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LACK OF TECHNICAL EVALUATION

THERE ARE SEVERAL FACTORS ailing corporate India. From the stakeholders' viewpoint, it boils down to ease of doing business (EODB); whether it is regulations, compliances, permission or a level playing field.

From a corporate point of view, the success or failure of a business will largely depend on its corporate governance. Corporate governance doesn't mean the composition of board and how decisions are arrived at, but how companies identify projects, evaluate them technically, undertake feasibility studies and calculate the payback period. Otherwise how do you explain big corporate houses taking up and committing mega investments in infrastructure projects without even land acquisition in place?

Similar is the case with power generation, steel production and telecom sectors. In all these segments, we find large non-performing assets. Because there was little estimation about what will be the future demand; how much capacity is being generated; is it in sync with business life cycles; its impact on return on equity; and little consideration for backward and forward supply chain integration. Now we are saddled with many unviable projects with over capacity.

The corporate world will have to take responsibility for selection of projects and proper feasibility studies. They will have to own up the success or failure of their businesses, and then alone can there be an exit route for genuine business risks.

This evaluation should also take place at the financial institutions level. A corporate house cannot take up a project simply because finance is available. Similarly, banks cannot finance a project because a big name is associated with it or there is a lead banker, as is done in consortium finance.

At the government's level, there is a lack of developmental financial institutions. This gap cannot be filled by commercial banks alone. Commercial banks are lending merely on the basis of financial feasibility studies; relying on outside technical reports. Term lending should not be done without technical evaluation by experts within the institutions. Generally, developmental financial institutions have in built capacity for technical evaluation. At present, we lack such institutions. Earlier, we had Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), etc. Over time such institutions have been



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dismantled or converted into commercial banks.

Alongwith the removal of bottlenecks in factors of production such as land, labour and capital in progress, the government has to establish developmental financial institutions and the corporate world has to improve its corporate governance at the project level, evaluating them thoroughly. Only then the true benefit of such important government initiatives such as integrated cluster development for global supply chain, and defense corridors incorporating domestic requirements for captive demand, will bring desired results. ■

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