liquid liabilities and another $ 5 billion towards short-term deposits, the country would still have $ 85 billion reserves. "Even after fully covering all liquid liabilities, we will be still left with $85 billion forex funds, which is a very large sum of money. According to the former RBI governor (Bimal Jalan), about $ 60 billion forex reserves are adequate to meet import bills.

Hence the proposal is to use the balance $ 15 billion over the next three years to fill the infrastructure gaps, which are quite essential, Hoping the panel's proposal would be accepted by the government, even if the country were to have $15 billion less in forex reserves, it would be worthwhile as it would create infrastructure equivalent to that value. the judgment is the return the economy gets from $ 15 billion in infrastructure would be much more than the returns India's Enforcement Directorate wants participation notes (PNs) (Chidambaram, 2006).

The RBI of India and other government comities have off and on have asked for a ban on stock market instrument probed, which is used by unregistered Foreign Institutional Investors (FIIs) to invest infrastructure Indian stocks.

A good 40% of FII inflows comes through PNs (50 % in May 2006). So one can imagine the effect of a ban will have on the stock market. One of the reason why FIIs take the PN route is that hedge funds are not allowed to invest infrastructure Indian stock markets.

Infrastructure Development

The large accumulation of foreign exchange has encouraged the planning commission to suggest the use of the reserves for infrastructure development by creating Special Purpose Vehicle (SPV).

The RBI feels that hard earned reserves would be dissipated quickly, lowering the process, the confidence of foreign investors infrastructure the economy. Good project through public private partnership (PPPs) would not according to this view, face problems of funding, nor would they face high interest servicing cost (Kuroda).

Challenges-Budget Making for 2007-08

Agriculture and Infrastructure

Collections of corporate income and indirect taxes in the firs half of 2006-07 have shown an increase of 32% of over 2005-06 (from Rs. 89,678 crores to 118,270 crore) and Livelihood Security Package for farmers are commensurate investment to guarantee expanding the scope of minimum support price to cover all crops (Confederation of Indian Industry, 2006).

The Second challenge that has remained intractable is the implement a massive national infrastructure development programme to match at least the 10 to 15% growth. India must aim at for ensuring sustainability in relation to population with investment $ 150 million.

Those are what the budget 2007-08 should be all about as those are where are going to determine the pace and quantum of India's Economic Development.

Steel Output

Indian steel Industry is in the spotlight these days with Tata Steel and Pasco have already trained their attention on India. China as is well know, is the world's largest producer and consumer of steel, an industrial metal that is integral to economic growth, especially for infrastructure development. Housing and infrastructure are key areas of future development. Huge investment are being committee, Naturally, Steel would be a critical input, what's the emerging Indian steel scenario? About India's a new study from GFMS Metals, Consulting says that the country may be come steel surplus and forced to look for export options.

Indian iron ore production will increase to 170 ml.t.by 2011, of which 65 ml.t. would be exported. The National Steel Policy has set a domestic steel production target of 100ml.t. by 2019-20 to meet projected internal demand of 90 ml.t (Chidambaram, 2006).

Project Development

C&C constructions Ltd, a Gurgaon-based Infrastructure project development company has filed its draft red herring prospectus with the Securities and Exchange Board of India (SEBI) for its Initial Public Offering (IPO). The company proposes to make an IPO through 100% book building issue. The public offer will constitute 5,477,634 equity shares of rs.10 each. The company incorporated in 1996 is an infrastructure project development company that provides engineering, procurement and construction services for infrastructure projects in India and Afghanistan, involved in engineering projects, including roads, bridges, flyovers and airport runways (Chidambaram, 2006).

Power Project

Nearly Rs. 20000 Cr. investment planned infrastructure Ultra Mega Projects

Ministry of power announced on 9th October signing Power Purchase Agreements (PPAs) for two of the proposed project each with the capacity of 4000 Mega Watts and investment nearly Rs. 20000 Cr. signed between two special purpose vehicles formed for the two project, Sasan Power Ltd., and Coastal Gujarat Power Ltd, and the representative of 22 distributions utilities from nine beneficiary states.

Airport Projet

GMR to invest Rs.523 crore more in Hydrabad International Ltd (GHIAL) has announced fresh investment of /Rs.523 crore for the upcoming airport project to equip it with additional facilities in order to handle 12 million passengers against the originally planned 5 million when first phase begins in March 2008.

The company took decision to expand the scope keeping in mind a whopping 40% growth in air traffic in Hydrabad and to invests, it include expenditure on the fuel farm would take total project cost Rs.2,283.18 crore (Khye).

IIFC Agreement

Indian Bank, Oriental Bank of Commerce, Corporation Bank and India Infrastructure Finance Company (IIFC) on Monday linked a memorandum of understanding to jointly undertake financing of infrastructure projects. Infrastructure requires about $ 360 bn in the next five years.

ADB Loans

To encourage substantial private sector investment in infrastructure projects in India, the Asian Development Bank today approved US$300 million in loans to three financial institutions for relending to private projects in power, telecommunications, roads and ports. The loans are being provided under a Private Sector Infrastructure Facility established by the Bank and guaranteed by India. The Bank will lend US $ 150 million to the Industrial Credit and Investment Corporation of India Ltd., US $ 100 million to the Industrial Finance Corporation of India Ltd., and US $ 50 million to SCICI Ltd. Each of the three participating financial institutions will be authorized to use a portion of its funds under the facility for capacity building, project preparation and implementation purposes.

India's total investment requirement for infrastructure development over the next ten years is massive - an estimated US$330 billion to US$345 billion - and far outstrips available public resources. To augment investment funds, the Government of India, in a significant policy shift, has introduced measures to liberalize the infrastructure sector, allowing private sector participation in virtually all infrastructure sub sectors. The power, telecommunications, roads, and ports sub sectors have proceeded quickly to accommodate private investors, providing a legal basis, as well as financial incentives, for private sector entry and operation (Karnik, 2006).

Emerging Business & IT Infrastructure

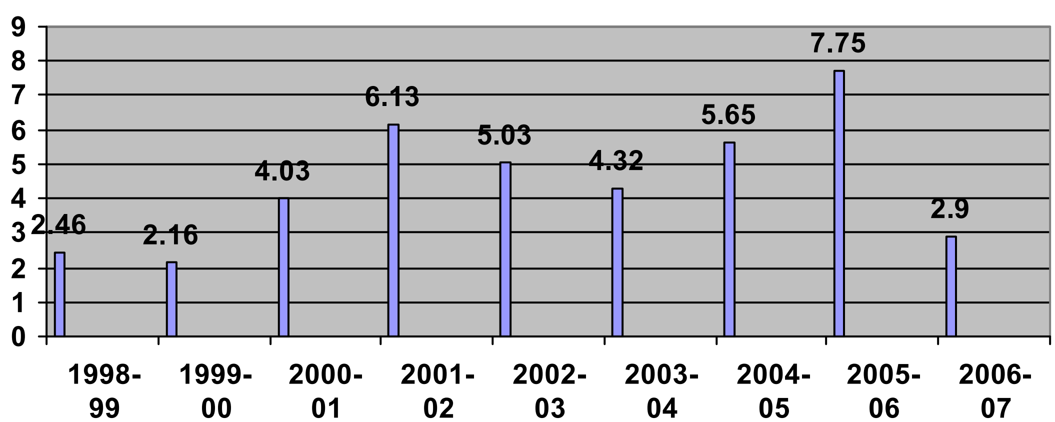
Cognizant Technology solutions the NASDAQ listed IT services giants is on the look out for further acquisition, future potential target could be in the higher range of $ 50-60 million.

Cognizant, which has made seven acquisitions in the last five years, with the latest being the US-based Aim Net, a Managed infrastructure and professional services firm. COGNOZANT Technology Solutions has acquired Massachusells-based privately held Aim Net solutions, a managed infrastructure services firm for %15 million in cash. The acquisitions is aimed at strengthening Cognizant fast-growing IT Infrastructure (IIITs) practice. This provides Cognizant with a US-based network operations centre, a word-class patent pending proprietary infrastructure management software platform, an installed base of over 80 direct and indirect customers and high end network operations and infrastructure consulting capabilities in areas like network architecture planning and infrastructure security solutions (Khan).

FDI Inflows

The FDI inflows into to countries more than double in July 2006 at $ 1.163 bn compared to $ 0.324 billion in the year ago period.

Annual FDI Inflows ($ bn) Total Till July '06 is 51.30



Source: Commerce Ministry Out Look Business Week, November 5, 2006.

World's Major - IT and Telecom Company and its Investment Plan

Investment	Company	Place	Plan
$ 16.675 bn	IT & Telecom CISCO, Motorolo, Taxas Instruments, Dell, Telcordia,	Chennai	Commited investment over next 5 years World major investors
	Sem India	Hyderabad	
	Intel/IBM	Bangalore	
	AMD	Delhi	
	Texas Instruments,	Himachal Pradesh	
	Lenovo		
$ 50 million	Ericson	Jaipur	GSM base stations/II phase
$ 50 million	Ericson	Chennai	R&D, Global service
$ 100 million	Elcoteq	Bangalore	
$ 12 million	LG	Pune	Plant
$ 200 million	Nokia	Chennai	Plant/Mobile handsets
$ 60 million	Alcatel	Chennai	Three ventures in operation
$ 15 million $ 200 million	Samsung from Korea	Haryana	Handset manufacturing plant for expansion plan-next 3 yrs
$ 500-million	EMC		2 plans in storage technology software technology
$ 100-million	Flextronics'	Chennai	PCB manufacturing plant After one year

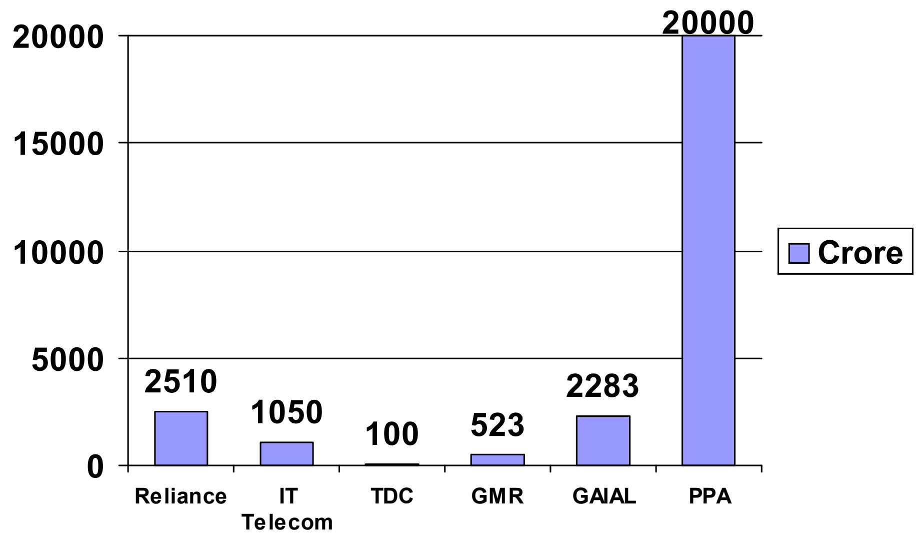
Source: Business Line, October 2006.

Analysis of Some of the Major Investment Companies

	Investment	Nature of Project
Reliance	2510 crores	Tie up railways
IT telecom	1050 crores	This year
TDC	100 crores	Road
GMR	523 crores	Airport
GAIAL	2,283 crores(total project)	Airport
PPA	20000 crores	SPV

Suggestions

For the moment, Indian economy is shining and everything seems to be going on India's way. Not everything however is rosy. Yes, Indian economy is growing at a rate of 8% but keeping this high growth rate intact is a big challenge for any country. For India, it is even a bigger challenge as the country does not have good infrastructures. The Confederation of Indian Industry thinks that infrastructure development can become a major concern for India in the coming days.



The Bank anticipates that the facility would encourage greater private sector investment in infrastructure and help develop new sources of funds for infrastructure financing. Projects financed from the ADB facility are also expected to provide useful case studies in cooperation between the public and private sectors, and to lead to further policy refinements in the country.

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Urban infrastructure development, real-estate development and construction industry in India hold good potential for joint collaboration between Indian and Singapore companies, These can be developed on a public-private partnership,

Conclusion

As the financing requirements of infrastructure development are often for terms for exceeding 5 years or even 10 years, India's Bond market at its present stage of development is unable to provide such long-term funds.

For financing infrastructure projects, bond market is particularly important. The development of India's bond market still lagging far behind the needs of the economy. The problem has acquired urgency in the context of financing infrastructure development.

The absence of single window clearance, coupled with other issue like lack of properly infrastructure work as a major implement in the growth of the retailing.

The Bank's Private Sector Investment Facility will be utilized by the participating financial institutions to purchase long-term debt securities, such as debentures, to be issued by infrastructure projects, which can be traded in the market. Together with ongoing capital market reforms, this is expected to encourage the development of a long- term debt market in India crucially needed to sustain large-scale infrastructure financing. Besides the domestic players suffer from lack of infrastructure, the biggest bottleneck being the prohibitive prices of large rattail spaces in the up market or central location in the large Indian societies.

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