

BHARAT NIRMAN - NATIONAL CONFERENCE

PANEL DISCUSSION ON FINANCING AVENUES

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I am thankful to the CII for having been invited, together with my co-panelists, to lead the discussions in this Parallel Session on 'Financing Avenues'.

In his inaugural address the Prime Minister asked for concrete suggestions on how to actualise Bharat Nirman. Mr Rana echoed this with a focus on how the outcomes can be delivered with integrity. In his introductory remarks, the Chairman has highlighted some of the salient features of Bharat Nirman and has spoken about the financing mechanism being considered by the Government of India. He has raised a number of issues, which I hope will be touched upon by all of us in greater or lesser measure during our presentations. We in NABARD are extremely proud to have been asked to participate in the financing of Bharat Nirman, albeit as minor partners, and regard this as a privileged opportunity to participate in nation building.

Consequently, in my presentation I will endeavour to add some value to today's deliberations by bringing on table the experience gained by NABARD in financing rural infrastructure over the past decade.

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As you are aware, infrastructure is traditionally financed through the budgetary mechanism. The recent debates surrounding infrastructure financing have, however, tended to focus on the Public-Private Partnership model. Within this matrix, the financing of infrastructure by NABARD is an institutional variation, located in-between the 'classically public' and the 'public-private' mechanism. Its experiences are, therefore, of value to both Government and to the private sector, which now sees a role for itself first in partnering the building of infrastructure, gaining from it and finally promoting growth.

NABARD's experience in catalysing rural infrastructure relates to nearly all the categories included in Bharat Nirman, although in a scaled down version under the RIDF.

The Rural Infrastructure Development Fund was created in 1995-96 from out of the shortfall of commercial bank lending to priority sector and agriculture. Since then, NABARD has partnered State Governments in the creation of rural infrastructure. Initially, the mandate under the Fund was to support projects where partial investments had been made but which could not be completed because of constraints.

RIDF support during the initial years was, therefore, in the nature of a 'topping up' of sunk capital primarily in the irrigation sector. Subsequently, the scope of the Fund was extended to cover "new" irrigation projects together with sectoral expansion covering both

economic and social infrastructure. RIDF support today, is available for as many as 30 investment categories and has been accessed by 28 State Governments. As on date, cumulative sanctions aggregate around Rs.49000 crores.

The sectoral distribution of this support is roughly 45% for rural connectivity, 34% for irrigation and the balance, among others, for rural drinking water supply, power system improvement, soil conservation, flood protection, social sector projects etc.

In all, over 2.3 lac projects have been financed which have, at the ground level translated into enormous irrigation potential of 92.48 lac hectares, 1.96 lac km of roads, 341 kms of bridges, 49 lac jobs in the irrigation sector, over 34000 lac mandays of non-recurring employment in irrigation and roads and bridges alone. Roughly, half the support has been accessed by the Southern and Western states. The off-take in the Eastern and North-Eastern regions continues to be low and, therefore, continues to be an area of concern.

In the light of this, what has been NABARD's experience in financing rural infrastructure for over a decade?

- The first is that before fresh infrastructure is created there should be a state-wise survey of unutilised/ underutilised infrastructure stock. There is reason to believe that in all states 'some' and in some states 'most' infrastructure stock is

not being utilised with optimum efficiency. This needs to be corrected.

- The second is that projects sanctioned in areas with identifiable absorptive capacity quickly translate into benefit yielding projects and assets. In other cases “sanctions” happen but utilisations lags behind leading to gaps.
- The third experience is that good infrastructure tends to get created where it is not conceived as a series of stand alone projects but is part of an overall integrated Development Plan, that is, a plan which looks at broad sectoral linkages and synergises existing potential for optimum returns both economic and social.
- The fourth experience is that infrastructure at the ground level flowers best when it is projectised. In other words, quality assets are created when infrastructure financing is dovetailed with the project cycle of identification, prioritisation, appraisal, implementation, monitoring and evaluation.
- In a scenario of competing infrastructure needs, “prioritisation” of projects is critical – both across and within sectors. When investment priorities are clearly laid down and meshed with inter-infrastructural investment linkages, the possibility of optimising returns and stimulating further investment is greatly enhanced.

- The next lesson is that while building infrastructure stock, the implementing agency must always be focused on minimising the inefficiencies in the delivery mechanism - particularly inefficiencies embedded in the execution and utilisation processes. Failure to achieve an appropriate focus in this regard results either in cost or time overruns. Our experience at sectoral level, is that road projects generally do not run into such problems while irrigation projects need careful planning and monitoring throughout the project period.
  
- It is generally conceded that NABARD driven projects are well done. This is not an unintended consequence. While recognising that the primary responsibility of monitoring rests with the implementing departments of the State Government, NABARD has monitored the over 2 lac projects supported by it through the “monitoring by exception” methodology. On the one hand, we have put in position a high grade in-house monitoring mechanism including
  - Desk monitoring
  - Field monitoring
  - Review of project wise drawals
  - Review of implementation by HPC
  - Review of Project Completion Reports

We have ALSO consciously laboured to promote social monitoring of our projects by placing Project details in the

public domain. This has tended to catalyse individuals and social groups to ensure that the projects on ground conform to schedules relating to inputs, time etc. displayed, among others, at the project site. It would be desirable to factor this in Bharat Nirman.

- In regard to maintenance the lesson is that efficient utilisation of the assets created depends on their timely and appropriate maintenance. As the stock of infrastructure increases, the need for maintaining the infrastructure so created, increases exponentially. At the same time, the financial requirements for such maintenance also increase. In my view these need to be recognised and factored in appropriately.
- I am making a point of this because our experience is that the financing of maintenance - more often than not - is the first item to be dropped in the event of budgetary pressures. It is, therefore, necessary to factor this in at the planning stage itself. In this context, it is useful to remember that in some of the sub-sectors of infrastructure, depreciation is not linear and therefore, maintenance costs should not be structured in rigid frameworks. There is a need to be flexible in this regard.
- The next lesson is that in addition to being maintenance focused, the process of infrastructure creation must be informed by good governance. It is important to bear this in mind. We

must therefore, put in position, transparent processes consistent with best practices for quality control.

- Time & again our experience has shown us that user involvement in project implementation and asset management significantly enhances the chances of project success. Ideally of course, user involvement should be from the drawing board stage itself and projects should be so designed, that on completion they can be handed over to the users for operation and maintenance. It for this reason that NABARD has been persuading state governments to transfer the responsibility of Operation & Maintenance, particularly in the irrigation sector, to the users through various legislative and administrative measures.
- Lastly, despite their recognised importance, infrastructure outlays are most vulnerable to cuts in government budgets particularly during periods of adjustment and fiscal austerity. Since public finance is still a major resource for infrastructure, we need to find ways and means to mitigate the budgetary vulnerability of infrastructure finance.
- Before I close I would like to answer a criticism coming from academia. The criticism is that diverting shortfalls in lending to priority sector and agriculture to rural infrastructure takes away the resources which would otherwise have flowed to

directly productive investments in agriculture. I am no academician but as a lay banker I believe that investment in infrastructure is a pre-condition for integrated rural and agriculture development. Such investment facilitates the creation of new economic opportunities, generates additional employment and improves the delivery efficiency of related services. Evidence is available through NIRD studies that such investments also tend to reduce the vulnerability of the poor. In a country where more than 60% of the population resides in rural areas and where nearly two-thirds of the work force derives its livelihood from agriculture, the need for continuously increasing investment in rural infrastructure can hardly be over emphasised.

- In the light of this experience with RIDF what are the concerns we should address while drawing up the Bharat Nirman blue print?

Above all, the need for long term planning by State Govts. for infrastructural development supported by open and full coordination between implementing Line Departments. Second, appropriate pricing policy to meet atleast operation & maintenance costs. Third, social audit and peoples participation and involvement in planning, implementation and maintenance of projects. Fourth, presence of a strong concurrent monitoring mechanism at the State Govt. level counter balanced by an independent evaluator. Fifth, penal

provisions for withdrawal of projects after sanction or for extension in phasing and lastly, capacity building and development of professional expertise at the dealing official level at the State Govt. for all phases of the project. In short, adoption of the methodology followed by NABARD in RIDF. If for this any capacity building is required, NABARD would be privileged to lead the training initiative.

The Prime Minister has described the Bharat Nirman Programme as a time bound business plan for action in rural infrastructure for the next four years. The agenda is not new but the vision is and that 'effort' is the key. I believe that the spirit with which we dedicate ourselves to this task and the zeal with which we pursue it relentlessly will ultimately determine whether the investments in rural infrastructure proposed under the programme will unlock the growth potential of rural India. The ball, Ladies & Gentlemen is therefore in our court.