

# Infrastructure Development and Financial Services: A Case Study on IL&FS

Ms. Neha Pandey, Student M.com 2<sup>nd</sup> Year, St. Ann's College for Women, Mehdipatnam, India.

**ABSTRACT** - The institutions which are established to meet the requirements of finances for infrastructure development are Development Financial Institutions. Infrastructure Development and Financial Services is a risky business, but wants to meet the financial needs of an economy in a developing country that lacks a full range of markets and institutes in financial sectors. So the main aim of these institutions is to provide finance to the economic agents of a country.

This paper studies about the concept of Infrastructure Development and Financial Services with regard to the case of IL&FS. The purpose of this study is to understand how these institutions help the economy, by financing them for infrastructure development. Also this paper aims at tracing the solutions for the crisis of IL&FS.

**KEYWORDS:** Crisis, Development Financial Institutions, Developing Country, Economy, Financial Services, Infrastructure Development, IL&FS, Solutions.

## I. INTRODUCTION

The leading factor affecting the performance of Indian Economy is the Infrastructure sector. This sector aims at creating adequate infrastructure in a time bound situation and enjoys the focus of the government; also it is majorly responsible for India's overall development. This sector includes areas which are the basic needs in an economy like: bridges, dams, roads. In World Bank's Logistics Performance Index India ranked at 44<sup>th</sup> position last year. In the terms of growth of existing financial firms and new entries of financial firms the diversified financial sector of India is undergoing an expansion at great rate. In infrastructure development and financial services the completion of project successfully depends on visioning, documentation, development and finance, to management, technology and execution. Through the financial services a financial service firm involves in developing innovative, layered and competitive financial solutions for infrastructure development.

### OBJECTIVES

1. The purpose of this study is to understand the role of infrastructure development and financial services institutions in helping the economy, by financing them for infrastructure development of a country.
2. This paper aims at tracing the solutions for the crisis of IL&FS

### SCOPE

1. The scope of this research is made with regard to the crisis of IL&FS.
2. This research includes the information regarding IL&FS crisis till February 2019.

3. The research includes the opinions of other researches regarding IL&FS crisis and infrastructure development and financial services sector.

### LIMITATIONS

1. The research is restricted to the case of IL&FS.
2. This research is based purely on the secondary data. So evaluating the existing data was not possible.

## II. HISTORY

During Great Depression of 1930s after the Second World War the concept of developing banking arose. A worldwide institution for the development and reconstruction of war-affected people was established as IBRD in 1945. The first ever government sponsored Development Financial Institution was made in Netherlands in the year 1822. Over the period 1848-1852 after the establishment of DFIs there was a significant development in long-term financing, in France. In Asia, the rapid industrialization of Japan occurred after establishment of Japan Development Bank and other term leading institutions. The success of these institutions drove India towards creating DFIs for raising the investment rates. India at the time of independence in 1947 had under-developed capital market and there was a demand for new capital. The long-term industrial finance was not provided by the commercial banks. The development banks in India were set up under different parliament acts:

1. Industrial Finance Corporation of India (IFCI Ltd), 1948
2. Industrial Credit and Investment Corporation of India (ICICI), 1956
3. Industrial Development Bank of India' (IDBI) 1964
4. Industrial Investment Bank of India Ltd (1971 and 1997).

5. Small Industries Development Bank of India SIDBI (1990).

6. Technology Development Financial Corporation of India

### **ROLE OF INFRASTRUCTURE DEVELOPMENT AND FINANCIAL SERVICES IN DEVELOPMENT OF A COUNTRY'S ECONOMY**

#### **1. It helps in increasing agricultural production and productivity**

Infrastructure investment made in a region helps to increase that regions competitive advantage. Which results in the increase of production of agricultural products also increases its productivity. And that's why agricultural infrastructure needs adequate amount of investment.

#### **2. Industrial growth accelerates**

The productivity of industries is increased by good infrastructure. So, adequate infrastructure would help in rapid growth of industrial development. This also helps in increasing the competitiveness of industrial sector.

#### **3. The flow of foreign capital increases**

In the era of globalization attracting foreign capital becomes easier by having world class infrastructure. There will be flow of FDIs and portfolio investments in those countries where there are adequate infrastructure facilities available.

#### **4. Generation of employment opportunities**

Mobility, productivity, and efficiency of labour is improved. And infrastructure is the foundation for investments, development of agriculture and industry which creates employment opportunities.

#### **5. Contribution to the development of tourism**

Infrastructure development is need of the hour in tourism industry; many tourists' spots remain unnoticed due to lack of adequate infrastructure development. It is needed to notice and develop this industry, as it is major source of revenue.

### **III. IL & FS CRISIS**

IL&FS was founded by M.J.Pherwani in the year 1987 which was funded by U TI, Central Bank of India, and HUDCO. IL&FS mainly aimed to fund the infrastructure development of the country because at that time IDBI and ICICI existed but aimed at corporate projects instead of infrastructure development. IL&FS is a public private partnership. The company's shareholders include LIC and SBI. It has around 169 subsidiaries.

The company does not have enough cash and there are delays in approvals and land acquisitions also it has incurred unexpected costs for its projects like ports and roads. The debt of IL&FS has become more than ₹90,000 crore. The IL&FS fallout has done a great damage to the

financial sector of our country, which in turn affected the stock markets also.

#### **Resolving the IL&FS crisis:**

1. Care Ratings suggests that the company should sell its assets and should alliance with other companies on time.
2. According to Bloomberg's Andy Mukherjee, LIC should help out IL&FS before they are doomed.

#### **Government's initiatives for infrastructure development and financing sector:**

According to the Union Budget 2018-19:

1. Infrastructure sector to be funded Rs 5.97 lakh crore (US\$ 92.22 billion).
2. Railways would be funded Rs 1.48 trillion (US\$ 22.86 billion).
3. Rs 16,000 crore (US\$2.47 billion) to be given for Sahaj Bijli Har Ghar Yojana (Saubhagya) scheme. The aim of this scheme is to provide electricity all over nation.
4. Rs 4,200 crore (US\$ 648.75 billion) towards energy projects like Green Energy Corridor Project.
5. Rs 10,000 crore (US\$ 1.55 billion) for telecom sector.
6. Rs 2.05 lakh crore (US\$ 31.81 billion) of investment towards smart cities mission.

### **IV. CONCLUSION**

The infrastructure development and financial services sector plays an important role in development of world class infrastructure of a country. This sector helps the country in many ways but by seeing the IL&FS crisis (one of the India's largest infrastructure financing companies) we can know that this sector plays a major in a country's economy, this sector could make it or break it i.e.; if this sector is functioning smoothly a country could boom, and if it does not function properly a country could doom.

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