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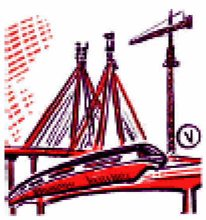
Infrastructure Calls For Novel Funding

State Bank of India chairperson Arundhati Bhattacharya's call for new ways to fund infrastructure projects makes eminent sense. Currently, assets created for 35-40 years are being funded by commercial banks with 10-year money, and this is unsustainable given the real risks of asset-liability mismatch, bunching and "front-loading" of repayments.

One way ahead could be to refinance large infra projects every five years, by take-out financing or otherwise. But this would merely be muddling along. Instead, innovation designed to factor in rising demand and supply of funding for the long-term would coagulate funds at fine rates for infra projects. Hence the vital need to shore-up Infrastructure Debt Funds, read investment vehicles sponsored by banks and NBFCs in India, in which domestic and offshore institutional investors can — especially insurance and pension funds — invest in units and bonds. Instead of locking up funds in long-gestation projects, banks would be better off limiting their exposure to working capital, 'bridge' and other short-term loan products.



In parallel, we need proactive policy for a thriving secondary market for private sector debt so as to transparently step-up infrastructure funding for long-term projects. Also required, in tandem, is reform to strengthen finances of urban local bodies, whose balance sheets can then be leveraged to float municipal bonds to fund big-ticket investments. Abroad, in mature markets, municipal bonds routinely boost infra funding. But the bottom line is that the sheer uncertainty over clearances and approvals that characterises most large infra projects must be speedily resolved with concrete norms and guidelines in place so as to obviate the need for extensive long-drawn pre-approval vetting.