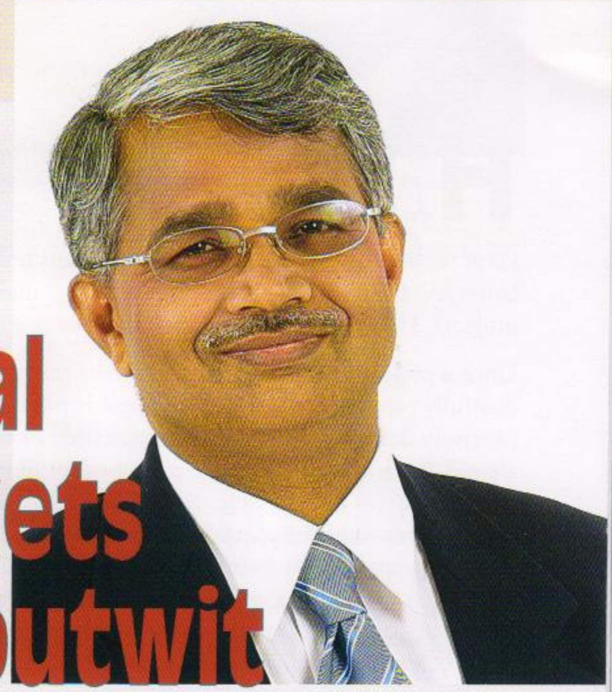
Dr. V. Raghunathan is CEO, GMR Varalakshmi Foundation and former Professor of Finance, IIM, Ahmedabad, and former President, ING Vysya Bank.

Only global markets can outwit Indian politics



Only a global capital markets approach for financing PPP projects can substantially neutralize political agendas

The estimated funds required for India's infrastructure is in the range of $500 to 750 billion, depending on whom you ask. These estimates in all probability do not include basic rural infrastructure like schools, health centers, toilets and roads within villages. If you factor that in, at the rate of Rs. one crore per village per annum for some 7 lakh odd villages in the country, the estimate could well be double the stated figures, taking the required infrastructure investment well beyond $ one trillion. But even to mobilize $500 billion in the next five years, or funds upwards of $120 billion year after year, every year, may well be a tall order, PPP or no PPP.

- Required infrastructure investment over $ One trillion
- Infrastructure is most politicized, hence most risky
- Discipline of stable policy climate a must
- Need a freer FDI regime in every segment

Little surprise then that the term "innovation" springs to mind – hoping against hope that there must be some 'innovative' approach that must make it easier! The fact is while innovations and financial engineering ruses might work at the margin for bringing the cost of financing of a given project down a trifle and so forth, funds of this magnitude can't depend on innovations, notwithstanding our massive 37% savings rate. Unless of course you count securitization, export credits, mezzanine debt, take-out financing and such measures as innovations. What is required is real money, which more often than not, at this scale, is bound to be either inflationary or contributory to fiscal deficit.

The innovations required, if any, are those that will satisfy the twin objective of addressing inflationary concerns and fiscal deficit and yet produce the necessary capital for investment. These innovations can happen only in the realm of prudent monetary and fiscal policies of the country. In any case, here is my 650 word take (preceding words included) on innovation in PPP financing model.

The challenge of finding the necessary capital is made worse because the financing to be found has to be sustainable. The best answer to managing the twin objectives cited above and the constraint of sustainability is, in fact, least innovative in its essence. It is the global capital markets.

Infrastructure in India is easily the most politicized sector and hence probably the riskiest. It is precisely for this reason that investment in this sector could benefit significantly from the rigors of global capital markets, which have a way of substantially neutralizing political agendas. However, the move would need a freer FDI regime in every segment, since it would be foolish to tell the global capital market that leading aviation companies ought not to be investing in Indian aviation sector beyond a limit, for example. The whole idea of tapping the global markets is to tap on the India share of their proposed global investments. With India and China being the two most prominent developing economies, this share is bound to be significant and can be tapped only if the "ifs and buts" are kept at bay.

It is only the global markets approach that can shield our PPP models from being completely blown over by large scale corruption and inefficiencies in bidding processes, negotiations and concessions - all of which go towards increasing the project costs. But the approach also calls for a discipline of stable policy climate, guarding against the temptation of frequent policy reversals, especially retrospective reversals. We were "lucky" that Enron turned out to be a fiasco in its own right; otherwise the Dabhol issue could have packed a much harder backlash for us. Such a move will also assume a tacit understanding among political parties that governmental policies cannot become tools in settling scores against one another. If we fancy ourselves a mature democracy, this is the least message that the global capital markets will look forward to. Once we do that, funds will not be a constraint.