Infra expectations from Budget

With the Union Budget's emphasis shifting more towards policy announcements aimed at providing growth stimuli, the expectations of the infrastructure sector have also aligned with this trend. Here are nine key desirables that are expected to turbo-charge the sector.

Outlays: In the 2021-22 Budget, a sum of ₹5.54 trillion was committed, which was a 26 per cent increase from the ₹4.39 trillion of 2020-21. With public expenditure on infrastructure being the stated pump-primer of the economy, it would be quite in order to expect a 25 per cent hike in the overall outlay, thus going up to ₹7 trillion. This, supplemented with all other funding options, should see the financing capability gear up substantially to the ₹22 trillion per annum investment target set by the National Infrastructure Pipeline. These additional streams of financing would include investments by public sector units, the National Bank for Financing Infrastructure and Development (NaBFID) beginning disbursements, states contributing their share of infra-spend, domestic and foreign private capital coming in, and proceeds from the National Monetisation Pipeline.

INFRATALK

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Operationalising NaBFID: The stated intention is to commence disbursing loans from April 2022. To achieve this, the Budget needs to clearly spell out the progress on the transfer of the initial equity capital (₹20,000 crore + ₹5,000 crore one-time grant) and on giving operational clearances to a plethora of special dispensations. These include a special 0.1 per cent sovereign guarantee charge for raising global funding, IT exemption of 10 years to providers of long-term capital, special provisions for hedging costs, etc. The first round of leveraging of debt is expected to be ₹3-4 trillion.

Municipal bonds: The Reserve Bank of India released a report on November 30, 2021, stating that the financial position of India's towns and cities "... ..have come under severe strain forcing them to cut down expenditure." It is thus important to step up activity to encourage municipal bonds. The Budget could consider a variety of support measures, such as interest subvention, tax-exemptions, credit enhancement and so on. Globally, the municipal bonds markets (called "Munis" in the US where the market size is $4 trillion) are an established and a large source of funding.

Surety bonds: One of the key stress points in the construction industry is bank guarantees (BGs). There is growing concern over the extent of cash margins being asked for, and other conditions being imposed by banks for sanctioning BGs. In many cases, existing BG limits have been fully utilised and banks are refusing to increase them, even if business growth demands it. The Insurance Regulatory and Development Authority of India has recently circulated a working paper broadly aligning with the idea of surety bonds being issued by insurance companies as a replacement for BGs. The Union Budget could send a strong signal that surety bonds will be made fully operational in 2022-23.

Reforms in public procurement: One of the most significant (yet, relatively unnoticed) announcements was the October 29, 2021, notification from the finance ministry titled "General Instructions on Procurement and Project Management." It began the process of dismantling the "L1 Raj" (lowest cost tender wins) for work contracts, providing precise instructions for timely payments and honouring of arbitration awards lost by state entities. Simply put, it ushered in a new era in public procurement practices. The Union Budget should not only take credit for this path-breaking reform but also provide the confidence that the new norms will be forcefully implemented, and announce measures to get states on board. The notification currently is restricted only to Central government procuring entities.

Hydrogen Mission: Budget 2021-22 had set aside ₹800 crore for a Hydrogen Mission. On August 15, the prime minister announced from the ramparts of the Red Fort that "Green Hydrogen is the future of the world. Today I announce the setting up of the National Hydrogen Mission. We have to make India a global hub for green hydrogen production and export." Hydrogen is to be used in industries, transport and power applications. The Union Budget should consider a slew of incentives for fast-tracking hydrogen usage through investment allowance for in-situ installations, and production-linked incentive scheme for manufacturing electrolysers.

Railway Budget: A recent Comptroller and Auditor General report on the finances of the railways points out candidly that the operating ratio (OR) does not reflect the true financial performance. It states that against the stated OR of 98 in 2019-20, it should realistically have been 114 if the actual expenditure on pension payments was taken into account. There have been other issues too in the past on booking expenditure under different heads such as safety, maintenance etc. It is heartening to note that in recent public pronouncements, the new railway minister has committed to make the OR number transparent in all respects.

GST slab for cement: Cement is an "*aam aadmi*" commodity as well as a crucial input for large-scale infrastructure build-out. The Union Budget would do well to consider whether it is desirable to continue taxing cement at the high slab rate of 28 per cent. Individuals use more than 65 per cent of cement produced, and the non-availability of input-tax credit hurts this segment the most. Decreasing the costs of public works and providing widespread relief on smaller construction works may be far more impactful in terms of economic development than the short-term revenue foregone.

SEZs and CEZs: Special Economic Zones (SEZs) have, over the years, lost their rationale. There is an expectation that a new set of policies will be announced to make them relevant again. Moreover, the concept of around four Coastal Economic Zones (CEZs) is believed to be gathering traction in political-bureaucratic circles. Four new-age CEZs could provide a globally competitive environment for value-added, labour-intensive exports.

Individually, and collectively, all the above measures are expected to have a high impact on the sector in the near term.

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