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How IIFCL Became The Flagship Infrastructure Financing Institution in South Asia?

Evolution of ADB's Involvement in Infrastructure Financing in India — from PSIF (PSP) to IIPFFs (PPP)

**6th PRC-ADB KNOWLEDGE SHARING PLATFORM:
DEEPENING PUBLIC-PRIVATE PARTNERSHIPS**

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Asian Development Bank**



Children at a PPP project site in Gujarat, India



Definition of Public-Private Partnership

(Source: ADB Public-Private Partnership Handbook)

- **Principle of PPP- Risk Allocation:** The structure of the PPP should be designed to allocate risks to the entities/partners that are best able to manage the risks and thus minimize costs while improving efficiency and performance.
- **Public-Private Partnership (PPP):** While engaging the private sector, PPP presents a framework that acknowledge and structure the role for government in ensuring that social obligations are met, and successful sector reforms and public investments are achieved.
- **Private-Sector Participation (PSP):** While engaging the private sector, PSP contracts transfer obligations to the private sector rather than emphasizing the opportunity for partnership.

ADB Strategy 2020: Emphasis on PPP

ADB Strategy 2020 on PPP:

Under Strategy 2020, ADB's infrastructure operations will emphasize PPPs and PSP. ADB will promote a larger role for the private sector in financing infrastructure, either as a project sponsor or as an institutional bond or equity investor, which will augment the supply of capital for infrastructure in developing the region. However, improvements in a country's domestic debt market will be indispensable for increasing the flow of long-term funds into infrastructure development.

PPP in South Asia:

Public sector has been the main provider of basic infrastructure in South Asia. However, public financing will not alone be able to generate the needed levels of investments to improve infrastructure facilities. Recognizing the significance of the role of private sector in infrastructure development, Governments of South Asia have placed PPPs and PSP at the center of their infrastructure development.

Evolution of Public-Private Partnership in India*

(*Sources: ADB, PPP India Database as of 31 March 2014, and Ernst &Yong)

	Phase I: 19th century and early 20th century	Phase II: 1991–2006	Phase III: After 2006
India	<p>Few notable PPPs could be found as early as 19th century:</p> <ul style="list-style-type: none"> • The Great Indian Peninsular Railway Company (1853) • The Bombay Tramway Company's tramway services in Mumbai (1874) • PPP models were there in power generation and distribution in Mumbai and Kolkata in the early 20th century 	<ul style="list-style-type: none"> • Only 86 PPP projects were awarded till 2004 • Most of the projects were in bridges and roads sector in the form of PSP • Large-scale private financing has been limited to Vishakapatnam water supply proejct and Tirupur water and wastewater project in Tamil Nadu. 	<ul style="list-style-type: none"> • Increasing acceptance of PPP model due to favorable policy reforms and innovative PPP structures • Growth in PPP from 150 projects in November, 2006 to 758 projects in 2011, and 1339 PPP projects in March 2014
ADB		<p>PSP</p> <ul style="list-style-type: none"> • PSIF I • PSIF II 	<p>PPP</p> <ul style="list-style-type: none"> • IIPFF I • IIPFF II • AIIFI

ADB = Asian Development Bank, AIIFI = Accelerating Infrastructure Investment Facility in India, IIPFF = India Infrastructure Project Financing Facility, PPP = public-private partnership, PSIF = Private Sector Infrastructure Facility, PSP = Private Sector Participation

Evolution of Development Banks for Infrastructure Financing

Lessons learned

FINANCIAL SECTOR REFORM

- ICICI/IDBI (Industrial Bank to Universal Bank)
- Privatization of IDFC/IL&FS

GOI's Initiatives

Establishment of IIFCL

Sub-prime Mortgage Crisis

FINANCIAL INSTITUTIONS

BANKS

Financial Institutions: IDFC/IL&FS/IFCL
Banks: ICICI/IDBI

1997

1998

1999/2000

2003-2005

Jan 2006

2007

2008

2009

2013

U. S. Sanction in India
(May 1998)

PSIF II
(\$300 million)

PPP Trends in India

India Infrastructure
Project Financing
Facility (IIPFF)
(\$500 million)

India Infrastructure
Project Financing
Facility II (IIPFF II)
(\$700 million)

Accelerating
Infrastructure
Investment Facility in
India
(\$700 million)

Private Sector
Infrastructure Facility
(PSIF) for Private
Sector Participation
(PSP)
(\$200 million)

Constraints with
PSP

7 PPP TAs: Mainstreaming PPPS

PPP Process Flow

Framework for Developing Infrastructure through PPP and PSP

Performance Charts (IIPFF I & II)

Photos of PPP subprojects

Constraints with PSP Participation

- *What is inhibiting the private sector from making investments in infrastructure and what can be done to overcome those inhibitions?*
 - High Risk-High Return vs High Risk-low or negative return?
- *Why is there a shortage of bankable projects?*
 - Lack of enabling environment, lack of experience, lack of capacity etc.
 - IDBI withdrew from the facility in November 2003 due to paucity of bankable sub-projects from the selected states.



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IDBI all set to become India's largest bank

(source: SiliconIndia, Tuesday, 31 August 2004)

NEW DELHI: The Ministry of Finance (MoF) is considering a proposal to merge two infrastructure-financing institutions –IL&FS and IDFC –with the IDBI.

This merger is expected to transform IDBI into a mega-financial institution –with one arm doing commercial banking, the size of which could be comparable to that of State Bank of India (SBI) and the other arm playing the role of a developmental financing institution, similar to what it has been doing since its inception. The main focus of the institution would continue to be long-term funding.

These two institutions would be the third and fourth institutions to be merged with IDBI –if the formalities go through in due course. This would precede the merger of IFCI with IDBI, as the valuation of the assets of IFCI is expected to take time.

The merger of IL&FS and IDFC with IDBI would remove any duplication in infrastructure financing and will create one big entity for the same purpose. It would add to the strength of IDBI as a bank, as the scope for fee-based activities would rise, with IL&FS already into infrastructure, particularly roads and bridges.

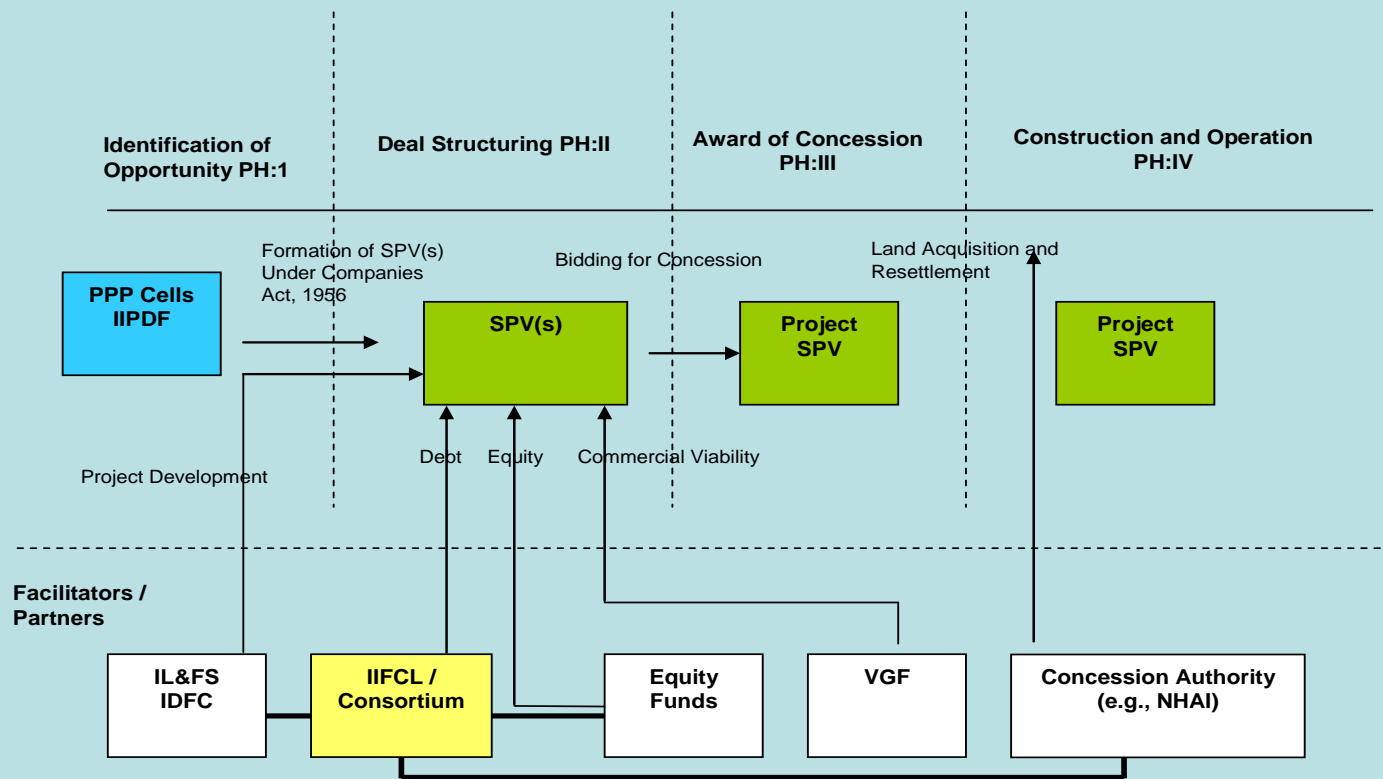
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Government Initiatives on PPPs

- Establishing a PPP cell in MoF (Department of Economic Affairs) for coordination of PPP mainstreaming
- Institutionalizing PPP cells in selected states and central line ministries for identification of PPP opportunities
- Establishing India Infrastructure Project Development Fund for financing PPP project preparation activities
- Establishing the IIFCL for facilitating access to long-term funds (with tenor of no less than 10yrs) for infrastructure development
- Launching the Viability Gap Fund (up to 40% of total project cost)
- Creating Model Concession Agreements (MCA) in priority sectors

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Process Flow of Developing and Operationalizing PPP Subprojects



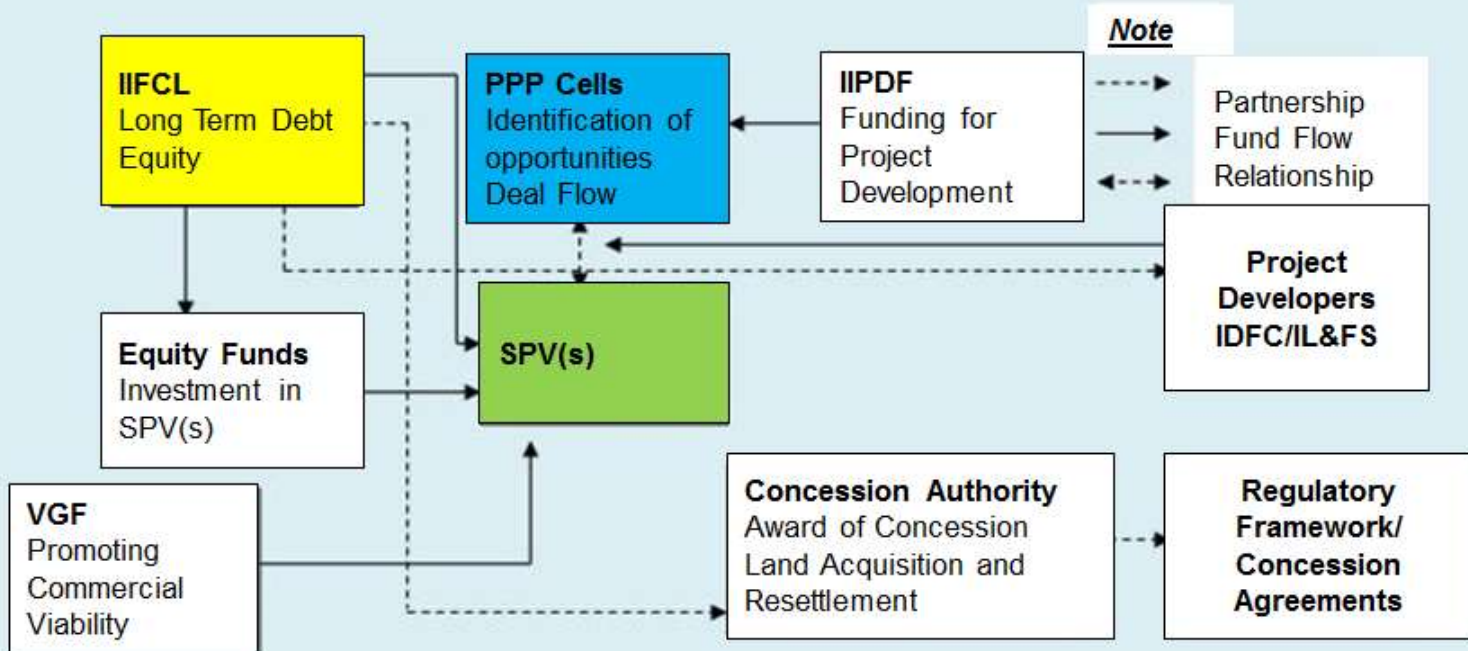
IDFC= Infrastructure Development Finance Company, IIFCL = India Infrastructure Finance Company Limited, IIPDF = India Infrastructure Project Development Facility, IL&FS = Infrastructure Leasing and Financial Services, NHAI = National Highway Authority of India, PH = phase, PPP = public private partnership, SPV = special purpose vehicle, VGF = viability gap funding.

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ADB

Framework for Developing Infrastructure through PPP and PSP



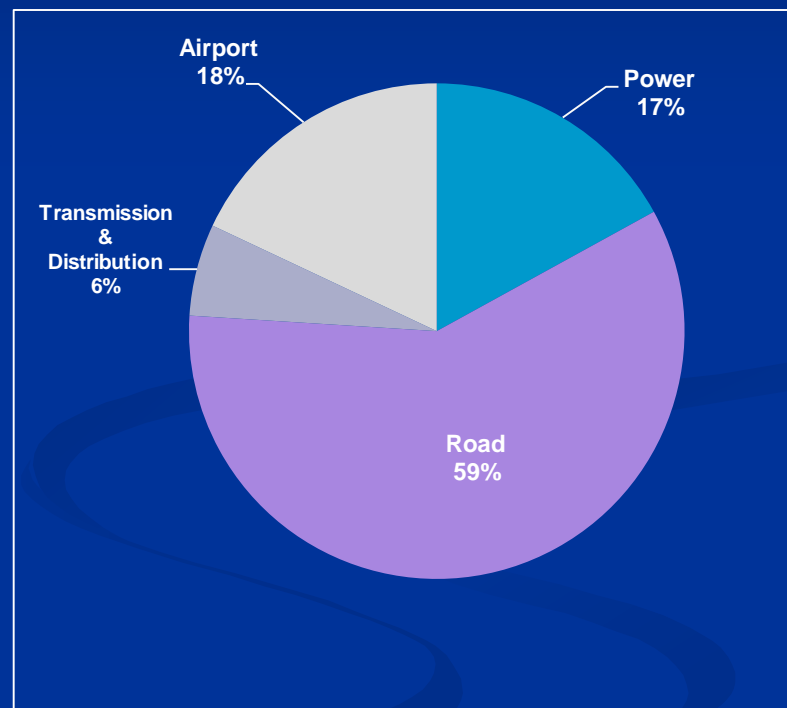
IDFC = Infrastructure Development Finance Corporation, IIFCL = India Infrastructure Finance Company Limited, IL&FS = Infrastructure Leasing and Financial Services Limited, IIPDF = India Infrastructure Project Development Facility, PPP = public-private partnership, SPV = special purpose vehicle, VGF = viability gap funding.

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Performance Chart

PPP Subprojects Approved and Disbursed under IIPFFs and AIIFI

Sector	Total Project Cost (Rs, million)	Total Project Cost (USD, million) As of 31 Oct 2014	%
Airport	176,358	2,876	18%
Power	170,240	2,776	17%
Road	570,531	9,303	59%
Transmission & Distribution	58,830	959	6%
Total	975,959	15,914	100%



Performance Chart

IIPFF I and IIPFF II Disbursement (as of 30 September 2014)

Facility	Tranche (Date of Approval)	Tranche Amount	Disbursement (Date of completion)
IIPFF I	Tranche 1 (20 Dec 2007)	\$300 million	Fully Disbursed (15 Jan 2010)
	Tranche 2 (24 Feb 2009)	\$200 million	Fully Disbursed (26 Aug 2011)
Subtotal	30 PPP Projects	\$500 million	Fully Disbursed (26 Aug 2011)
IIPFF II	Tranche 1 (27 Nov 2009)	\$210 million	Fully Disbursed (14 Sept 2011)
	Tranche 2 (7 Dec 2010)	\$250 million	Fully Disbursed (23 Oct 2012)
	Tranche 3 (1 Dec 2011)	\$240 million	Fully Disbursed (14 May 2014)
Subtotal	20 PPP Projects	\$700 million	Fully Disbursed (14 May 2014)
TOTAL	50 PPP Projects	\$1.2 billion	*Fund mobilization ratio > 12 times


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Road Sector

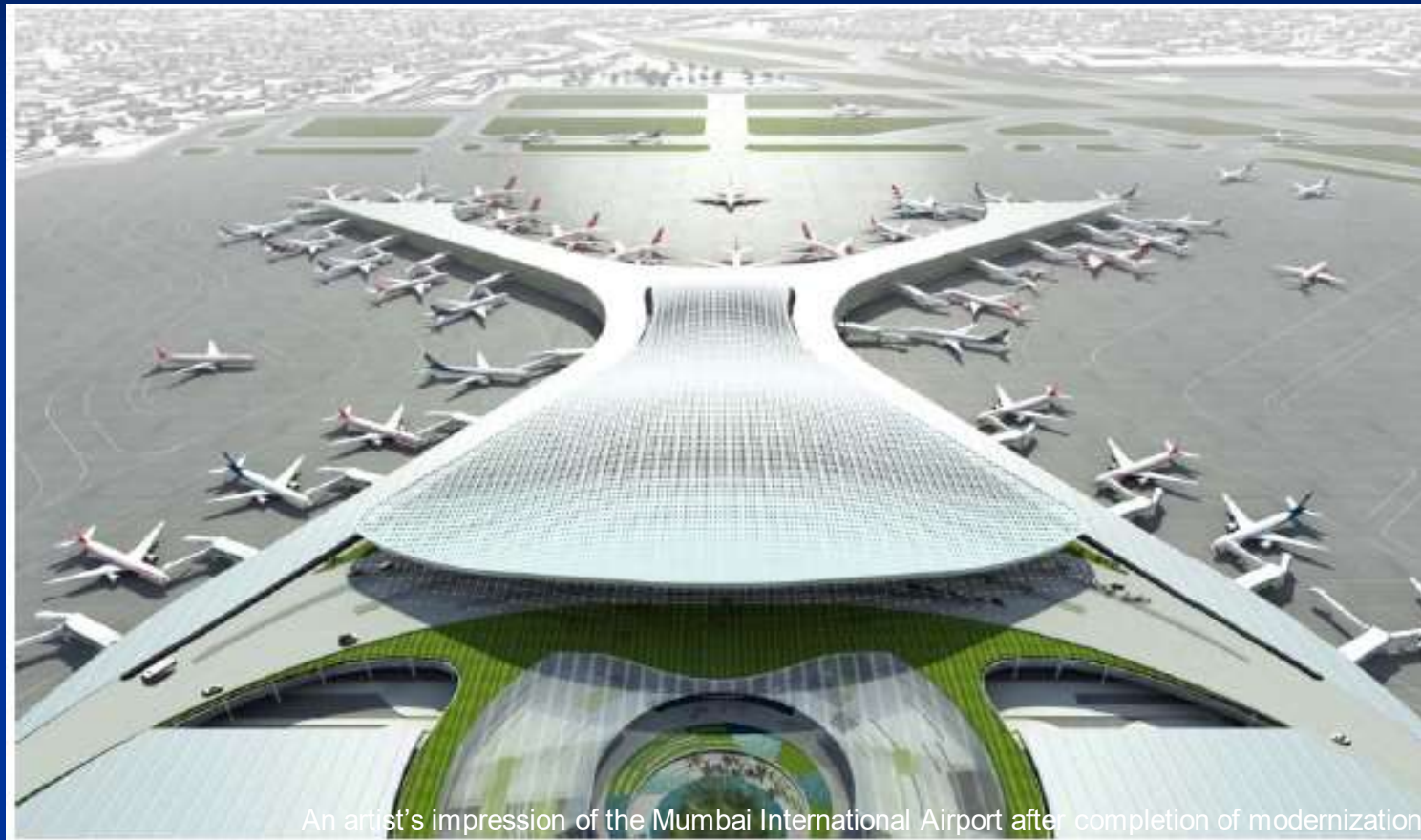


Delhi International Airport Construction Site

Aerial View, Terminal 3. Delhi International Airport



Aerial View, Mumbai International Airport



An artist's impression of the Mumbai International Airport after completion of modernization



Power Project in Gujarat

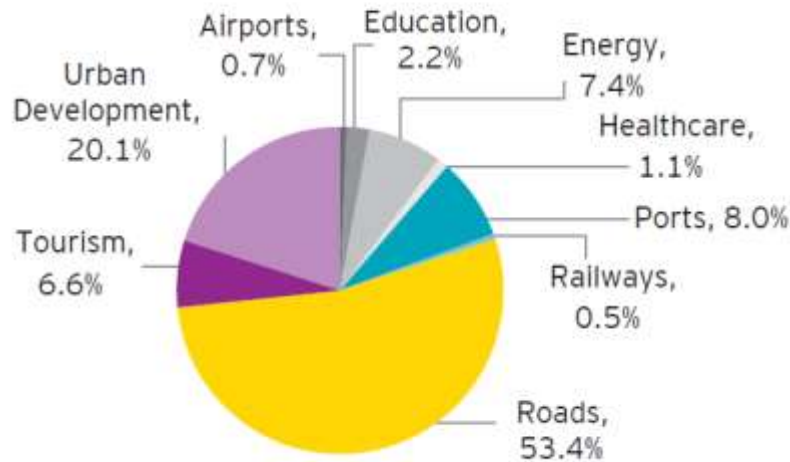


Power Project in Gujarat

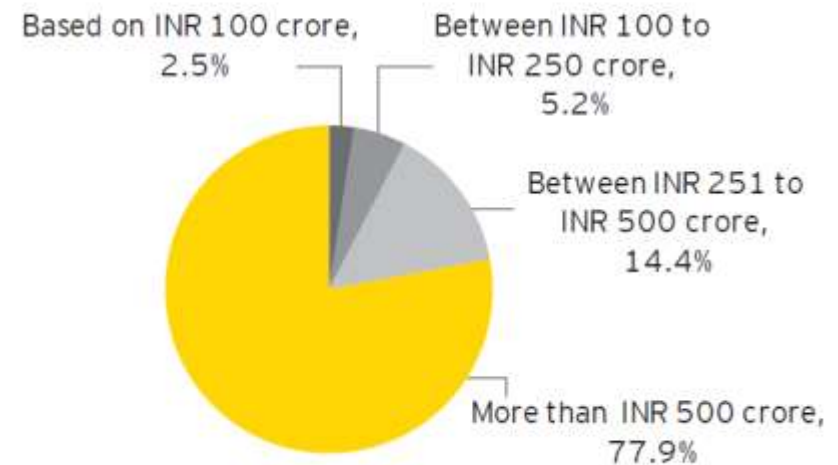
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PPP Trends in India

PPP projects in India by sector
(Total number of projects: 758)*



PPP projects by value of contracts
(Total value of contracts: INR3,833 billion)*



Source: Ernst and Young 2012

■ Growing number of PPP infrastructure projects

- From 66 projects between 1995-2001 to over 150 between 2002-2006, and to 758 projects in 2011. As of 31 March 2014, India has a list of 1339 PPP projects.
- Growth was mainly in the transport and urban infrastructure projects.

PPP Trends in India

■ Rising Debt-Equity Ratio

- Increased comfort level of commercial banks in financing PPP projects
- Concession terms encourage use of debt over equity

■ PPP Financing

■ *Debt Financing*

- 70 % of senior debt provided by commercial banks (80% of this by public sector banks)
- Limited use of subordinated debt (mostly used in the road sector)
- Higher gearing for projects with viability gap funds and negative grants
- Fall in average spreads on debt of PPP projects due to financial markets' growing acceptance and understanding of PPPs
- Higher tenor and shorter reset periods of debt

PPP Trends in India

■ PPP Financing

■ *Equity Financing*

- 80% of equity comes from project developers
- Higher expected equity returns for projects with higher gearing
- Low participation of foreign players, particularly strategic investors
 - Reluctance of pure equity providers to invest directly in SPVs due to concession agreements restrictions on the sale of developers' equity.



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How IIFCL Became the Flagship PPP Infrastructure Financing Intuition?

- **Market Evolution:** Market demanded the policy reform
- **Gol's Enabler:** PPP framework/guidelines, IIFCL, VGF, MCA etc.
- **SIFTI:** The well thought through operational mandate of IIFCL (Coincides with market evolution)
- **Resources:** Guarantee support of the government - internal and external borrowings coupled with timely equity injection.
- **Support of and Strong Partnership with ADB:** Lending, capacity building and other advisory assistance extended by ADB.

Lessons Learned

- **Sustainability of PPPs:** Issue on heavy reliance on commercial banks for debt financing needs to be addressed
 - ALM (Asset-Liability Mismatch)
- **The need for an active and efficient bond market**
 - Growth is hampered by institutional, legal, and regulatory constraints that make bond more expensive way of debt financing
- **Innovations, innovations, innovations!**
 - IIFCL has shown its effectiveness in facilitating the PPP agenda of government. However, more innovative financing instruments and modalities are required to accommodate the need of the market effectively and efficiently.

Thank you