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<u>Session 2: Infrastructure finance and public-private partnerships</u>

Presentation

Infrastructure Finance and Public- Private Partnerships

by

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Infrastructure Finance and Public- Private Partnerships

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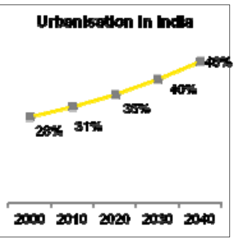
Building a better working world

Over the coming years, need for infrastructure is likely to rise further due to certain macro trends…

Increased urbanization

- Shift from agrarian to service-led economy with industrial hubs.
- Increase in demand for housing and urban infrastructure
- Services to spur commercial real estate growth
- Increased demand for power leading to ramp up of generation and T&D capacity
- India's urbanization will be ~45% by 2040.

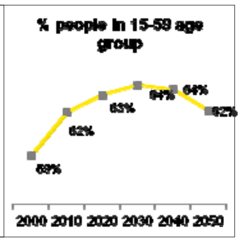


Need for connectivity – Electricity, roads, telecom

- Push for rural electrification through grid or off-grid alternatives
- Focus on last mile connectivity
- Use of telecom to improve public services delivery and financial connectivity
- Improvement in quality of state highways – 2nd wave of road development
- Use of renewable energy sources to power villages
- Improvements in port and ICD connectivity
- Push to increase rural tele-density

…which will also shape the economic, social and demographic picture of India

Collaborative federalism	► Shift in Center-State relations towards efficient disbursement of resources ► Greater role of states in infrastructure creation ► Move towards greater self governance ► Policy hurdles crossed through local initiatives, as evident in leading states ► Increase in local governance to strengthen municipal bodies and increase focus on urban infrastructure development.
Demographic dividend	► Favorable dependency ratio till 2035-40 ► Female workforce participation rates to increase ► Job creation through manufacturing and service growth – increased demand for infrastructure ► Construction sector spurred by housing demand to be a big employment generator



The policy environment is changing in favor of private participation

Key Policy Measures

Central Government

- 100% FDI is permitted in shipping & port projects
- 100% income tax exemption is available for a period of 10 years
- GoI can provide a capital grant of up to 40% to enhance the viability of the project
- IIFC has been established to provide long term funding for projects
- Concession period of up to 30 years has been allowed
- New Model Concession Agreement has been prepared to identify and specify conditions of risk sharing

State Government

- State governments are making necessary changes:
- Infrastructure Development Acts have been constituted in few states and rest are following
- State maritime boards have been set up in many states
- Some states have even outlined procedures for swiss challenge for infrastructure concessions
- Non-Major Ports are free to fix their own tariffs with approval from state governments
- State government sometimes offer longer concession periods of upto 50 years

Sound governance and institutional framework for an enabling environment

Regulatory and Policy Regime	▶ Draft National PPP policy under consideration ▶ Independent Regulator in most sectors: AERA, TAMP, TRAI, CERC, etc. ▶ Planning Commission provides independent appraisal
Capacity Building	▶ There are approx. 25 PPP cells at sub-national and national government departments and procuring agencies
Standards Bidding Docs	▶ Standard transaction documents for each sector have been prepared and used by the respective procuring agencies

Recent developments have brought in change - pre determined tariffs, discussion on a new road regulator

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Sound governance and institutional framework for an enabling environment

Approval Process and Mechanism	▶ Ministry of environment & forest for environmental approvals ▶ Cabinet Committee on Economic Affairs (CCEA) has set up PPP Appraisal Committee (PPPAC) to appraise projects to be implemented on PPP. ▶ Ministry of Finance is involved in examining the concession agreements from the financial perspective, guarantees to be extended, and assesses risk allocation from the investment and banking perspective ▶ Ministry of Law scrutinizes concession agreements from legal perspective
Auditing and F&C mechanism	▶ Powerful and independent public auditor

Decision making is slow due to risk averseness of the project proponents

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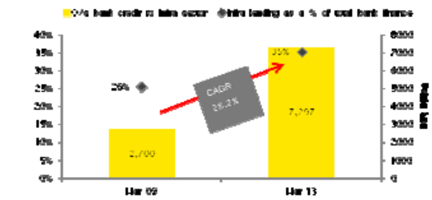
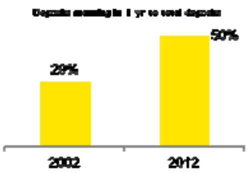
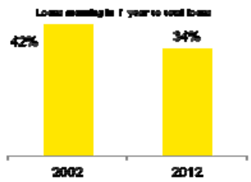
So what are the investors in India saying…..Provide Long term funds



Source: Indian Infrastructure, Volume 16, No. 5, December 2013





Source: "Passing rate cut benefits: Banks face ALM hurdle," The Indian Express, 30 March 2013

Key Issues in PPP Financing

High exposure of Indian commercial banks to the Infrastructure sector

[Exposure to Infrastructure sector grew at 28% CAGR from 26% in March 2009 to 35% in March 2013]

Increasing Asset Liability Mismatch problem

Other Issues

- Underdeveloped Bond Market
- Discouraging Market Conditions resulting in reduced PE and FDI inflows
- Low capacity for project appraisal of public sector banks

Tackling the structural issues in infrastructure finance

- Need for a sustained effort at developing bond market
- Need to ramp up the capacities of FIs to increase long term infra funding
- Substantial credit growth to come from public sector banks – interventions are required to ramp up their project appraisal capacities
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So what are the investors in India saying….. Create robust shelf of projects

- Lack of viable and bankable projects
  - Poor project preparation and no consultation with the lenders during project preparation
- Robust Due diligence
  - Conduct a robust and high quality technical and commercial due diligence
  - Creation of an online data base for PPP projects- sharing of all data: demand and cost assumptions, technical and financial studies
- Adequate project preparation
  - Secure the required approvals and land for the project before bidding
- More sector programs
  - There is no sectoral depth – road sector dominate the PPPs
  - create a shelf of projects with approval mechanism and bidding documents.

So what are the investors in India saying….. Allocate Risks equitably

- Lenders do not want to have control over the construction and want the public sector to share construction risk.
- Balanced risk allocation and regulatory design
  - Balance efficiency incentives, risk mitigation to ensure successful