

Modi beating Indonesia's Joko Widodo in fulfilling infrastructure promises

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Modi plans to spend `70,000 crore more on roads, ports and airports this fiscal year. Photo: Indranil Bhoumik/Mint

Singapore/Mumbai: In the past year, India and Indonesia both elected new leaders on the strength of bold infrastructure promises. One has done a better job following through.

In the first two months of India's fiscal year started April 1, Prime Minister Narendra Modi had outlays of \$9.8 billion, 13.4% of the full-year budget, on items including ports and highways. Indonesia's President Joko Widodo spent \$1.2 billion on projects in the first half, less than targeted. Indian banks sold a record `24,940 crore (\$3.9 billion) of bonds tied to infrastructure in the year ended March 31. Southeast Asia's debt offerings shrank.

Modi plans to spend `70,000 crore more on roads, ports and airports this fiscal year to reverse an investment slowdown in Asia's third-largest economy. While Modi has revived tax-free bond sales and loosened curbs on long-term financing, his bid to ease land-purchase laws has stalled in parliament. Indonesia's president is even more hamstrung.

"When these two governments came to power, both said infrastructure is an important part of the program but you can't change a country overnight," Thomas Rookmaaker, the sovereign analyst for both countries at Fitch Ratings Ltd., said. "In terms of funding, it's a different picture."

Dollar Sale

In India, there's still no broad-based data to support anecdotal evidence projects have started moving, but there has been progress on making private infrastructure funding available, according to Atsi Sheth, a sovereign analyst at Moody's Investors Service in Singapore.

Royal Dutch Shell Plc's India unit is now operating 77 fuel stations in the country and its general manager said Monday regulations are becoming more conducive to business. Adani Ports & Special Economic Zone on Wednesday sold \$650 million of bonds due 2020, partly to help refill coffers for more investment.

Getting money for new projects has become easier at home too. In July last year, the Reserve Bank of India exempted bank bonds maturing in seven or more years from reserve requirements in order to boost funding for infrastructure and affordable housing. Regulators also allowed seven state-owned companies to sell as much as `40,000 crore of tax-free bonds to generate funds for the same purpose.

'Right Balance'

Outstanding bank loans to infrastructure projects in India totaled 9.3 trillion rupees as of 29 May, up 8.6% from the previous year, RBI data show. Syndicated bank loan volumes however are down, falling 8% in the second quarter as some companies put expansion plans on hold as they await growth-boosting legal changes.

Indonesia could learn some lessons.

Southeast Asia's biggest economy must "find the right balance between the need to continue to rely on bank loans and concessionary loans, potentially including the Asian Infrastructure Investment Bank, and the need to develop innovative market-based instruments, like infrastructure bonds," Jean-Charles Sambor, the Asia-Pacific director of the Institute of International Finance, said. "India has been on the forefront on this innovation."

In his first year in office, Modi has also reduced capital requirements for private airport developers, and allowed companies to own the power plants they build to make it easier to get loans.

Some developments have run into red tape. Measures to ease land acquisition rules and overhaul the electricity sector are being held up by political wrangling in Delhi.

More Efficient

In Jakarta, Jokowi is having similar problems getting land for projects and stamping out bureaucracy. On paper at least, 290.3 trillion rupiah (\$21.6 billion) has been assigned for infrastructure in the 2015 budget, the most in five years.

Rather than bonds and bank loans, most of Jokowi's funding is expected to come from budget money freed up after he cut fuel subsidies, and from multilateral lenders, according to Kyran Curry, a sovereign analyst at Standard & Poor's.

In May, Indonesia took an \$11 billion loan from the World Bank, one of the institution's largest ever. It's also enlisted state-owned entities to spend some of their surplus cash.

"In Indonesia, execution is being delayed because investment is being channeled through government-related entities," Singapore-based Curry said. "Private capital involvement does tend to be more efficient."

ArthVeda Fund Management Pvt is among three India-focused infrastructure funds that sought to raise \$962 million in 2014, a three-year high, according to industry researcher Preqin. Five private equity firms including Zephyr Management LP and Mayfield Fund raised \$478 million in 2014 targeting Indian projects, versus \$249 million in 2013, its data shows.

"There's a quantum leap in the past year in terms of policy support for infrastructure financing," said Vikas Gupta, the Mumbai-based head of investment research at ArthVeda. "A lot of mega projects are being cleared for takeoff. What's still lacking is large-scale venture funds from investors with a long-term holding horizon." **Bloomberg**