

## Economics Class 27

### INFRASTRUCTURE FINANCING (09:07 AM)

- It is a challenge in India.
- According to the 11th Five Year Plan (FYP), approx 45% of the total infrastructure funding comes from the government's budget and 55% is managed through debt and equity sources.
- Banks play an instrumental role in infrastructure financing.
- **Challenges**
- Increase in **funding gaps**, especially after the 2008 subprime crisis.
- **ECBs** were affected after the sub-prime and eurozone crisis.
- Increasing **fiscal burden on the government**.
- Challenges of **asset-liability mismatch** for the banking system (NPA crisis).
- The bond market is still not developed in India, especially the corporate bond market and Municipal bond market.
- Investment obligations on insurance and pension fund companies.
- Legal and Procedural issues.
- Challenges of Regulatory Oversight.
- Problems of land acquisitions, and longer gestation periods for infrastructure projects.

IDF: Infrastructure Debt Funds

NBFC: Non-Banking Financial Company

### MEASURES TAKEN BY GOVERNMENT (10:05 AM)

- 1. **PPP infrastructure** - The government faces tight budget constraints in the rule-based fiscal policy framework. It was important to encourage the private sector to invest in infrastructure.
- 2. **Viability gap funding**, was introduced in 2006 where CG provides 20 % of capital cost wrt to PP project and an additional 20 % is given by sponsoring authority
- 3. **FDI in infrastructure** - to facilitate infrastructure financing, 100% FDI is allowed under automatic route into sectors of mining, power, and sez (special economic zone)
- 4. **Setting up of infrastructure debt fund companies** - RBI and SEBI notified guidelines for setting up IDF in the form of NBFC and mutual funds companies. The government has reduced **withholding tax** on interest payments from 20% to 5%. Infrastructure debt fund companies are expected to channel funds from insurance companies, pension funds, and other long-term sources
- 5. **Rationalization of ECB**
- 6. Introduction of **Credit default swaps** which will strengthen the banking structure

### PUBLIC-PRIVATE PARTNERSHIP PROJECTS IN INFRASTRUCTURE (10:22 AM)

- Govt faces tight budgetary constraints in the rule-based fiscal policy framework.
- It was important to encourage the private sector to invest in infrastructure.
- Introduction of **Credit default swaps**- It will strengthen the banking sector.
- **National Infrastructure Pipeline (NIP)** to construct social and economic infrastructure with an investment of 111 lakh crore.
- NIP is hosted by **Invest India Grid (IIG)** which is a centralised portal to track and review and progress of the project.
- IIG is an initiative of DPIIT (Department of Promotion for Industry and Internal Trade)
- There is a focus wrt integrating PMG (Project monitoring group) and IIG.
- **PMG is an institutional mechanism** for the resolution of issues related to large-scale projects and also for fast-tracking approvals for projects with investments of 500 Crores and above.

- **National Monetisation Pipeline**

- With an estimated aggregate potential of 6 lakh crores, NMP is based on the principle of asset creation through monetisation.
- Under NMP, Govt leases out its public assets to the private sector for operation and maintenance of the assets and the funds received from **brownfield projects** are **reinvested into greenfield projects.**

- **PM Gati Shakti**

- It is a program of good governance that aims at increasing coordination and reducing wastage of funds.
- NIP will be integrated with PM Gati Shakti which focuses on seven growth engines- Road, Rail, Airports, Ports, Mass Transport, Waterways and logistics infrastructure.

- **National Logistics Policy**

- **Logistics** refers to the process of managing how resources are acquired, stored, and transported to their final destination.
- NLP aims to bring down the logistics cost to 8% of GDP by 2030 (Currently, logistics cost is around 14-18 % of GDP).
- The logistics sector is expected to grow at 15.5 %.
- Govt logistics policy mainly focuses on **3 important areas-**
- Multi-Modal logistics park ( Airports, railways, road transport are at same place.)
- Warehouses
- Cold storage or cold chain mechanism

**TOPIC OF THE NEXT CLASS- INFRASTRUCTURE (TO CONTINUE)**