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ECONOMIC REFORMS: EMERGING OPPORTUNITIES AND THREATS IN INFRASTRUCTURE SERVICE

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The shackles are shed. India is slowly turning towards market economy. Unless our country makes a concerted effort in the current decade, our aspiration to find a permanent place for ourselves in the global context would become a distant dream. The attainment of such a goal depends on several internal as well as external factors. First of all, a market driven economy is to be structured on the sound edifice of virbant financial market and an efficient economic infrastructure. Out of the two, financial architecture is getting shored up.

Poor infrastructual facilities present a major stumbling block to transformation into a mature market economy. The cost of financial intermediation remains high and ill equipped to raise long term resources. As for physical infrastructure, majority of our population live in squalid condition. The civic facilities, poor road conditions, inefficient port services, fragile air services persist in spite of our initiation of reforms. With the benefit of hindsight, one can see that most of our earlier attempts have become apt object lessons in how-not-to do reforms. The second wave of reforms set in motion is expected to steer economy in the right direction. This new reform movement is being spearheaded by a number of paradigm shifts. In the financial sector, the government is perforce to exit from the ownership of banks and to curtail its heavy borrowing from the debt market to reap the real effects of reform exercise. In infrastructure sector, the main focus of reform process is to render cost - effective service to the final user and not to promote merely the revenue augmentation to Government.

Infrastructure sector is being so thoroughly overhauled as to take on competition. Unless competition is introduced, we cannot come out of the shell of monopoly regimes. The establishment of regulatory entities is slowly snatching the government-controlled infrastructure away from political bodies. The greatest challenge before the policy makers is to ensure that the reform agenda is carried out to its logical conclusion and in the right sequence. If carried out in its entirety, the outcome would be tremendous in financial and infrastructure sectors. The present article throws light on emerging opportunities in these sectors.

Financial Sector Reforms: Emerging opportunities in infrastructure service

The financial sector is akin to blood circulation system. The banking sector has become well - entrenched in the financial system. Yet weak public sector banks are emerging as potential threat to sound banking system. The government's decision to reduce its equity stake, introduction of VRS to downsize work force, and abolition of Banking Services Recruitment Board (BSRB) are some of the crucial steps taken in correcting the maladies in the banking sector. In addition to the process of divesting government ownership and vesting the bank management with greater autonomy, bank mergers should be given further fillip in order to develop a sound banking sector.

Regarding capital market, a greater challenge lies in catalyzing it. It is common knowledge that capital markets are best suited to financing infrastructure projects characterized by long gestation period, lower returns and greater project risks. Government's heavy borrowing to service its debt commitments, salary and subsidy burden, siphon off liquid long term debt funds, leave little for investment in this key sector. Besides, Government borrows heavily from the financial market to fund its fiscal deficit, leaving a small chunk of savings and investment pie for private entrepreneurs.

Government should curb its borrowing in order to let the financial as well as the capital market to develop. The sale proceeds resulting from the sale of public sector undertakings should be used exclusively for redeeming its debts. Some of the initiatives undertaken like imposition of progressive restrictions on government borrowing, disinvestment of public enterprise like VSNL, Air India, Indian Airlines, widening investors' base by allowing foreign investors to invest in government securities are harbingers of the evolution of robust capital and financial markets. Besides, Government should seek to exploit pension schemes in their bid to develop capital markets. The potential for capital mobilization through this route is vast. Yet only a small percentage of work force remains covered under pension plans. Apart from inadequate coverage, the existing scheme suffers from premature withdrawal on one hand and restrictive investment rules on the other. Government may institute voluntary pension schemes with low minimum contributions and thereby mobilizing vast resources. In future, the Government would play a crucial role as promoter and catalyst of capital market by tightening regulation and supervision, re-structuring tax treatment and public debt management.

Information Technology Front

This sector has the immense potential to place India on the global map. Our country is on the right path as far as IT is concerned. Government has been able to rope in a large number of players by not charging license fees for internet services. Government has allowed Internet Service Provider (ISP) to set up international gateways and permitted interconnectivity or network for data transmission. Very recently quantum bandwidth through high-speed backbones has been enhanced. Once the Convergence Bill, bringing the communication, IT and broadcasting together under one umbrella, is put in place, it is better to provide one comprehensive license facilitating the provision of integrated services.It is only then our country can tread fast in these sectors.

Power Front

As for power sector, our country merely focuses on increasing power generation, ignoring the problems involved in transmission and distribution losses. Though private participation was allowed in this sector, they are restricted to sell the entire supply to state electricity boards. As a result, private players are affected and become a shadow of the inefficient state electricity boards. A case in point of such a situation is the 'Enron crisis' where Maharastra State Electricity Board defaulted on its payment to Dahbol Power Company. In order to reap the real benefits of reform in this sector, vertically integrated power utilities should be unbundled into four elements, namely, generation, transmission, distribution and supply under private ownership. Competition should be encouraged in generation and supply elements. The remaining ones may be brought under the purview of independent regulatory entity to ensure a fair access of transmission grid to both producers and consumers. In essence, consumer could be provided options to choose efficient suppliers. Some of the States have already privatized its distribution companies and A.P, Haryana, U.P and Rajasthan are following suit. Besides, financial institutions are egging on state governments to go in for major reforms in power sector. Better results would become visible once the distribution is completely privatized.

Infrastructural facilities in Road Sector

Another area where reform initiatives are warranted is Road Sector. Provision of good network of roads is one of the major attractions for triggering industrial development country wide. Though the track record of public sector in the matter of developing road network is commendable, there appears to be significant scope for private participation in high density stretches and road maintenance and management. Once the reforms are carried out, changes would be patently evident in road maintenance and development. The recently passed Central Road Fund Act envisages setting up a Road Maintenance Fund to be created out of cess on petrol and high-speed diesel. The collections made by Government would be set apart from Government treasury and put in a dedicated road fund. The governance of the dedicated fund would be vested with a board. The board would acquire road development and maintenance services. The board would select deserving projects in terms of the pre-specified and objective criteria and with due consideration to the volume of traffic flow in a given road stretch. The Act provides for representation from road - users on the governing body and independent audit of its funds.

Most private sector investment in road sector was confined to small projects such as construction of bridges, by passes and rail overbridges. However, recent policy initiatives have accommodated big ticket private participation in this sector. Currently, improving the capacity of national high ways is on top of the agenda of road service sector. A case in point is national highway project currently under execution, which entails expansion of the existing two lane high ways into four lane for nearly 6000Kms. Involvement of private sector in this process is indeed a move in the right direction. Government has been trying, on a priority basis, alternate methods of toll collection like shadow tolling, annuities and so on, since private sector is facing problems with non - payment risk. It is fervently hoped that the successful implementation of Central Road Fund Act would pave the way for excellent road service.

Housing Sphere

The term infrastructure includes housing as well. This sector has wider ramifications touching on other sectors of the economy. Since every home creates job opportunities and triggers economic activity in housing-related sector, this sector assumes singular significance given the magnitude of shortfall of housing in our country, which is estimated to be 30 million. The Government cannot solve the problem of shortage. The private sector has to take up the major task of land acquisition, house construction and investment in infrastructure. However,the Government should create a facilitating environment by way of legal, regulatory and fiscal concessions.

Of course positive budget initiatives for housing sector, loan facilities for house building and proposed withdrawal of the Urban Land Ceiling Regulation Act are some of the measures which would give a shot in the arm of the industry. However, housing reforms will never achieve their goal of housing for all unless measures are initiated in favour of middle and low income groups. In this context, the Ninth Five Year Plan has accorded top priority to these areas. Yet some hurdles exist in this sector in the form of cumbersome bureaucratic procedures, restrictive rent control legislations and high transaction cost. These issues need to be addressed at the earliest.

Urban Infrastructure Sector

This area is neglected for years together. A large section of population do not have access to clean drinking water or civic facilities. The water scarcity is a daunting task for Government. Since the Government can not provide these facilities to the full satisfaction of urbanities, private participation in these areas is the need of the hour. Government has to restrict itself merely to policy-making. Of course private sector participation means higher user charges, increasing property taxes etc. Further, local bodies, which are currently providing these services, are dependent on State Governments which are already starved of funds. Hence they languish. They need more functional and financial autonomy. The key to the malady lies in inviting private capital and encouraging competition in this area in order to revolutionize the urban infrastructure.

Telecom Sector

The reforms hitherto introduced did not bring cognizant benefit to common man except small benefit for STD calls. The high license fees milked the operator dry. In order to realize the true fruit of reform, the integrated telecom service could be trifurcated.

- ❖ Network service comprising the actual physical infrastructure.
- ❖ Services provided over network such as basic and cellular telephony.
- ❖ Customer premises equipment such as handset-making.

Except the first, the other two, namely, network services and handset making, could be thrown open to competition by allowing free entry. The practice of grouping the services provided over network such as voice telephony, data, broadcasting, landlines, cellular, should be abandoned. The operators in these segments could be allowed entry in these segments. As regards scarce resources such as spectrum bandwidth, they could be auctioned to ensure optimum utilization. Government has moved from previous license fee regime to revenue sharing arrangement which augurs well for the telecom industry. Once the competition is hotting up, the consumers would experience the real taste of reform in this sector. Already unlimited competition in the national long-distance and basic telephony segment have brought about a reduction in STD call rates and mobile calls. We can witness even more remarkable changes in the days to come.

In conclusion, one cannot expect a miracle to happen in our economic scenario overnight. The write up has brought to the fore some of the challenges and threats associated with the reform initiatives. One need not get disappointed and disillusioned with the initial hiccups which are quite inevitable in any constructive endeavour. All our positive initiative would start yielding desirable results in the current decade in a phased manner. What is needed in the current context is unsagging and sustained efforts in the suggested direction by the powers that be.

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