Stimulated economy, sluggish investments

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Sumit Mazumder

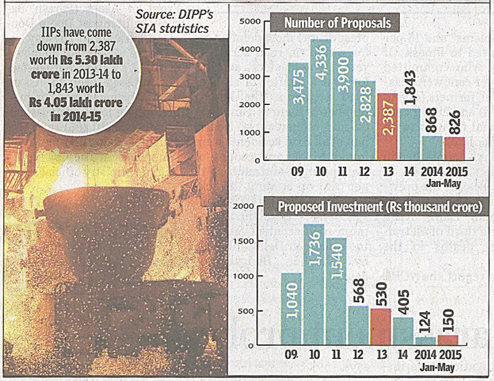
While there are signs that economic growth is reviving, the concern is that investments are not as forthcoming as expected. During the last year or so, the government has put in place a comprehensive set of measures to restore investor sentiments, ranging across the tax regime, ease of doing business, Foreign Direct Investment limits, and administrative and environmental clearances. A number of large-scale initiatives have been introduced to act as magnets for investments, including Make in India, the Smart City mission, and Clean Energy. Interest rates, too, are on the downtrend with strong expectations of further rate cuts, and the macroeconomic environment has turned benign, despite moderation in global growth and trade.

According to CII's Investment Tracker for May 2015, business confidence stands at the highest levels in the last three years, buoyed by proactive reforms and positive macroeconomic scenario. There has been visibly strong improvement in the project pipeline — new project announcements almost doubled in 2014-15 as compared to the previous year and the value of projects completed went up from Rs 3.28 lakh crore to Rs 3.56 lakh crore. At the same time, the value of stalled projects came down from Rs 3.63 lakh crore to Rs 2.44 lakh crore.

As a measure of global confidence in India, FDI inflows went up from $25.3 billion to $31.9 billion in 2014-15 and Foreign Institutional Investors (FIIs) put in $40.9 billion into Indian companies as compared to $5 billion in 2013-14. The investment data is further substantiated by definitive signs of improvement in capital goods production.

SHARP DROP IN PROPOSALS

Business confidence stands at the highest levels in the last 3 years. But it is worrying that industrial investment proposals (IIPs) have come down



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Why isn't investment picking up?

On the other hand, it is worrying that industrial investment proposals actually filed with the Department of Industrial Policy and Promotion have come down from 2,387 worth Rs 5.30 lakh crore to 1,843 valued at Rs 4.05 lakh crore. This indicates that while intentions to invest are strong, investors are still facing challenges while implementing projects.

There are several reasons for slow investment pick-up. Before the global financial crisis, companies had built up high production capacities in anticipation of continued demand. However, demand remains muted in the country following three years of high inflation. Additionally, delays in land acquisition and environmental clearances have led to a bloated pipeline of stranded and delayed projects. In turn, this has resulted in stressed bank assets so that banks are inhibited from undertaking additional loan burden for new projects.

Further, the high interest rates have been a big deterrent to new investments as projects are rendered unviable. Low profitability of corporates also reduces available resources. The elevated level of stalled projects has meant subdued demand down the value chain. A still-vulnerable global economic environment has not contributed to the overall investment scenario in India, especially as exports are contracting.

Policy action for reviving investments, growth and employment must be continued at an accelerated pace. To begin with, there is need to drastically reduce interest rates at one go by 1.5 percentage points. This would both incentivise consumers to purchase durables and make project investments more attractive.

Infrastructure projects require continued attention and Prime Minister Narendra Modi's monthly interaction under Pragati would help speed up infrastructure construction. Budget funds allocated for infrastructure need to be speedily implemented, including for programmes such as Smart Cities and Digital India.

A National Asset Management Company may be considered to take non-performing assets off banks' balance sheets, which would unlock lending for investments. The financial sector should shift from a bank-dominated system to a diversified regime with multiple financing options, particularly for long-term funding.

The 4 R's — Regulation, Risk Allocation, Renegotiation and Resourcing — need to be addressed to revive projects. Given that 101 projects worth Rs. 25,399 crore are stuck in disputes with the National Highways Authority of India, a stronger dispute resolution mechanism in the infrastructure sector would help unblock funds.

On ease of doing business, there is need to shift from a sequential to a simultaneous approval system. Low-risk industries may be exempted from certain clearances, while provision of utilities to new factories should be streamlined. Certain rules and sections of the new Companies Act impose additional burdens and need to be reviewed carefully. The NITI Aayog could be designated as the coordination centre for central ministries and States on administrative procedures.

Special attention is required for credit access for small and medium enterprises (SMEs), and we recommend that 15 per cent of priority sector lending should be earmarked for SMEs. Ease of doing business needs to be tackled for SMEs through single windows, self-certifications and e-governance.

Regarding manufacturing, certain focus industries in labour-intensive and advanced sectors should be championed, including automotives, defence, and textiles. In particular, incentives for Research and Development and Information, Communication Technology and Electronics manufacturing would help reduce imports. A 'Make in India Technology Venture' can be set up as a special purpose vehicle under public-private partnership to invest Rs 1 lakh crore in building a knowledge economy. The Digital India vision requires simplification of procurement process and a joint government-industry task force to address challenges. Start-ups should be supported through a suitable scheme.The government has taken many positive steps for a progressive tax policy. Dispute resolution mechanisms, arbitration and conciliation can further help in efficient and time-bound clearance of funds in dispute.

Corporate India is greatly enthused by the rapid and proactive reform initiatives underway. We have no doubt that as these gain traction, the India growth story would continue to gather pace.

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