

# **INFRASTRUCTURE FINANCE**

**An Indian Perspective**

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# Infrastructure Finance: An Introduction

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## In this chapter you will find

1. Definition of infrastructure and its financing
2. Key Issues in infrastructure financing

Infrastructure in respect of this book consists of a plethora of activities, which are available in public utility services and public works. To be more precise, the gamut of infrastructure deals with:

1. Roads and Bridges
2. Railways
3. Airways including port activity
4. Sea Port and yards
5. Telecommunication, and
6. Power sector, including generation and distribution.

Rakesh Mohan in the Indian Infrastructure report defines

“Infrastructure is generally defined as the physical framework of facilities through which goods and services are provided to public.”

The recognition of infrastructure as a basis of creating a niche in management of fund arises out of two reasons.

1. The increase burden on the exchequer had left the governments with no option but to seek private participation in the funding of these projects like roads, railways, airport maintenance and seaport creation and maintenance.
2. The economic reforms agenda, which seek professional management of the state, hold asset to increase economic and financial returns.

In fact, the World Bank in its agenda paper proposes that in relation to infrastructure, the various states should manage infrastructure more like a business and introduce competition wherever it is possible.

It strongly urges that the idea behind such a change is to promote public – private partnership in financing such projects of infrastructure and increase the stake of the user, the ultimate decider of the public property.

It is, however, envisaged that the government should continue in its functioning relating to infrastructure but with a changed role.

## **The Key Issues in Infrastructure**

The key or primary issues in infrastructure relates to,

### **a. Fund Raising**

The crucial area of fund raising is very critical in case of infrastructure. The issues relating to fund raising are actually interwoven with the other key issues of infrastructure.

The basic issues are generally to:

- i. Decide upon the asset allocation and therefore sources of funding
- ii. Decide the mechanism of fund flow
- iii. Create a mechanism through which the fund flows

- iv. Post privatization issues including tariff and price fixation and sourcing of working capital.

**b. *Modality of transfer of ownership of assets from government to private partners***

The modality of transfer of ownership includes amongst many,

- i. The process of transfer and its mechanics like divestment, leasing, management buy-outs, asset transfer without title etc.
- ii. The modality of finance and transfers like, Build Operate and Transfer (BOT), Build Own Operate and Transfer (BOOT), Build Own Lease and Transfer (BOLT) and Build Own Actualize and Transfer (BOAT).

**c. *Portfolio reconstruction of projects or public utilities for which privatization is sought***

Generally a public utility or project has various activities, which are broken down into smaller activities depending upon the economic and financial realities. These are then transferred to private parties. The process serves two purposes:

- i. It creates a sound basis for the transfer of public property to private hands and,
- ii. It creates a sense of economic reality in terms of easing the burden on exchequer as a result of such divestment of public property in whole or in part.

**d. *Project appraisal***

Besides the financial realities, the project appraisal helps in ascertaining the means through which the projects are being financed and the legitimacy of such projects. The objections that are raised from various social platforms are also to be considered. An approach of UNEMO to bridge the gap between the social need and the economic need is a must.

Appendix 1.1  
COMPOSITE TABLE OF INFRASTRUCTURE IN INDIA

Infrastructure	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001
<b>ELECTRICITY</b>						
a. Installed electricity						
Generation Capacity						
(Utility) (MW)	83294	85795	89102	93249	97837	—
b. Consumption of Electricity						
(utilities and Non Utilities)						
(million KWH)	341905	350382	371633	—	—	—
c. Availability of electricity						
(million KWH)						
i. Gross Generation	379877	395889	421747	—	—	—
ii. Net Generation	352657	367085	391063	—	—	—
iii. T&D Losses	79363	91105	97919	—	—	—
<b>Road</b>						
a. Surfaced (Km)	1294256	1394061	—	—	—	—
b. Unsurfaced (Km)	1072806	1071816	—	—	—	—

[Table Contd.]

Contd. Table]

<b>Port</b>						
Overseas and costal traffic of some major ports.						
Total Overseas cargo ('000tonnes)						
a. Kolkata	3322	3275	5609	6805	7905	—
b. Chennai	23534	23995	22509	17215	22776	—
c. Mumbai	23266	24650	23508	22618	21434	—
d. Paradip	6335	5551	6055	5282	6170	—
e. Visakhapatnam	21547	23049	22682	22513	22833	—
f. Kandala	25981	28690	33438	35649	38102	—
<b>Railways</b>						
a. Passenger Kms(millions)	342359	35754	380528	404605	428735	449138
b. Passenger earning (Rs. In Crore)	84	85	86	88	86	90
c. Revenue earning in freight traff Rs. In. Cr.)	284711	277567	284249	81511	—	—
d. Route Length (Km. Running)	80441	80754	80908	81511	—	—

[Table Contd.

Contd. Table]						
<b>Air Transport</b>						
i. Fleet Owned and Utilized by IA	59	53	52	56	—	—
AI	26	24	26	26	26	—
ii. Traffic on Revenue passage						
(million) AI	11784	11589	11422	11704	11587	—
IA	7324	7053	7015	8262	9628	—
<b>Telecom</b>						
Telephone Exchanges	146	177	213	260	288	—

Source: India Infrastructure Report, 2002, Oxford.



## **Implementation of projects**

The implementation of the projects in infrastructure finance brings it back to a full cycle. The process's acid test stands in the implementation and the smooth function of the project thereafter.

## **Regulatory Authorities**

Another essential aspect of financing the infrastructure, especially in case of public utility and projects relating to it, is the method through which the post project phases are regulated. Though critical, these generally fall in the realm of the law making and policy decisions.

The financing of infrastructure therefore revolves around the modalities of transfer of public property, arranging for their funding, creating a regulatory framework in which they function and monitor the aftermaths of the projects.

## **Questions to Answer**

1. What are the key issues that are faced by the country in infrastructure industry?
2. In what way is the Infrastructure industry helpful in development of the country?