



# Report and Recommendation of the President to the Board of Directors

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Project Number: 41036  
October 2009

## Proposed Multitranche Financing Facility Second India Infrastructure Project Financing Facility (India)



## CURRENCY EQUIVALENTS

(as of 15 October 2009)

Currency Unit	–	Indian rupee/s (Re/Rs)
Re1.00	=	\$0.021
\$1.00	=	Rs46.13
€1.0	=	\$1.4923
\$1.0	=	€0.67
¥1.0	=	\$0.0111
\$1.0	=	¥89.445

## ABBREVIATIONS

ADB	–	Asian Development Bank
EIRR	–	economic internal rate of return
ESSF	–	environmental and social safeguards framework
FFA	–	framework financing agreement
FIRR	–	financial internal rate of return
FMA	–	financial management assessment
FY	–	fiscal year
FYP	–	Five-Year Plan
GDP	–	gross domestic product
IIFCL	–	India Infrastructure Finance Company Limited
IIPFF	–	India Infrastructure Project Financing Facility
IPPMS	–	investment program performance monitoring system
JBIC	–	Japan Bank for International Cooperation
KfW	–	Kreditanstalt für Wiederaufbau
LIBOR	–	London interbank offered rate
MFF	–	multitranches financing facility
PFR	–	periodic financing request
PMU	–	project management unit
PPP	–	public–private partnerships
PSP	–	private sector participation
RBI	–	Reserve Bank of India
TA	–	technical assistance

## WEIGHTS AND MEASURES

km	–	kilometer
kph	–	kilometer per hour
MW	–	megawatt

## NOTES

- (i) The fiscal year (FY) of the India Infrastructure Financing Company Limited (IIFCL) and the Government of India end on 31 March of the following year. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY 2009 ends on 31 March 2010.
- (ii) In this report, "\$" refers to US dollars.

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## MULTITRANCHE FINANCING FACILITY AND INVESTMENT PROGRAM SUMMARY

<b>Borrower</b>	India Infrastructure Finance Company Limited (IIFCL)
<b>Classification</b>	<p>Targeting Classification: General intervention</p> <p>Sectors (subsectors): Multisector, energy (energy sector development, conventional energy), transport, and information, and communication technology (road transport), finance (finance sector development)</p> <p>Themes (subthemes): <b>Private sector development</b> (public–private partnerships), economic growth (promoting economic efficiency and enabling business environment), capacity development (institutional development)</p> <p>Location impact: National (high)</p>
<b>Environmental and Social Safeguards Assessment</b>	<p>Category: Financial intermediary. IIFCL will ensure that for each subproject, the initial environmental examination, environmental impact assessment, and environmental management plan, as applicable, are submitted to the Asian Development Bank (ADB) for review and approval before submission of a periodic financing request (PFR). IIFCL, with ADB assistance, has developed an environmental and social safeguards framework (ESSF) to guide the assessment of subprojects during implementation of the Second India Infrastructure Project Financing Facility (IIPFF II). The objective of the ESSF and its documentation and review process is to ensure that ADB finances only subprojects through the IIPFF II that are compliant with national and ADB safeguard requirements applicable at the date the relevant PFR is submitted. The ESSF adopts the same approach as the First India Infrastructure Project Financing Facility (IIPFF I) approved by the ADB Board of Directors in December 2007. The ESSF will be updated based on ongoing national initiatives to strengthen environmental and social safeguard requirements and relevant ADB policies.</p>
<b>Investment Program Description</b>	<p>The IIPFF II supports the Scheme for Financing Viable Infrastructure Projects through the India Infrastructure Finance Company Limited (the Scheme) for promoting infrastructure development primarily through public–private partnerships (PPP). Pursuant to the Scheme, IIFCL provides long-term financing on commercial terms for stand-alone nonrecourse infrastructure projects. IIFCL will finance PPP subprojects selected through a transparent and competitive bidding process and only those assessed for commercial viability.</p> <p>As of August 2009, IIFCL's project pipeline included 88 sanctioned projects with a total project cost of about \$32 billion. The pipeline is expected to increase by 25 projects a year. As a result, IIFCL's balance sheet is projected at around \$11 billion by fiscal year (FY)2013.</p>
<b>Multitranche Financing Facility</b>	<p>IIFCL, through the Government of India (the Government), has requested ADB to finance a portion of its investment program through IIPFF II via a multitranche financing facility (MFF). The MFF modality is uniquely suited to the IIPFF II as it will enable IIFCL to release</p>

financing in line with project finance requirements in a phased manner and provide ADB with the flexibility to monitor progress in earlier tranches to guide implementation of subsequent tranches. The MFF will provide \$700 million over 5 years (FY2009–FY2013) to IIFCL, for financing eligible subprojects in accordance with the Scheme and agreed criteria, including the ESSF. The MFF will be provided in three tranches—first tranche of \$210 million, second tranche of \$250 million, and third tranche of \$240 million.

## **Rationale**

Reliable and high quality infrastructure is a critical determinant of productivity to support sustained economic growth and poverty reduction. While high quality infrastructure is essential to harness growth impulses in the economy, insufficient infrastructure capacity of India results in lower productivity, higher transport and logistic costs, and reduces competitiveness. With higher growth target and a rising population, even maintaining current levels of infrastructure will require staggering an enormous increase in investments.

Based on the targeted growth rate and identified deficit, required infrastructure investment is estimated at approximately \$514 billion. Accordingly, the goal of the Government of India (the Government) is to increase infrastructure investment from 4.5% to 9% of gross domestic product during the 11th Five-Year Plan (FYP) period, FY 2007–FY2011. Investments deficits of this scale cannot be bridged by public financing that is already limited by fiscal constraints.

Recognizing the role of the private sector in infrastructure development, the Government has placed private sector participation (PSP) and PPP at the core of its infrastructure development strategy. In line with this approach, infrastructure development is being fostered by initiatives to create an enabling environment for PPP through (i) addressing policy and regulatory gaps in several infrastructure subsectors, (ii) enhancing the capacity of public institutions and officials to manage PPP processes, and (iii) increasing the volume of financing and availability of risk mitigation instruments to manage and allocate risks in line with the new business model. ADB is providing extensive support for mainstreaming PPP in India through four ongoing technical assistance (TA) projects.

The Government has also taken reform initiatives to develop financial markets and expand the suite of financial products for promoting PSP and PPP. As result, the equity, government securities, foreign exchange, and money markets along with their corresponding derivatives segments are now reasonably deep and liquid. The reforms have also strengthened price discovery, eased restrictions on transactions, lowered transaction costs, and enhanced liquidity. However, long-term investors, such as pension and insurance funds, have a limited presence in the Indian market due to regulatory restrictions. Further, domestic investment banks are inadequately capitalized and the asset-liability position of many large commercial banks may not support large scale infrastructure exposures.

While reforms to mitigate the financial constraints are ongoing and contemplated, mobilizing available resources and catalyzing additional resources still presents a challenge. The tight liquidity in the international financial markets as a result of the global financial crisis has further constrained the flow of long-term financing for infrastructure projects. In the circumstances, it is all the more important that reforms promote a infrastructure financing model where existing institutional capacity, skills products and services are leveraged through partnerships and synergies for bridging the infrastructure deficits through exchange of sector expertise, underwriting skills, and risk management.

**India Infrastructure Finance Company Limited.** In this context, IIFCL's operating paradigm as articulated in its 'Scheme' is designed to catalyze funds as part of a lending consortium, and leverage financing and project development skills available in the market. IIFCL provides innovative financing products (e.g., long-term debt and subordinated debt) required for PPP infrastructure subprojects that are currently scarce in the Indian market, despite financial sector reforms. The Government guarantees IIFCL's borrowings which acts as an additional layer of credit enhancement for investors by providing implicit risk capital.

Established in January 2006, as the nodal agency for PPP under the Companies Act (1956), IIFCL is mandated to provide financing to eligible infrastructure projects on commercial terms. As of the end of March 2009, IIFCL has a sanctioned pipeline of 88 subprojects, of which 85 have already reached financial closure. These projects have all been assessed for commercial and technical viability and have been developed by independent professional project development agencies. The total project cost of the sanctioned subprojects amounts to about \$31 billion, of which IIFCL will take up around \$4 billion, thereby every dollar of IIFCL's investment in subprojects will mobilize over \$7 from the market, demonstrating its significant ability to leverage resources.

IIFCL has successfully supported PPP projects, particularly with ADB's loan (IIPFF I) amounting to \$500 million, approved in December 2007 provided through the MFF modality. IIPFF I has thus far financed 24 subprojects. In addition to providing IIFCL with long-term funding, ADB has supported IIFCL with technical assistance to enhance internal credit risk assessment procedures and pricing policies. As a result of this support, IIFCL is now planning to access the international bond markets on the strength of its own balance sheet without a Government guarantee. This will not only open a new channel of funding for IIFCL but will also provide a benchmark for similar Indian corporations in international markets.

**IIPFF II.** The IIPFF II is designed to support the Government's infrastructure development agenda. IIPFF II will provide funds at commercial terms with more than 20-year maturities for infrastructure

PPP subprojects. Funds at such terms are currently not available in the domestic market. The global crisis has further constrained the availability of long-term funds in international capital markets. ADB's support to IIFCL will also encourage long-term investors to participate in IIFCL's market offerings.

Support for the IIPFF II is an integral part of ADB's sector strategy, including the India country partnership strategy 2009–2012 and ADB's Strategy 2020. It complements ADB's parallel initiatives in contractual savings, corporate bonds, PPP, and infrastructure development, all of which contribute to creating an enabling environment for infrastructure development in India. The IIPFF II is closely aligned with the development goal and targets set forth in the Government's 11th FYP.

**Impact and Outcome** The impact of IIPFF II is to improve overall availability and reliability of physical infrastructure in line with the targets of the 11th FYP. The outcome of IIPFF II include (i) increased private sector participation; (ii) improved commercial lending terms (particularly those of IIFCL) for infrastructure subprojects; (iii) strengthened institutional capacity for ESSF monitoring and implementation; and (iv) catalyzing of complementary resources and skills in the market. These are to be realized through coordinated efforts of ADB, Japan International Cooperation Agency, KfW, World Bank, IIFCL's international subsidiary, and private equity providers.

**Financing Plan** An MFF of \$700,000,000 from ADB's ordinary capital resources will be provided in multiple tranches at an interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, and such other terms and conditions set forth in the loan and guarantee agreements. IIFCL has provided ADB with (i) the reasons for its decision to borrow under ADB's LIBOR-based lending facility on the basis of these terms and conditions, and (ii) an undertaking that these choices were its own independent decision and not made in reliance on any communication or advice from ADB.

**Indicative Financing Plan FY2009–FY2013**  
(\$ million)

<b>Source</b>	<b>Total</b>	<b>%</b>
Asian Development Bank	700	6.36
Local Market Borrowings <sup>a</sup>	5,000	45.45
Foreign Borrowings <sup>b</sup>	5,300	48.18
<b>Total</b>	<b>11,000</b>	<b>100.00</b>

<sup>a</sup> Funds that India Infrastructure Finance Company Limited (IIFCL) will raise from the domestic market including insurance and pension funds and the national savings scheme.

<sup>b</sup> Foreign borrowings include bilateral and multilateral sources and funds that IIFCL will raise from the international capital markets.

Sources: Asian Development Bank estimates and India Infrastructure Finance Company Limited.

India will provide a sovereign guarantee, in form and substance acceptable to ADB, for the term of each loan as a condition precedent

to the effectiveness of each tranche requested by IIFCL and provided by ADB pursuant to the terms of each loan agreement.

<b>Subloan Terms</b>	IIFCL will relend funds received through the MFF (via subloans) to eligible subprojects on commercial terms based on an independent assessment of subproject risk. The eligibility of the subprojects will be assessed in terms of compliance with the ESSF, the conditions of the Scheme, and additional criteria agreed with IIFCL. The relending to eligible subprojects will be preceded by an upfront evaluation of subprojects to ensure compliance with the ESSF to confirm that all subprojects financed through the IIPFF II comply with ADB safeguard requirements as with the IIPFF I.
<b>Estimated Project Completion Date</b>	Implementation of the IIPFF II is expected to be completed by 31 December 2014.
<b>Period of Utilization</b>	The MFF will be available for a 5-year disbursement period (FY2009–FY2013). The last PFR must be submitted to ADB no later than 31 March 2014. The last disbursement date will be 31 December 2014.
<b>Subproject and Subborrower Selection Criteria</b>	Each subproject and subborrower will satisfy at all times the subproject and subborrower selection criteria set out in the Scheme, which includes appraisal for technical, economic, and commercial viability. In addition, each subborrower will (i) be selected in accordance with ADB's <i>Procurement Guidelines</i> (2007, as amended from time to time); (ii) have adequate resources and financial capability to raise resources to complete and operate the relevant qualified subproject successfully; (iii) not be in default on any prior loan to any participating members of the consortium including IIFCL; (iv) be able to provide security as required by the consortium of lenders; (v) maintain appropriate financial records of income and expenditure to the satisfaction of ADB and IIFCL; and (vi) comply with ADB's safeguard requirements and national and state policies, laws, and regulations relating to environment, resettlement, and indigenous peoples.
<b>Implementation Arrangements</b>	IIFCL will be the executing agency of the IIPFF II. Policy direction and strategic oversight will be provided by IIFCL's board of directors. The project management unit will monitor day-to-day implementation of the IIPFF II and improve IIFCL capacity for identification, screening, selection, and monitoring of all subprojects, including compliance with state and national policies and the ESSF. In addition, it will be responsible for developing and implementing an investment program performance monitoring system.
<b>Procurement and Disbursement</b>	All goods and services financed by the IIPFF II will be procured in accordance with ADB's <i>Procurement Guidelines</i> (2007, as amended from time to time). The individual loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2007, as amended from time to time). An imprest account will be established in a current account with a commercial bank acceptable to ADB. The imprest amount, at any time, will not exceed (i) 10% of each loan

tranche, or (ii) estimated expenditures for the first 6 months of project implementation, whichever is lower.

**Framework  
Financing  
Agreement**

IIFCL and the Government have entered into a framework financing agreement (FFA) with ADB. The FFA satisfies the requirements established in ADB's *Innovation and Efficiency Initiative: Pilot Financing Instruments and Modalities*. The FFA records the full set of assurances, warranties, and representations on crosscutting themes, including safeguards, governance, anticorruption, financial management, procurement, disbursement, and subproject selection.

**Periodic Financing  
Request**

The MFF proposal is accompanied by a PFR, received from IIFCL for the first tranche (PFR1) for \$210 million. The PFR1 lists 14 subprojects for ADB financing. The subprojects are all in the road and power subsectors. The total cost of the subprojects is about \$8.4 billion, of which IIFCL's exposure will be about \$731 million.

Before ADB accepts the PFR, IIFCL and the Government will ensure full compliance with the terms and conditions of the FFA.

**Retroactive  
Financing**

Retroactive financing may be possible under individual loans for expenditures incurred up to 12 months before the signing of the corresponding loan agreement, with a ceiling of 20% of the loan amount. IIFCL and the Government were informed that approval of retroactive financing does not commit ADB to financing any of the proposed subprojects. Each PFR will specify the nature of financing if retroactive financing is requested.

**Benefits and  
Beneficiaries**

The IIPFF II is designed to enable ADB to finance a wide range of subprojects across subsectors rather than to discretely finance individual projects. The transaction costs for ADB and the Government are significantly reduced as subproject evaluation, appraisal, and financial structuring are conducted by specialized agencies seamlessly. The success of this approach is evidenced from the IIPFF I, which has already financed 24 infrastructure PPP subprojects. Under IIPFF I, IIFCL has leveraged over 5 times its own resources and IIPFF II is expected to improve the leverage ratio to at least 7.

IIFCL is well-positioned to finance PPP subprojects emerging from the ongoing ADB support for mainstreaming PPP. The development of PPP subprojects by professional project developers and consideration of such subprojects for financing by a consortium of investors and lenders, including IIFCL, ensures deepening of project preparation and financing skills in the country. With regard to expanding the required suite of financing and risk management products, IIPFF II will enable IIFCL to provide long-term subordinated debt (mezzanine financing) to PPP subprojects which increase its financing options for PPP subprojects. Risk-based pricing of subloans by IIFCL provides a benchmark for corporate debt issuance which establishes the basis for allocating capital. The same will guide policymakers in initiatives designed to improve project returns for any given level of risk.

Infrastructure investments lead to higher farm and nonfarm productivity, employment and income opportunities, and increased availability of wage goods thereby reducing poverty by raising mean income and consumption. The IIPFF II, therefore, is expected to reduce poverty and increase income with the development and promotion of PPP subprojects, especially in the transport and power subsectors. Mobilization of private sector resources is envisaged to mitigate fiscal stress.

## **Risks and Assumptions**

The envisaged benefits are based on several assumptions that are subject to varying degrees of risk, including (i) the Government continues to prioritize and support policy actions for infrastructure development through PPP, (ii) the Government continues its commitment to maintain IIFCL as a commercially oriented entity, and (iii) IIFCL maintains sufficient institutional capacity and staffing for smooth project implementation.

Potential risks include (i) a change in the Government infrastructure development focus away from PPP, (ii) poor quality of the IIFCL pipeline resulting from weak internal capacity, and (iii) IIFCL's asset profile having a high degree of concentration in a limited number of infrastructure subprojects creating concentration risk. The following mitigating measures are in place.

The Government has reaffirmed its commitment to infrastructure development and the role of the private sector thereby ensuring effective demand for IIPFF II. ADB and other development partners are closely involved in the policy dialogue with the Government and are committed to supporting initiatives that are in line with best practices. The evolution of IIFCL's Scheme has consistently reflected market requirements and is expected to do so going forward.

Factors mitigating weak internal capacity resulting in poor quality of the subproject pipeline include (i) intensive appraisal of subprojects by IIFCL; (ii) the emphasis of IIFCL's mandate and Scheme on commitment to operating autonomy, good governance, and commercial orientation; and (iii) ongoing ADB and World Bank support to IIFCL for developing systems, procedures, and human resources. In addition, the ongoing ADB TA will also enhance IIFCL's project financing capacity and governance framework.

IIFCL's Scheme currently does not permit IIFCL to take an exposure in excess of 20% of the total capital costs for any particular project; this ensures sector and geographic diversification in the asset portfolio. The ongoing efforts for mainstreaming PPP will help generate viable subprojects in all parts of the country.



## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed multitranche financing facility (MFF) to India Infrastructure Finance Company Limited (IIFCL), to be guaranteed by India, for the Second India Infrastructure Project Financing Facility (IIPFF II). The design and monitoring framework is in Appendix 1.

## II. RATIONALE: SECTOR PERFORMANCE, PROBLEMS, AND OPPORTUNITIES

### A. Performance Indicators and Analysis

2. Reliable and high quality infrastructure is a critical determinant of productivity to support sustained economic growth and poverty reduction.<sup>1</sup> While high quality infrastructure is essential to harness growth impulses in the economy, insufficient infrastructure capacity in India results in lower productivity, higher transport and logistic costs, and reduces competitiveness. With a higher growth target and a rising population, even maintaining current levels of infrastructure will require significant increase in investments. Based on the targeted growth rate and identified deficit, required infrastructure investment is estimated at approximately \$514 billion. Accordingly, the goal of the Government of India (the Government) is to increase infrastructure investment from 4.5% to 9% of gross domestic product (GDP) during the 11th Five-Year Plan (FYP) period, FY2007–FY2011.

3. The global financial crisis negatively impacted growth rates in India as reflected in the decline in GDP growth from 9.2% in FY2007 to 6.7% in FY2008. Growth is projected to decline to around 6% in FY2009.<sup>2</sup> The crisis has also adversely affected private sector infrastructure investment due to a loss in investor confidence. Concurrently, fiscal constraints have impacted public sector infrastructure investment. The impact of these factors is reflected in the reduced growth rate in the core infrastructure index from 5.9% in FY2007 to 2.7% in FY2008. In response to the crisis, the stimulus packages announced by the Government have prioritized support to the infrastructure sector. In addition, considering the magnitude of the infrastructure deficits the Government has embarked on a broad-based reform agenda to enable greater private sector participation (PSP) in infrastructure investments.

### B. Analysis of Key Problems and Opportunities

4. As of 2008, an analysis of infrastructure capacity reveals that only the power subsector has achieved capacity expansion in line with 11th FYP targets; while ports, airports, and roads are at 85%, 75%, and 50%, respectively.<sup>3</sup> This is reflected in the situation prevailing in utilities of ports, roads, railways, and airports subsectors which operate at close to or beyond capacity. An

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<sup>1</sup> The 11th Five-Year Plan policy framework indicates that the percentage of the population living below the official poverty line has appreciably declined from 36% in fiscal year (FY)1993 to 28% in FY2004. However, the rate of decline in poverty has not accelerated commensurate with the growth in gross domestic product (GDP), and the incidence of poverty among traditionally marginalized groups has shown an insignificant decline. Further, given population growth, the absolute number of poor has declined only marginally from 320 million to 302 million during the same period. Other indicators of deprivation suggest that the proportion of the population deprived of a minimum level of living is much higher. For example, the National Family Health Survey 3 shows that almost 46% of children in the 0–3 year age group suffered from malnutrition in FY2005 showing almost no decline from the 47% reported in 1998 by the National Family Health Survey 2.

<sup>2</sup> Projections provided by the Reserve Bank of India (RBI), the central bank, in April 2009 and based on the assumption of a normal monsoon.

<sup>3</sup> McKinsey and Company, Financial Services Practice. 2008. *Building India, Financing and Investing in Infrastructure*. New Delhi.

average of 21 days is required to clear cargo in India compared with 3 days in Singapore. The berths of Jawaharlal Nehru Port in Mumbai, which handles 60% of India's container traffic, can handle nine cargo vessels while Singapore's main port can handle 40. India's national highways account for only 2% of the total highway network and only 12% or 8,000 km of which are dual carriageway.<sup>4</sup> The situation is equally alarming in urban roads as evidenced by the drop in average traffic speed in Delhi from 27 kph in 1997 to 10 kph currently. With regard to power, peak demand exceeds supply by almost 15% as several capacity initiatives for the 11th FYP are yet to come on line. World Bank estimates suggest that 9% of potential industrial output is lost to power cuts and 600 million Indians have no electricity at all. A detailed infrastructure sector analysis is in Appendix 2.

**5. Role of Public–Private Partnerships.** The traditional model of developing and financing infrastructure is predicated on government ownership with the government bearing all risks. However, this model has limitations due to large investment requirements, growing fiscal deficits, and limited capacity in the public sector in developing high-quality infrastructure. Thus, the traditional model is being replaced with a new business model based on PSP, largely through public–private partnerships (PPP). This requires the entire risk matrix of project development, management, performance as well as market and credit risk to be optimally allocated among stakeholders. The planned 30% private sector share in the aggregate infrastructure investment during the 11th FYP underscores the importance of the envisaged role of the private sector.<sup>5</sup>

6. In line with the new business model, infrastructure development is being fostered by initiatives to create an enabling environment to sustain PPPs by addressing regulatory, institutional, and financing gaps. These include development of a risk allocation mechanism based on the principle that risk should be allocated to stakeholders best able to manage and mitigate them. Ongoing initiatives include (i) addressing policy and regulatory gaps in several infrastructure subsectors, (ii) enhancing the capacity of public institutions and officials to manage PPP processes, and (iii) increasing the volume of financing and availability of risk mitigation instruments to manage and allocate risks in line with the new business model.

### **1. Policy and Regulatory Framework for Public–Private Partnerships**

**7. Infrastructure Sector Reforms.** Sectors are increasingly being opened to private and foreign investment. Levy of user charges is being promoted, and regulatory institutions are being set up and strengthened to create a PPP enabling environment. The command and control mode relying on state ownership is evolving towards a model based on independent regulation and contract law. In this context, core regulatory tasks of independent regulatory commissions include tariff setting, enforcing service standards, and fostering a subsidy and cross-subsidy framework.

8. While the Government has enacted and amended different laws and regulations, common regulatory principles are needed to guide and evolve regulatory institutions. In response, the Government has drafted the Regulatory Reform Bill,<sup>6</sup> key provisions of which include establishing an institutional framework for regulatory commissions. The Bill further sets out the role of the regulatory commissions and their accountability to the legislature. Table 1 provides an overview of the regulatory framework for the infrastructure sector.

<sup>4</sup> Of the remaining national highways, 50% are two-lane and 38% are single-lane.

<sup>5</sup> The total private sector investment envisaged during the 10th FYP was 17% of GDP.

<sup>6</sup> Planning Commission. 2009. Draft Regulatory Reform Bill. New Delhi. (April).

**Table 1: Overview of the Regulatory Framework for Infrastructure**

Subsector	Relevant Statutes	Regulatory Authority
Roads	NHAI Act 1998 Central Road Fund Act 2000 Control of National Highways (Land and Traffic) Act 2000	NHAI is the regulator and operator. Stakeholders do not have recourse to an independent regulator.
Airports	AAI Act 1994 Air Corporation (Transfer of Undertaking and Repeal) Act 1994	AAI is the operator and regulator. Stakeholders do not have recourse to an independent regulator. An airports economic regulatory authority is proposed.
Ports	Major Port Trust Act 1963	TAMP functions as tariff-setting agency. Stakeholders do not have recourse to an independent regulator.
Power	Electricity Act 2003	Established regulatory commissions have extensive powers.
Water Supply and Sanitation	Water (Prevention and Control of Pollution) Act 1974	No regulatory authority is in place. Central Ground Water Authority is responsible for regulation and control of groundwater with powers to protect the environment.

AAI = Airports Authority of India, NHAI = National Highway Authority of India, TAMP = Tariff Authority of Major Ports  
Source: Planning Commission, Government of India.

## 2. Project Development and Management Process

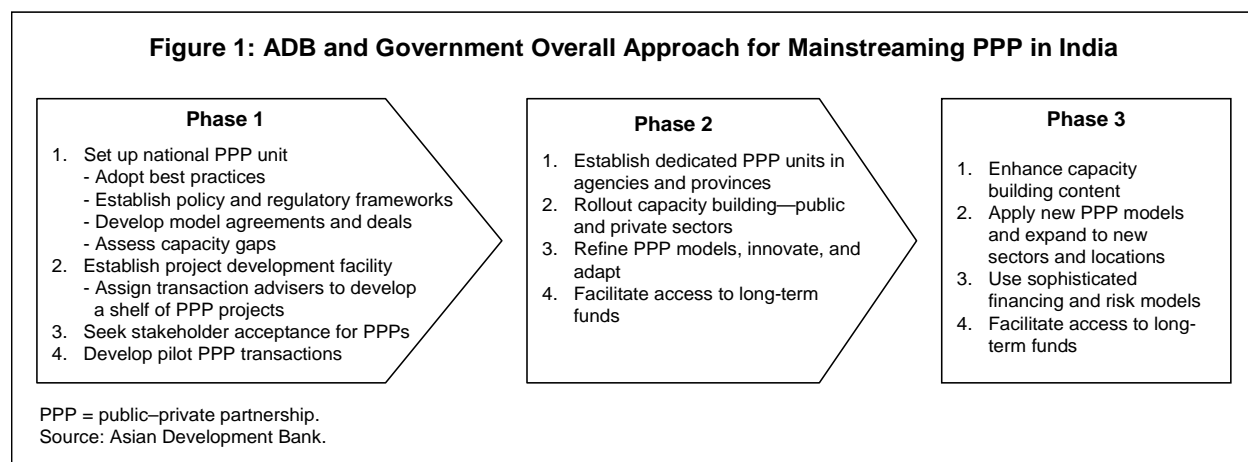
9. To increase PSP, capacity to manage PPP development and effectively interface between project sponsors, private sector, and end users are needed. In support of the Government's holistic approach, the Asian Development Bank (ADB) provided assistance including four ongoing technical assistance (TA)<sup>7</sup> projects and long-term loans<sup>8</sup> to facilitate all phases of the Government's efforts to mainstream PPP-led infrastructure development (Figure 1). Project development and management process is mainstreamed by (i) establishing a PPP cell in the Department of Economic Affairs, Ministry of Finance for coordinating and supervising nationwide PPP project development; and (ii) establishing PPP cells with in-house PPP and management information systems experts in 17 states and 7 central line ministries. The capacity of the PPP cells has been strengthened by training staff and exposing the PPP cells to international best practices. The PPP cells have developed a potential pipeline of PPP opportunities in urban transport, health, education, and water and sanitation indicating the success of the TAs in mainstreaming PPPs.<sup>9</sup> To promote commercial viability, IIFCL provides long-term financing as per its mandate supported by the First India Infrastructure Project

<sup>7</sup> ADB. 2006. *Technical Assistance to India for Mainstreaming Public–Private Partnerships at State Level*. Manila (TA 4890-IND approved on 11 December for \$3.0 million); ADB. 2007. *Technical Assistance to India for Mainstreaming Public–Private Partnerships at Central Line Ministries of the Government of India*. Manila (TA 4993-IND approved on 16 November for \$2 million); ADB. 2008. *Technical Assistance to India for Preparing the Public–Private Partnership Pilot Project Initiatives for Mainstreaming Public–Private Partnerships* (TA 7152-IND approved on 26 September for \$2 million); and ADB. 2009. *Technical Assistance to India for Supporting an Initiative for Mainstreaming Public–Private Partnerships for Providing Urban Amenities in Rural Areas* (TA 7342-IND approved on 11 September for \$1.5 million).

<sup>8</sup> ADB. 2007. *Report and Recommendation of the President to the Board of Directors on India Infrastructure Project Financing Facility*. Manila (Loan 2404-IND approved 20 December for \$500 million).

<sup>9</sup> Available at <http://www.pppinindia.com>.

Financing Facility (IIPFF I) approved by ADB in December 2007 and by the proposed IIPFF II. The TA attached to IIPFF I strengthened IIFCL's credit risk assessment processes and systems to price loans on a risk basis.<sup>10</sup>



10. The Government has also streamlined project management by setting up the PPP Approval Committee<sup>11</sup> to fast track PPP approval in central government projects. Project identification, preparation of the initial screening report, and approval of the initial screening report by the Committee are supported by PPP cells. A panel of technical advisors<sup>12</sup> was selected to assist central and state line ministries in conducting project development studies including demand assessment, cost and risk estimation, financial structuring, development of contracts and concession agreements, and bid preparation and selection. In addition, a website (footnote 9) exclusively devoted to PPP functions as a virtual marketplace for PPP. Finally, the Government-funded revolving India Infrastructure Project Development Fund of \$20 million supports project development costs by providing an interest-free loan for up to 75% of costs.<sup>13</sup> Complementary initiatives to channel financing and develop financing instruments are under way which include strengthening and evolving the role of IIFCL and capital market reforms.

### 3. Infrastructure Financing Issues

11. **Demand and Supply Gap in Availability of Resources.** With regard to debt, the Reserve Bank of India (RBI), estimates that approximately \$206 billion would be available for

<sup>10</sup> ADB. 2007. *Technical Assistance to India for Capacity Development for India Infrastructure Finance Company Limited*. Manila (TA 7030-IND approved on 14 December for \$500,000).

<sup>11</sup> The Cabinet Committee on Economic Affairs, approved the procedure for approval of PPP projects in October 2005. Pursuant to this decision, the Public-Private Partnership Approval Committee was set up comprising the secretary, Department of Economic Affairs (chair); secretary, Planning Commission; secretary Department of Expenditure; secretary, Department of Legal Affairs; and secretary of the project-sponsoring department.

<sup>12</sup> A panel of consultants was short listed who would be available to central and state line ministries. The panel was created through competitive bidding and technical short listing. The sponsoring authority will be able to select consultants from this panel through a limited financial bid without having to go through the lengthy and more complex technical bid for small- and medium-sized projects.

<sup>13</sup> On the successful completion of the bidding process, the project development expenditure is recovered from the successful bidder. In partnership with the IIPDF, the ongoing ADB TA (ADB. 2008. *Technical Assistance to India for Preparing the Public-Private Partnership Pilot Project Initiatives for Mainstreaming Public-Private Partnerships* (TA 7152-IND approved on 26 September for \$2 million) will support the preparation of 20 PPP pilot projects over a 3-year period, the cost of which will be shared in the ratio of ADB25%:IIPDF75%.

infrastructure during the 11th FYP, compared with the overall debt requirement of \$247 billion.<sup>14</sup> This amount comprises (i) \$106 billion as domestic bank credit; (ii) \$70 billion from nonbank financing institutions, pensions, and insurance funds; and (iii) \$30 billion through external commercial borrowings including from multilateral sources. An estimated financing shortfall of \$41 billion remains, especially for long-term financing (Table 2).

**Table 2: Debt Financing Resource Gap Analysis**

<b>Item</b>	<b>Availability (\$ billion)</b>	<b>Tenor (years)</b>
<b>Debt Sources</b>		
Bank Credit	106.00	3–5
Nonbank Financial Institutions	56.00	7–10
Pension and Insurance Funds	14.00	7–10
External Commercial Borrowings	30.00	10–30
<b>Subtotal</b>	<b>206.00</b>	
<b>Debt Requirements</b>	<b>247.00</b>	
<b>Debt Resource Gap</b>	<b>41.00</b>	

Source: Planning Commission, Government of India.

12. **Impact of Global Economic and Financial Crisis.** In addition to limited availability of financing, the contagion effects of the global financial crisis have affected India. As a consequence of the crisis, external financing available to Indian financial institutions has decreased, forcing them to raise credit domestically. However, this substitution of financing sources squeezed domestic money and credit markets and put pressure on the rupee. To manage volatility of the currency, RBI's interventions in the markets added to liquidity tightening. Beyond the financial channels, the crisis also affected confidence. Tightened liquidity has increased risk aversion, making banks cautious. In response, the Government announced stimulus packages in December 2008 and January 2009 to expand domestic demand by expanding public expenditure and lowering taxes. Consequently, the fiscal situation suffered setbacks<sup>15</sup> with India's sovereign rating outlook downgraded from "stable" to "negative" by an international credit-rating agency.<sup>16</sup> Concerns raised by credit-rating agencies increased overall borrowing costs, contributing to delays in starting new projects and completing ongoing projects.

13. Given large infrastructure financing requirements, all potential sources need to be tapped by channeling available domestic and international funds into project finance. However, long-term investors, such as pension and insurance funds, have a limited presence in the Indian market due to regulatory restrictions. Further, domestic investment banks that were major participants in infrastructure in the 1990s are inadequately capitalized on a risk-weighted basis to support large scale infrastructure expansion. Most large public sector banks do not have project finance experience and their asset-liability position may not support large scale

<sup>14</sup> Of the \$514 billion investment requirements, the total debt requirement is estimated at around \$247 billion. The remaining investment is expected to come from internal cash generation and budgetary support for central and state government projects, and from internal accruals and equity in private sector projects.

<sup>15</sup> The two packages include (i) an across-the-board cut of 4% in ad valorem central value-added tax rate except for petroleum products, (ii) increase in foreign institutional investors investment limit in rupee-denominated corporate bonds in India from \$6 billion to \$15 billion, and (iii) authorization to IIFCL to raise \$2 billion through tax-free bonds by 31 March 2009 for refinancing bank lending of longer maturity to eligible infrastructure PPP projects.

<sup>16</sup> However, India's sovereign rating by major credit-rating agencies remains at BBB-. The fiscal deficit in India is subject to the Fiscal Responsibility and Budget Management Act 2003. The Act requires that the fiscal deficit is contained at 3% of GDP. While this has been relaxed to support countercyclical measures, the limits are expected to be reinstated when the impact of the crisis abates.

infrastructure exposures. Therefore, mobilizing available resources and catalyzing additional resources still presents a challenge. Thus, it becomes imperative that financial sector reforms continue in order to offer products and services to meet financing and risk management needs for PPP infrastructure projects. These include long-term debt, risk-based lending and loan syndication, credit enhancements such as guarantees, mezzanine financing (subordinated debt), private equity capital raising, refinancing, cash management, general insurance, and advisory services.

14. In response, the Government has taken several initiatives to develop markets and expand the suite of financial products for promoting PSP and PPP. As a result, financial markets in India have developed significantly since financial sector reforms were initiated in the early 1990s. The reforms emphasized strengthening price discovery, easing restrictions on transactions, lowering transaction costs, and enhancing liquidity. Greater domestic market integration has resulted from a series of policies. The equity, government securities, foreign exchange, and money markets along with their corresponding derivatives segments are now reasonably deep and liquid.

15. **Government Securities Market.** RBI used the fiscal deficits of the mid-1990s to develop the government securities market and the risk-free yield curve through a deliberated debt issuance strategy. RBI also carried out additional reform measures including (i) creating a system of market makers in the form of specialized primary dealers; (ii) removing frictions in trading, such as removing stamp duties and withholding taxes; (iii) establishing better trading, clearing and settlement infrastructure in the form of an online primary auction mechanism, a trade reporting system, and an electronic order matching system; (iv) establishing a clearing corporation for India; and (v) introducing innovations like collateralized borrowing and lending obligations. These reforms occurred in the context of a decline in inflation and interest rates following the 1997 Asian crisis allowing traders in government debt to make trading profits—encouraging the development of an active secondary market. While challenges remain, the government securities market is generally considered a success story.

16. **Corporate Debt Market.** Compared with the government securities market, the corporate bond market is still underdeveloped with illiquid primary and secondary markets, inadequate tenors, and absence of risk management and credit enhancement instruments. The Government is considering initiatives to support market development, including (i) allowing domestic financial institutions greater leeway to invest in corporate bonds; (ii) steadily raising the limit on foreign investment in corporate bonds; (iii) amending the bankruptcy code to protect rights of unsecured creditors; (iv) reducing transaction costs in issuing and trading corporate bonds by reducing the need for repeated disclosures, as well as high stamp duties; and (v) reducing the preference of banks for loans over bonds by subjecting both assets to similar mark-to-market requirements, especially for interest rate exposure.

17. **Existing Constraints.** However, despite reforms, several financial products are not available in India or markets are illiquid. Mezzanine financing, which is critical for funding infrastructure projects, is limited due to the lack of a sufficiently large pool of infrastructure projects and absence of pricing benchmarks. This inevitably led to an overwhelming reliance on debt financing, which in itself is not sufficient for meeting the diverse financing and risk management requirements. Further, while the primary market in corporate bonds has expanded and the issuance of such bonds has increased, the secondary market has not developed commensurately. Development of credit derivatives has also not been significant.

18. Regulatory and institutional problems also constrain the participation of financial intermediaries in infrastructure. A factor limiting the participation of financial intermediaries stems from regulatory uncertainty raising the risk-profile of projects. This makes financial institutions reluctant to finance infrastructure, particularly in the early stages. Restrictive policies and guidelines have further constrained the participation of insurance and pension funds. For example, the Insurance Regulatory and Development Authority requires insurance companies to invest in debt with a minimum credit rating of AA, which excludes investment by insurance companies in debt instruments of most private infrastructure sponsors. These also accentuate the limited availability of risk capital and long-term financing, and constrain availability of risk-based pricing of loans and credit enhancement mechanisms.

19. Further limitations include relatively few professional project development and transactions advisory agencies. This is combined with a limited or non-existent PPP mandate for other dedicated long-term infrastructure financing agencies<sup>17</sup> and the fact that banks do not have the ability to undertake large-scale project finance on their own and also have asset-liability constraints. On the other hand, agencies with project finance expertise do not have the capital base to build up large scale exposure to projects.

20. While reforms to mitigate the existing constraints are ongoing and contemplated, these necessarily will have to be sequenced over a medium-term. Meanwhile, specific financing requirements for PPP and the diverse skills sets to manage and allocate project risk dictates an approach that includes commercial long-term financing and leverages complementary skills in the market to develop projects and allocate risks. To significantly increase infrastructure investments through PPP, it is important that existing institutions, products and services are leveraged through partnerships and synergies. For instance, institutions offering specialized financing partnering with larger banks, project development agencies, and equity funds enable an origination and syndication approach coupled with transaction advisory to provide the range of financial services needed for achieving financial closure of PPP projects. This business model facilitates exchange of sector expertise, underwriting skills, and risk management.

21. **India Infrastructure Finance Company Limited.** In pursuance of this business model for promoting PPP and given the need to mobilize all available resources, IIFCL was established with the mandate to (i) play a catalytic role by leveraging resources and specialized skills, and (ii) be a nodal PPP financing agency as an integral element of the overall PPP development strategy.<sup>18</sup> IIFCL was set up on 5 January 2006 as a wholly owned Government company under the Companies Act 1956. IIFCL provides commercial long-term debt financing for stand-alone nonrecourse infrastructure projects, such as project specific special purpose vehicles established for PPP, or projects that are units of larger corporate entities whose cash

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<sup>17</sup> The Infrastructure Development Finance Company (IDFC) was promoted by the Government and government-owned financial institutions with other investors including ADB, International Finance Corporation, Government of Singapore Investment Corporation, and Commonwealth Development Corporation. IDFC's focus was purely on infrastructure projects, when diversified PPP opportunities did not exist and there was a shortage of bankable projects. In this context, IDFC developed large exposures to the power subsector before reforms took off and the limited capital market did not allow IDFC to exit from unviable investments. Thus, in the case of IDFC, the tradeoff between expansion of loans and maintaining asset quality was not well understood. Subsequently, IDFC undertook an initial public offering in January 2006 and became privately owned. More recently, IDFC has focused more on fee-based income activities such as advisory services, asset management, and equity investments. Infrastructure Leasing and Financial Services has adopted a similar business model.

<sup>18</sup> Other dedicated infrastructure financing nonbank financial institutions, such as Rural Electrification Corporation Limited and Power Finance Corporation Limited, have a limited subsector focus and do not have a PPP-specific mandate.

flows can be “captured.” The Government guarantees all IIFCL borrowings. IIFCL's Articles of Association and Memorandum of Understanding are in Supplementary Appendix A.

#### 4. Role of IIFCL in Promoting PSP and PPP

22. IIFCL operating paradigm, namely the Scheme for Financing Viable Infrastructure Projects through the India Infrastructure Finance Company Limited (the Scheme), provides IIFCL's mandate and guides its business plan and operations manual.<sup>19</sup> Recognizing the constraints in the domestic capital markets,<sup>20</sup> the Scheme allows IIFCL to catalyze funds and evolve an origination and syndication approach. First, the Scheme allows IIFCL to take an exposure not exceeding 20% of total capital costs in a project, thus requiring consortium financing with loan origination occurring at a lead bank.<sup>21</sup> This also protects IIFCL from developing a concentrated asset profile that resulted in the restructuring of earlier financial institutions dedicated to project financing (footnote 17). Second, the Scheme requires IIFCL to establish in-house risk assessment and management capabilities enabling IIFCL to price loans on a risk basis marking a shift in the pricing mechanism for infrastructure loans.<sup>22</sup> Third, IIFCL provides subordinated debt at longer tenors expanding the suite of infrastructure financing products and enhancing the availability of risk capital. This also promotes commercial viability of projects. Fourth, IIFCL is mandated to extend the tenor of loans to pure private sector projects by a minimum of 2 years beyond the longest tenor offered by commercial lenders, underscoring IIFCL's role in enhancing commercial viability of projects. Fifth, the Scheme requires project appraisal to be done by specialized agencies thereby leveraging diverse skills to address the requirements of financing complex projects. Finally, the Scheme requires IIFCL to finance commercially viable projects only.

23. In addition to providing direct debt financing, IIFCL has undertaken other initiatives to promote PPP including (i) participating in the India Infrastructure Finance Initiative, which is a private equity fund with an investable corpus of \$875 million; (ii) establishing the India Infrastructure Finance Company (United Kingdom) Limited as a wholly owned subsidiary mandated to borrow from RBI and relend resources to Indian infrastructure companies for foreign currency expenditures outside India; and (iii) providing refinancing to reduce the asset and liability mismatch of banks, enabling them to continue financing projects and sustain investor interest in PPP. The success of this approach can be judged by the leverage achieved by IIFCL in catalyzing market resources (para. 28) and the reduction in transaction costs to ADB compared with discreetly financing individual projects to achieve the same development impact. Market analysis of the role of IIFCL is in Appendix 3.

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<sup>19</sup> The Scheme was notified, to the Committee on Infrastructure headed by the Prime Minister, by the Ministry of Finance, Department of Economic Affairs vide O.M. No. 10/12/2005-INF dated 4 January 2006. Under the provisions of the Scheme, the Government may review it at the end of 5 years or earlier if required. The Scheme was first amended on 23 April 2007 and, subsequently, additional amendments have expanded and further defined the role of IIFCL in line with the evolving infrastructure financing scenario in India. The Scheme is provided in Supplementary Appendix B.

<sup>20</sup> When financial markets are illiquid or deviate from the economic price, markets become incomplete not permitting innovations to provide the set of products required for the financial closure of PPP projects.

<sup>21</sup> The lead bank is defined as a bank in the lending consortium that takes the maximum exposure to the project.

<sup>22</sup> Currently, 80%–85% of infrastructure loans are estimated to be priced below prime lending rates of banks.

## 5. Performance Assessment of India Infrastructure Finance Company Limited

24. As part of its support for PPP in India, ADB provided an MFF of \$500 million (IIPFF I) to IIFCL in December 2007 to support its long term financing role.<sup>23</sup> During the midterm review for IIPFF I, ADB noted enhancements in IIFCL's Scheme, reporting requirements, institutional structure, operating framework, and disbursements. The first periodic financing request (PFR1) for \$300 million of IIPFF I is disbursed for 24 subprojects. The remaining amount of IIPFF I is committed to identified subprojects for which due diligence has been completed. As such, the residual disbursements for IIPFF I will be achieved against phased subproject benchmarks, including the progress of subproject implementation plans and needs of subproject sponsors (para. 45).

25. Under IIPFF I, ADB and IIFCL staff visited all subproject sites to ensure compliance with ADB's safeguard requirements. IIFCL prepared safeguard due diligence reports for review prior to ADB approval. The compliance review for the IIPFF I with regard to legal aspects contained in the framework financing agreement (FFA) and the environmental and social safeguards framework (ESSF) is in Supplementary Appendix C.

26. **Financial Performance and Risk Management.** As of 31 March 2009, IIFCL had authorized capital \$400 million and paid-up capital of \$263 million representing a significant increase in paid-up capital from \$2.2 million when it was established in January 2006. IIFCL had an operating profit of around \$20 million in FY2008 compared with about \$5 million in FY2007, augmenting the capital base. As of 31 March 2009, IIFCL had outstanding infrastructure loans of about \$990 million, compared with about \$343 million in the previous year. IIFCL's capital base is expected to be augmented periodically by capital infusion by the Government and internal accruals. In support of its asset expansion, IIFCL's borrowings amounted to close to \$3 billion as of 31 March 2009 compared with around \$709 million in the previous year.

27. Analysis of IIFCL's balance sheet and income statements reveals growing financial strength and market presence (Table 3). IIFCL's increased borrowings are supported by a stronger capital base through direct equity infusions. While the figures in Table 3 are derived from IIFCL's audited financial statements as of 31 March 2009, IIFCL's un-audited financial statements as of 30 June 2009 reflect an additional \$60 million equity infusion, further strengthening IIFCL's capital structure. IIFCL's growing profitability and sustainability are reflected in its financials, as is the fact that being a debt-financing institution its loan assets are financed by market borrowings. IIFCL has maintained a debt service coverage ratio of more than 1, and has no arrears in the repayment of its current debt obligations.

**Table 3: Key Financial Ratios of India Infrastructure Finance Company Limited**

Ratio	31 March 2009	31 March 2008
Debt/Equity	10.80	4.20
Debt/Total Assets	0.95	1.08
Profit after Tax (\$ million)	21.82	5.38
ROI (%)	1.71	0.88
ROE (%)	8.88	7.47

ROI = return on investment, ROE = return on equity.

Sources: Asian Development Bank estimates and India Infrastructure Finance Company Limited.

<sup>23</sup> ADB 2007. *Report and Recommendation of the President to the Board of Directors on India Infrastructure Project Financing Facility*. Manila (Loans 2404-IND and 2509-IND).

28. **Demonstration of Resources Leverage.** Since the commencement of its operations in January 2006, IIFCL has received 192 project proposals, of which it has sanctioned 107 eligible projects as per the Scheme. However, due to the ongoing financial crisis with resulting market pressure and loss in investor confidence, the flow of funds to infrastructure has been constrained. Reflecting the decline in the flow of credit, the total volume of IIFCL's sanctioned subprojects declined in FY2008 to \$362 million compared with \$1.7 billion in the previous year. On the contrary, disbursements for the sanctioned projects showed a strong upward trend during FY2008. As of the end of August 2009, IIFCL had a sanctioned pipeline of 88 projects, of which 85 have already reached financial closure. The total project cost of the sanctioned 88 projects is about \$32 billion, of which IIFCL will finance about \$4.0 billion. Thus for every \$1 of IIFCL's investment, over \$7 will come from the market reflecting IIFCL's catalytic role. The list of subprojects sanctioned by IIFCL is in Supplementary Appendix D.

29. **Operations Manual and Corporate Governance Framework.** IIFCL developed and adopted an operations manual in April 2009 stipulating the processes and guidelines to be followed by each department. The manual establishes risk management and assessment processes and details functional separation between loan origination, credit risk assessment and rating, pricing and disbursement functions. The manual also details IIFCL's accounting, legal, credit risk assessment and management, human resources policies, as well as the Board procedures and the functioning of the chairman and managing director's secretariat. The human resources and organization structure are being further enhanced in line with credit risk assessment and management requirements. A review of corporate governance and organization structure of IIFCL is in Appendix 4.

30. IIFCL's Scheme can only be amended by the Empowered Committee of Secretaries<sup>24</sup> to the Government, and amendments need to be signed off by the Finance Minister or the Prime Minister. IIFCL is regulated under the Scheme by a separate Oversight Committee,<sup>25</sup> thus separating IIFCL's policy making and regulatory arms. IIFCL is governed by the Companies Act 1956, which prescribes operating norms including Board composition and responsibilities, conflict of interest rules, disclosure, and financial performance. Despite not being formally governed by RBI regulations, as a self-regulatory measure IIFCL adopted RBI norms for (i) nonperforming assets, (ii) asset classification, (iii) provisioning, (iv) income recognition, (v) credit concentration, (vi) special reserve maintenance (capital requirements), (vii) liquidity requirements, and (viii) resource raising. IIFCL will annually review and report its adherence to its Board. Finally, under IIFCL's three tier audit framework audit reports are regularly placed before the Board Audit committee.

31. **Business Plan for FY2009.** IIFCL's business plan projects a cumulative loan sanction of around \$4.8 billion and disbursements of \$2.2 billion including subordinated debt for FY2009, compared with loans of \$3.8 billion and disbursements of \$900 million in FY2008. The disbursements are expected to be supported by higher utilization of lines of credit from multilateral and bilateral institutions. IIFCL also projects an operating profit of \$45 million in FY2009 compared with \$20 million in FY2008. A significant factor contributing to the expansion in IIFCL's balance sheet is expected to come from the power subsector especially through the twelve 4,000 megawatt (MW) (each) ultra-mega-power projects (all super critical technology) to

<sup>24</sup> The Empowered Committee comprises the secretary, economic affairs; secretary, planning commission; secretary, expenditure; secretary, financial sector, and, in his/her absence, special secretary and/or additional secretary (financial sector); and secretary of the line ministry dealing with the subject.

<sup>25</sup> The Oversight Committee is being constituted to review IIFCL's performance in line with the Scheme on a biannual basis. The oversight and empowered committees have no common membership.

be developed by the private sector with a capital cost of around \$3.14 billion each.<sup>26</sup> Contract awards have been awarded to four of these, which are expected to reach financial closure in FY2009. In addition, as many as 17 road projects are expected during FY2009–FY2010 with a total project cost of \$2.4 billion, offering significant opportunities for IIFCL financing.

## 6. Asian Development Bank Strategy and Assistance

32. **Strategy.** ADB's country operations and business plan 2008<sup>27</sup> and India country partnership strategy 2009–2012,<sup>28</sup> which are closely aligned with ADB's long-term strategic framework (2008–2020) (Strategy 2020),<sup>29</sup> are designed to support the Government's efforts to address infrastructure constraints as laid down in the 11th FYP.<sup>30</sup> According to Strategy 2020, ADB will focus its operations in five core areas, including infrastructure and environmentally sustainable development. Further, ADB will scale up private sector development and operations in all operational areas, reaching 50% of annual operations by 2020. The 11th FYP highlights infrastructure, agriculture and water management, and employment generation while emphasizing inclusive growth. In addition, the Government has facilitated private investment manifested through PPP in the infrastructure sector. Supporting the same, ADB strategies, including through the IIPFF II, will (i) support the process of inclusive and environmentally sustainable growth in India; (ii) catalyze investment through the use of innovative business and financing modalities (e.g., PPP, nonsovereign operations, tapping the carbon market, and greater cofinancing); (iii) strengthen, among others, the results orientation of project design and implementation; and (iv) support regional cooperation. In addition, in line with the three pillars of its *Energy Policy* (2009),<sup>31</sup> ADB supports energy sector development (i) to promote efficiency, (ii) maximize access, and (iii) promote sector reform and capacity building.

33. **Sector Assistance.** Since India began to borrow from ADB in 1986, ADB has assisted public sector infrastructure projects especially in transport and power. As of 30 April 2009, ADB's infrastructure portfolio in India includes 66 projects (energy, power, transport, roads, railways, and communications) totaling more than \$12.08 billion, and 129 technical assistance projects totaling more than \$67.75 million (Appendix 5).

34. To catalyze investment, ADB supports the Government's efforts to promote PPP in infrastructure. A series of TA projects (footnote 7) are being provided to several state governments and central (infrastructure) line ministries to build capacity for identifying and appraising projects for the PPP mode of finance. Significant capacity building has improved (i) PPP project preparation, appraisal, and evaluation skills; (ii) operationalization of identified PPP opportunities; (iii) the PPP regulatory and policy framework; (iv) bidding documents and procedures; (v) compliance with public safety norms; (vi) the building of a PPP database; and (vii) conduct of value-added research. In addition, ADB has provided sector-specific TA to

<sup>26</sup> As of February 2009, 12 ultra-mega-power projects were planned in Andhra Pradesh, Chhattisgarh, Gujarat, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra (2), Orissa (2), and Tamil Nadu (2).

<sup>27</sup> ADB. 2008. *India Country Operations and Business Plan 2009*. Manila.

<sup>28</sup> ADB. 2009. *India Country Partnership Strategy 2009–2012*. Manila.

<sup>29</sup> ADB 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

<sup>30</sup> Available at <http://planningcommission.nic.in/plans/planrel/fiveyr/11th/11default.htm>.

<sup>31</sup> ADB. 2009. *Energy Policy*. Manila.

promote PPP.<sup>32</sup> ADB has also provided extensive support for developing India's domestic capital market. The ADB-funded Financial Sector Program<sup>33</sup> supported the development of a diversified, competitive, and market-based financial sector. Building on this, financing for the Capital Market Development Program<sup>34</sup> helped establish an integrated national capital market system. With regard to market development, ADB has also been actively engaged in insurance and pension reforms.<sup>35</sup> These programs have increased operating and market efficiency, reduced costs and risks, improved market accessibility, strengthened investor protection, and enhanced the availability of long-term funds for infrastructure and industry.

35. **Lessons.** The IIPFF II incorporates lessons<sup>36</sup> from earlier financial intermediation loans for infrastructure<sup>37</sup> and, in particular, from implementing IIPFF I. First, IIFCL will conduct the required assessment of environmental and social safeguards compliance of subprojects at all stages of the project cycle and not only at subproject design. Further, the track record and environmental performance of subproject borrowers will be taken into account for subprojects supported by ADB. For subprojects at the implementation stage, due diligence will focus on the subproject's environmental performance through a compliance audit and on-site assessment. In addition, the IIPFF II has drawn on the IIPFF I experience for ensuring strong and sustainable institutional capacity of IIFCL to comply with the safeguards requirements. Additional assurance is included to ensure that IIFCL develops in-house expertise on environmental and social safeguards to monitor and evaluate subprojects on an ongoing basis (para. 85, xviii).

36. Second, building a strong partnership among stakeholders, including subproject developers, executing agency, Government, and ADB is essential to meaningfully pursue PPP development in India. Therefore, a holistic approach has been undertaken to support the Government's infrastructure development priorities and assist executing agencies with capacity building, policy advice, and provision of financing to promote PPP.

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<sup>32</sup> ADB. 1998. *Technical Assistance to India for Western Transport Corridor-Facilitating Private Participation*. Manila (TA 2986-IND for \$1 million approved on 9 February); ADB. 1999. *Technical Assistance to India for Private Sector Participation in Electricity Transmission*. Manila (TA 3380-IND approved on 28 December for \$600,000); ADB. 2001. *Technical Assistance to India for Preparing the National Highway Corridor Public-Private Partnership Project*. Manila (TA 3752-IND approved on 29 October for \$700,000); and ADB. 2003. *Technical Assistance to India for Development of High-Density Corridors Under the Public-Private Partnership*. Manila (TA 4271-IND approved on 18 December for \$700,000).

<sup>33</sup> ADB. 1992. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to India for the Financial Sector Program*. Manila (Loan 1208-IND approved on 15 December).

<sup>34</sup> ADB. 1995. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan for the Capital Market Development Program in India*. Manila (Loan 1408-IND approved on 28 November).

<sup>35</sup> ADB. 1999. *Technical Assistance to India for Reform of the Private Pension and Provident Funds System and the Employee's Provident Fund Organization*. Manila (TA 3367-IND approved on 26 December for \$1.0 million); ADB. 2000. *Technical Assistance to India for Policy and Operational Support and Capacity Building for the Insurance Regulatory and Development Authority*. Manila (TA 3460-IND approved on 22 June for \$800,000); ADB. 2003. *Technical Assistance to India for Pension Reforms for the Unorganized Sector*. Manila (TA 4226-IND approved on 25 November for \$1 million); ADB. 2003. *Technical Assistance to India for State-Level Pension Reforms*. Manila (TA 4548-IND approved on 23 December for \$750,000); and ADB. 2007. *Technical Assistance to India for Implementing Pension Reforms*. Manila (TA 4938-IND approved on 8 June for \$1.0 million).

<sup>36</sup> ADB. 2003. *Project Completion Report on the Private Sector Infrastructure Facility* (Loans 1480-IND and 1481-IND) in India. Manila; and ADB. 2006. *Project Performance Evaluation Report on Private Sector Infrastructure Facility*. Manila.

<sup>37</sup> ADB. 1996. *Report and Recommendation of the President to the Board of Directors on Three Proposed Loans for the Private Sector Infrastructure Facility*. Manila (Loans 1480-IND and 1481-IND approved on November); and ADB. 2001. *Report and Recommendation of the President to the Board of Directors on Proposed Loans to Infrastructure Leasing and Financial Services Limited and Industrial Development Bank of India and Proposed Technical Assistance Grant to India for the Private Sector Infrastructure Facility at State Level Project*. Manila (Loan 1871-IND approved on November).

37. The country assistance program evaluation<sup>38</sup> stresses the importance of effective demand and sector relevance when designing financial intermediary loans. Keeping this in view, IIPFF II is being processed in concert with Government's efforts to create an enabling environment for mainstreaming PPP and for financing PPP development and implementation. IIPFF II supports IIFCL's ability to leverage resources and expand the infrastructure investor base and sustain a tested business model that has resulted in a robust pipeline of projects. The country assistance program evaluation also identifies the need to develop corporate bond markets, enhance the institutional investment base and enhance corporate governance.

## 7. External Assistance and Donor Coordination

38. **External Assistance.** As of May 2009, the World Bank (including International Development Assistance) had an infrastructure investment portfolio of 55 projects totaling \$12.45 billion.<sup>39</sup> As of December 2008, the Japan International Cooperation Agency had more than 100 official development assistance loan projects, 50 grant aid projects, and 40 technical cooperation projects, of which its official development assistance loan commitment to India stands at ¥1,240.27 billion (approximately \$13.68 billion).<sup>40</sup> The Japan Bank for International Cooperation (JBIC) provides support through its nonsovereign window. Currently, JBIC has a total nonsovereign exposure to infrastructure amounting to around \$623.7 million from loans and guarantees. The German Government through Kreditanstalt für Wiederaufbau (KfW) has extended €590.29 million (\$879.53 million) to finance projects in India in energy, watershed development, rural water supply, and transport and communication.<sup>41</sup> External assistance to the infrastructure sector in India from key development partners is summarized in Appendix 6.

39. **Donor Coordination.** ADB coordinated with the JBIC, Japan International Cooperation Agency, KfW, and the World Bank during the processing and implementation of IIPFF I as well as the processing of the IIPFF II (Appendix 7). In addition to financing support to IIFCL, the scope of coordination with development partners cover (i) developing and operationalizing the ESSF (ii) providing technical assistance to IIFCL, and (iii) finalization of the financial management assessment (FMA).

## III. THE PROPOSED FACILITY

### A. Impact and Outcome

40. The impact of IIPFF II is to improve overall availability and reliability of physical infrastructure in line with the targets of the 11th FYP. The outcome of IIPFF II include (i) increased private sector participation, (ii) improved lending terms (particularly those of IIFCL) for infrastructure subprojects, and (iii) strengthened institutional capacity for ESSF monitoring and implementation, and catalyze complementary resources and skills in the market. These are to be realized through coordinated efforts of ADB, Japan International Cooperation Agency, KfW, World Bank, IIFCL's international subsidiary, and private equity providers.

<sup>38</sup> ADB. 2007. *Country Assistance Program Evaluation for India*. Manila.

<sup>39</sup> Available at <http://www.worldbank.org.in/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/INDIAEXTN/0,contentMDK:20195738>.

<sup>40</sup> On 1 October 2008, the Japan Bank for International Cooperation undertook an organizational structuring in which the official development assistance operations were streamlined and taken over by the Japan International Cooperation Agency.

<sup>41</sup> Available at <http://www.kfw.de/EN Home/index.jsp>.

## B. Outputs

41. The outputs of the IIPFF II can be categorized into three areas:
- (i) **High-quality and commercially viable infrastructure assets.** IIFCL's investment program will create high-quality viable infrastructure assets across sectors including projects for roads (56), power (22), ports (5), airports (2), and urban infrastructure (1). IIFCL will finance 14 subprojects (Appendix 8) through the IIPFF II.
  - (ii) **Cofinancing and provision of innovative financing instruments, and enhanced investor participation.** The IIPFF II will assist IIFCL in catalyzing the flow of domestic and foreign funds into PPP projects in India. The Government guarantee of IIFCL's borrowings (including the ADB loan) and IIFCL's supplementary financing initiatives enable financing options beyond products currently offered by the market. These include subordinated debt and risk capital, which is currently scarce. In addition, ADB support to IIFCL will provide an additional layer of assurance to investors in IIFCL's longer tenor corporate debt issuances. The IIPFF II is expected to help catalyze \$7.6 billion of investments from the private sector to finance the 14 PPP subprojects.
  - (iii) **IIFCL institutional capacity.** The IIPFF II seeks (a) to improve IIFCL's financial policies and risk management system including development and adoption of an integrated risk management system and installation of relevant hardware and software, and (b) to enhance implementation of the updated ESSF.<sup>42</sup>

## C. Special Features

42. **Public–Private Synergy.** The IIPFF II is part of the Government's integrated PPP development strategy and draws on extensive ADB support for infrastructure development through PPP. IIFCL is well-positioned to finance PPP subprojects emerging from the ongoing ADB support for mainstreaming PPP. The development of PPP subprojects by professional project developers (Infrastructure Development Finance Company and Infrastructure Leasing and Financial Services) and consideration of such projects for financing by a consortium of investors and lenders, including IIFCL, ensures deepening of project preparation and financing skills in the country. ADB is uniquely placed to finance PPP subprojects by offering customized financing options through its public and private sector windows.

43. **Efficiency and Effectiveness.** The IIPFF II is designed to enable ADB to finance a wide range of subprojects across subsectors rather than to discretely finance individual projects. The transaction costs for ADB and the Government are significantly reduced as project evaluation, appraisal, and financial structuring are conducted by specialized agencies seamlessly. The success of this approach is evidenced from the IIPFF I, which has already financed 24 infrastructure PPP subprojects. Under IIPFF I, IIFCL has leveraged about 5 times its lending and IIPFF II is expected to achieve a leverage ratio of about 7.

44. **Enhancing Investor Confidence.** The IIPFF II has been processed when liquidity in the international financial markets is tight and investor interest in long duration instruments are low.

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<sup>42</sup> The ESSF will be updated based on the National Rehabilitation and Resettlement Policy (2007) expected to be enacted in 2009, and ADB's new Safeguard Policy Statement, to be effective on 20 January 2010.

In this situation, access to long-term financing through IIPFF II reduces the need for subproject developers to front-load tariffs and improves affordability of services to the end user. In addition, IIPFF II is designed to catalyze private sector debt and equity fund flow into PPP subprojects that will improve subproject financials and promote commercial viability.

45. **Application of MFF.** The provision of financing through the MFF modality<sup>43</sup> to IIFCL is well suited for PPP. PPP subprojects are typically developed in a phased manner based on project implementation requirements that can involve long gestation periods. Therefore, the MFF modality provides IIFCL with flexibility to release financing in line with subproject readiness based on achievement of phased benchmarks including finalization of risk-sharing arrangements, readiness of engineering and procurement contracts, phased release of equity by subproject promoters, and so on. This enables IIFCL to be an effective partner of the lending consortium. Finally, with MFF the performance of earlier tranches can serve as an indicator to guide the financing modality of subsequent tranches.

#### **D. Policy Dialogue for Continued Financing Support for PPP**

46. ADB engages in policy dialogue on infrastructure and PPP at various levels of government (para. 9). In this context, ADB is also extensively engaged with IIFCL to ensure evolution and enhancements of the Scheme in line with infrastructure financing requirements as well as systems and processes needed to expand its product and services. The policy dialogue has focused on market gaps, institutional and capacity development needs within IIFCL, financial and pricing policies and mechanisms as well as the evolving reforms in the infrastructure and financial sectors.<sup>44</sup> As a result of this intensive engagement, the IIPFF I was designed to demonstrate a business model for financing PPP that leverages partnerships and synergies between institutions and their products and services (para. 20). This business model is now widely considered as part of second generation infrastructure reforms. As a result, ADB through IIPFF II and the World Bank<sup>45</sup> has extended further support to ensure that PPP subprojects have continued access to long-term financing in the context of the adverse impact of the financial crisis. IIPFF II has been processed in a more mature policy environment for PPPs and IIFCL's institutional capacity for mainstreaming PSP and PPP. ADB will also provide TA to the Government for enhancing the PPP policy and regulatory framework.

47. The deepening and widening shelf of PPP projects has significantly increased IIFCL's funding requirements. With immense infrastructure gaps, the domestic financial market is still not equipped to provide more sophisticated risk management and financing products in the volume, scale and scope required to meet infrastructure PPP project requirements. Taking a medium-term perspective, further ADB support to IIFCL in addition to lines of credit, would aim at promoting a wider range of financial and risk management products and services required by the increasingly diverse project requirements for attaining financial closure. This may include developing arrangements and capacity in IIFCL to offer credit enhancements such as credit wrap insurance to projects<sup>46</sup> and partial guarantees for the exposures of commercial banks to infrastructure projects.<sup>47</sup> The partial credit guarantee for the exposure of commercial banks will

<sup>43</sup> ADB. 2005. *Innovation and Efficiency Initiative: Pilot Financing Instruments and Modalities*. Manila.

<sup>44</sup> ADB has supported IIFCL in obtaining an international credit rating from an international credit rating agency and acquiring hardware and software for accessing and managing credit risk and for pricing loans commensurately.

<sup>45</sup> The World Bank has approved a \$1.195 billion loan to IIFCL in September 2009.

<sup>46</sup> Credit wrap offered by IIFCL has the potential to accord subproject special purpose vehicle (SPV) with the rating on par with IIFCL which will then enable the subproject to access domestic insurance funds (see para. 18)

<sup>47</sup> The rating of project specific SPVs which are in the BB and BBB range attract a risk weight of 100% to 150% as per Basel norms.

reduce the risk weight of the guaranteed portion that would result in lower capital requirements and, thus the freed up capital could be leveraged further. Additionally, IIFCL could also be supported to offer 'takeout financing', which can help free up capital of commercial banks for financing additional projects.<sup>48</sup> IIFCL is also planning to access the international bond markets on the strength of its own balance sheet without government guarantee. This will open an additional channel of funding and also provide a benchmark for similarly rated Indian corporates in international markets.

## E. Investment Plan

48. As of the end of August 2009, IIFCL had a pipeline of 88 sanctioned projects with a total cost of Rs1,472.80 billion (\$31.90 billion); IIFCL's financing is estimated at Rs184.48 billion (\$4.0 billion). Its lending pipeline is expected to grow on average by 25 projects per year during the investment program period (FY2009–FY2013). As a result of these asset additions, IIFCL's balance sheet is expected to grow to around \$11 billion during the same period.

## F. Financing Plan

49. Table 4 summarizes the indicative financing plan for FY2009–FY2013 under the assumption that IIFCL's balance sheet will grow to \$11 billion.

**Table 4: Indicative Financing Plan FY2009–FY2013**  
(\$ million)

Source	Total	%
Asian Development Bank	700	6.36
Local Market Borrowings <sup>a</sup>	5,000	45.45
Foreign Borrowings <sup>b</sup>	5,300	48.18
<b>Total</b>	<b>11,000</b>	<b>100.00</b>

<sup>a</sup> Funds that India Infrastructure Finance Company Limited will raise from the domestic market, including insurance and pension funds and the national savings scheme.

<sup>b</sup> Foreign borrowings include bilateral and multilateral sources and funds that India Infrastructure Finance Company Limited will raise from international capital markets.

Sources: Asian Development Bank estimates and India Infrastructure Finance Company Limited.

50. IIFCL, through the Government, has requested financing through an MFF of \$700,000,000 from ADB's ordinary capital resources to finance part of its Investment Program. Accordingly, the MFF is included in the India country operations business plan for FY2009. The MFF will have multiple tranches, with the first tranche programmed for \$210 million in accordance with ADB's *Innovation and Efficiency Initiative: Pilot Financing Instruments and Modalities*.<sup>49</sup> The MFF loans will have an interest rate set in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge, and

<sup>48</sup> Under take-out financing, institutions engaged in long term financing such as IIFCL, agree to 'take out' loans from the books of banks financing infrastructure projects after a fixed time period (e.g. 5 years), when the project reaches certain previously defined milestones. This ensures that projects get long-term funding from various participants. This will enable banks to participate in infrastructure project financing despite having short term liabilities (deposits) and not suffer adverse asset-liability mismatches.

<sup>49</sup> ADB. 2005. *Innovation and Efficiency Initiative: Pilot Financing Instruments and Modalities*. Manila.

such other terms and conditions as set forth in the draft loan and guarantee agreements.<sup>50</sup> IIFCL has provided ADB with (i) the reasons for its decision to borrow under ADB's LIBOR-based lending facility, and (ii) an undertaking that these choices were its own independent decision and not made based on any communications or advice from ADB.

51. The Government will provide a sovereign guarantee in form and substance acceptable to ADB, for the term of each loan as a condition precedent to the effectiveness of each tranche requested by IIFCL and provided by ADB pursuant to the terms of each loan agreement.

52. **Framework Financing Agreement.** IIFCL and the Government have entered into an FFA with ADB. The FFA satisfies requirements established in ADB's *Innovation and Efficiency Initiative: Pilot Financing Instruments and Modalities*. The FFA records the full set of assurances, warranties, and representations on cross-cutting themes covering safeguards, governance, anticorruption, financial management, procurement, disbursement, and subproject selection. Before ADB accepts the periodic financing request (PFR), the Government and IIFCL will ensure full compliance with the terms and conditions of the FFA.

53. **Periodic Financing Request.** Multipurpose subloans will be extended under the IIPFF II to a range of subprojects subject to submission of the related PFR by IIFCL and execution of related loan and guarantee agreements. Each PFR will be accompanied by a list of subprojects identified for financing under the IIPFF II, including subprojects that can be substituted for subprojects not in compliance with ADB requirements. ADB has received the first tranche (PFR1) for \$210 million to finance infrastructure subprojects (Appendix 8). The subsequent tranches are of \$250 million (second) and \$240 million (third).

## **G. Implementation Arrangements**

54. **Project Management.** IIFCL will be the Executing Agency for the IIPFF II. IIFCL's board of directors will provide policy direction and strategic oversight. IIFCL's Project Management Unit (PMU), established under the IIPFF I, will monitor day-to-day implementation of the IIPFF II and build capacity of IIFCL in areas of identification, screening, selection, and monitoring of all subprojects, including compliance with state and national policies and the ESSF. In addition, IIFCL will be responsible for developing and implementing an investment program performance monitoring system (IPPMS). The implementation schedule is provided in Appendix 9.

55. **Subproject Identification.** The selection of subprojects is based on agreed selection criteria (para. 56). The 14 subprojects under the proposed IIPFF II have been selected based on the agreed criteria. The selection criteria stress commercial and technical viability and compliance with relevant national and ADB norms. Further, the identified subprojects will be approved by ADB for eligibility based on an agreed approval procedure (para. 57) that ensures environmental and social safeguard due diligence and fulfillment of ADB disclosure requirements. The required due diligence and documentation requirements are being conducted for the 14 subprojects to ensure subproject readiness to absorb financing of ADB loan proceeds.

56. **Subproject and Subborrower Selection Criteria.** The Scheme defines the subborrower and subproject selection criteria, appraisal and monitoring mechanisms, and lending terms for subprojects (Supplementary Appendix B), which include appraisal by a

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<sup>50</sup> ADB rules on commitment charges, which are in effect when a tranche is provided, will apply with respect to such tranche.

specialized and designated appraisal agency for technical, economic, and financial viability.<sup>51</sup> In addition, each subborrower funded under the IIPFF II will

- (i) be selected in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time);
- (ii) have adequate resources and financial capability to raise resources to complete and operate the relevant subproject successfully;
- (iii) not be in default under any prior loan from IIFCL or from any of the participating members of the consortium of lenders;
- (iv) be able to provide security as required by the consortium of lenders;
- (v) maintain appropriate financial records of income and expenditure to the satisfaction of IIFCL and ADB; and
- (vi) comply with and cause each subproject to comply with ADB's safeguard requirements and national and state policies, laws, and regulations relating to environment, resettlement, and indigenous peoples applicable at the date the relevant PFR is submitted.

57. **Approval Procedure.** Subprojects under the IIPFF II will be processed as follows.

- (i) IIFCL will review the preliminary designs and cost estimates for all subprojects proposed under the respective tranches as approved by the lending consortium.
- (ii) Prior to the preparation of each PFR, the applicability and relevance of the common ESSF for environmental assessment, involuntary resettlement, and indigenous peoples will be reviewed and updated to ensure its relevance and consistency with applicable country frameworks, and ADB's environmental and social safeguard policy and procedural requirements.
- (iii) In formulating each new PFR, IIFCL will conduct due diligence on potential candidate subprojects to ascertain their compliance with the ESSF. IIFCL will forward to ADB its findings, supported by other relevant safeguard documents, including as applicable, the initial environmental examination, environmental assessment report, and environmental management plan, or environmental audit and collective action plans as required, for information and review. ADB's findings will be forwarded to IIFCL, which will fulfill additional ADB requirements, as required for any compliance gaps. In addition, any subproject financed under the IIPFF II will follow the approved common ESSF.
- (iv) IIFCL will submit the compliance certificate, along with the PFR, to ADB for approval.

58. A PFR will (i) state the tranche amount; (ii) list subprojects to be financed under the tranche; (iii) will include appraisal reports (or project information memorandum) for listed subprojects including the environmental assessment report<sup>52</sup> and appropriate resettlement and indigenous peoples plan, if any; (iv) detail cost estimates and the financing plan; (v) detail implementation arrangements; (vi) confirm the continuing validity and adherence to FFA provisions; (vii) confirm compliance with provisions under previous loan agreements; and (viii)

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<sup>51</sup> IIFCL's Scheme requires IIFCL to only finance commercially viable projects, provide financing on commercial terms, and price loans accordingly. Thus, all aspects of project economics and credit worthiness with regard to projects are subject to extensive due diligence prior to loan approval by IIFCL. Further, as the Scheme requires IIFCL to finance projects in critical infrastructure subsectors only, a positive development impact is expected.

<sup>52</sup> For projects categorized as environment category B-sensitive or category A, ADB's 120-day rule for the submission of the PFR will apply.

provide other information required under IIPFF II administration memorandum which will be prepared and agreed upon by ADB, the Government, and IIFCL to facilitate MFF implementation and processing.

59. **Maximum Subloan Size and Free Limit.** As IIFCL is limited by its Scheme to financing up to 20% of subproject cost, ADB will not stipulate any additional limitation on subloan size. However, all subloans under the first tranche will be subject to prior review and approval of ADB. For subsequent tranches, a suitable free limit pursuant to the provisions of ADB's operations manual<sup>53</sup> may be determined for IIFCL, based on ADB's assessment of IIFCL's operating performance, appraisal standards, portfolio quality, management, average loan size, and the subproject pipeline. However, ADB reserves the right to review subprojects even below the free limit to ensure safeguard compliance.

60. **Period of Utilization.** The utilization period will be up to 31 December 2014. To ensure timely implementation in line with the Government's emphasis on the disbursement readiness of approved loans, IIFCL will prepare a detailed disbursement plan for the PFR of the tranches. The final PFR should be submitted no later than 31 March 2014.

61. **Procurement.** All procurement to be financed under an ADB loan will be carried out in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time) and will comply with the operations manual adopted by the IIFCL board of directors (14 November 2008).<sup>54</sup> ADB will encourage IIFCL to require its subborrowers to adopt internationally competitive bidding procedures to the extent possible when the amount of the investment is unusually large, and economy and efficiency can be gained by following such procedures. For procurement of goods and services to be financed by sub-loans from the ADB loan, IIFCL will ensure that the price paid is reasonable and that account is taken of factors such as time of delivery, efficiency, and reliability. For build-operate-transfer projects and their variants, if the subproject sponsor or engineering procurement and construction contractor is selected through competitive bidding among international entities in accordance with procedures acceptable to ADB, such engineering procurement and construction contractor may apply its own procedures for procurement provided that such procurement is for goods, services, and works supplied from or produced in ADB member countries.

62. **Disbursement Arrangements.** IIFCL will ensure that the individual loan proceeds under the IIPFF II will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). While making disbursements, IIFCL will review the utilization report for each subproject verified by a chartered accountant and lead bank. The utilization report will be accompanied by an engineer's certificate. IIFCL will establish an imprest account in a current account with a commercial bank acceptable to ADB. The imprest amount, at any time, will not exceed (i) 10% of each loan tranche, or (ii) estimated expenditures for the first 6 months of project implementation, whichever is lower.

63. **Financial Management.** An FMA to examine IIFCL's financial and fiduciary management capacity for implementing the IIPFF II was undertaken (Supplementary Appendix E).<sup>55</sup> The FMA concluded that IIFCL has adopted accounting systems in line with norms

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<sup>53</sup> ADB. 2003. *Operation Manual*. Section D6/OP: Financial Intermediation Loans. Manila (15 December, para. 7).

<sup>54</sup> ADB. 2007. *Procurement Guidelines*. Manila (para. 3.12).

<sup>55</sup> The FMA is based on discussions with various officials of IIFCL, Indian Credit Rating Agency Limited, and the World Bank. The World Bank conducted its own financial management assessment and the ADB and World Bank teams shared the findings of their respective assessment reports.

prescribed by the Institute of Chartered Accountants of India and supported by standardized software. IIFCL undertakes (i) a concurrent internal audit by an external firm of chartered accountants, (ii) a statutory audit by an independent firm of chartered accountants appointed by the comptroller and auditor general of India,<sup>56</sup> and (iii) a supplementary audit by the comptroller and auditor general of India. IIFCL has constituted an audit committee in line with Section 292(A) of the Companies Act, 1956 which reports directly to the Board. As part of the IIPFF II, IIFCL will closely monitor physical and financial progress of subprojects based on utilization certificates provided by the firm of chartered accountants and lead banks prior to disbursements in line with Government norms. ADB reserves the right to verify IIFCL's financial accounts and those of related entities.

64. **Governance and Anticorruption Policy.** ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with IIFCL. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to review and examine, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the subprojects under the IIPFF II. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the loan regulations and the bidding documents for projects under the IIPFF II. In particular, all subprojects financed by ADB in connection with the IIPFF II shall include provisions specifying the right of ADB to review and examine the records and accounts of the Borrower, subborrowers, suppliers, contractors, and other service providers as they relate to the subprojects.

65. Under its operations manual, IIFCL discloses to its Board all financial relationships and transactions of nonexecutive directors in its annual report. The compensation of all Board members is also disclosed. IIFCL management is required to disclose to the Board all material, financial, and commercial transactions where members of management have a personal interest and transactions where such members have a potential conflict of interest with the interests of IIFCL.<sup>57</sup> In the event that a director is an interested party in a transaction, based on disclosure, the director may not, in any way, take part in or influence arrangements in the transaction, in accordance with Section 300(1) of the Companies Act. The management of IIFCL provides a clear description of contingent liabilities and associated risks.

66. In addition, IIFCL has a "whistle blower" policy to maintain ethical standards. Under this policy, staff members who notice unethical or improper practices are able to approach the audit committee without informing their supervisors. On review of the complaint, the audit committee designates an investigation officer, who is required to submit a report within 30 days, or 3 months if the case has vigilant overtones. The case may then be investigated interdepartmentally or may be entrusted to the Central Bureau of Investigation. Once an investigation is initiated, the interdepartmental authorities or the Central Bureau of Investigation are responsible for conducting the entire process to its logical conclusion including drafting of the charge sheet and conduct of criminal proceedings.

67. **Accounting, Auditing, and Reporting.** IIFCL, through the PMU, will establish and maintain separate records for works, goods, and services financed from the loan proceeds. IIFCL will maintain separate project accounts according to generally accepted accounting principles for all expenditures incurred under the IIPFF II and the subprojects, whether out of loan proceeds or from other sources, and record, in a transparent manner, all funds received from the Government, ADB, and other sources.

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<sup>56</sup> Gupta Nanda and Company is the statutory auditor.

<sup>57</sup> Nondisclosure is a punishable offense under Section 299(4) of the Companies Act.

68. IIFCL, through the PMU, will maintain detailed consolidated annual project accounts to be audited by independent auditors with qualifications, experience, and terms of reference acceptable to ADB. The accounts will be submitted to ADB within 6 months at the end of the fiscal year. The annual audit report will include a separate audit opinion on the use of loan proceeds, use of the imprest account, free limit, and compliance with financial loan covenants. IIFCL has been made aware of ADB's policy regarding delayed submission of audits and its requirements for a satisfactory and acceptable audit of accounts.

69. **Retroactive Financing.** IIFCL may request retroactive financing for the first PFR under the MFF. For subsequent loans, ADB may agree to a request for retroactive financing of civil works, equipment, and materials, subject to the request being made under following PFRs and being in accordance with the agreed procedures and guidelines. All such requests will be assessed on a subproject-by-subproject basis to ensure that the proposals demonstrate (i) the expenditures incurred are genuine, reasonable, and material to getting the subproject started; and (ii) they were incurred for proper reasons, in a transparent manner, over a reasonable period of time. These arrangements will facilitate the readiness of subprojects under the IIPFF II and will be considered for subsequent subprojects during the processing of individual PFRs. The total eligible expenditure under retroactive financing will not exceed an amount equivalent to 20% of the individual loan and must have been incurred not more than 12 months before signing of the related legal agreements. However, approval of retroactive financing does not commit ADB to finance the subprojects being developed under the IIPFF II. Before being accepted for retroactive financing, subprojects will be reviewed and certified by IIFCL for ESSF compliance.

70. **Subproject Performance Monitoring and Evaluation.** IIFCL will be responsible for establishing an IPPMS acceptable to ADB within 6 months from the signing of the FFA and PFR1. For the IPPMS, IIFCL will first select a set of clearly measurable performance monitoring indicators relating to implementation, improvements, institutional development, and capacity building milestones including those in the design and monitoring framework. IIFCL will establish baseline data for each of the selected indicators within 6 months of the date that the PFR1 under IIPFF II takes effect. Subsequently, IIFCL will conduct annual surveys and update ADB on progress against each indicator. IIFCL will submit quarterly progress reports attached to the facility administration memorandum and submit to ADB a completion report within 3 months after the completion of all subprojects identified for financing.

71. **Subproject Review.** Subproject review is designed to ensure that all ADB funds to IIFCL are relent only to subprojects that comply with the ESSF and other ADB requirements. Further, all subproject sites will be visited by environmental and social safeguard consultants, and the compliance reports submitted to ADB for review. Thus, ADB will have prior information on subproject location, development impact, and potential environmental and/or social safeguards issues and will have the ability to reject subprojects not in compliance with ADB requirements. In addition, IIFCL is continuously upgrading its internal subproject monitoring capabilities as indicated in the assurances (para. 85).

72. ADB will, at its discretion, conduct reviews of the management, financial, and operating processes of IIFCL and subprojects financed under the IIPFF II, with regard to the potential pool of funds that could be generated in the event of tenor differentials between ADB loans to IIFCL and IIFCL's relending. ADB monitoring will ensure that the usage is compliant with ADB norms and conforms to subproject eligibility and approval guidelines.

73. **Monitoring and Evaluation.** The performance of the IIPFF II will be periodically reviewed using the design and monitoring framework by (i) IIFCL through the PMU (quarterly), (ii) IIFCL's board of directors (semiannually), and (iii) ADB (annually). The PMU will complete the report based on its quarterly review by the 10th day following the end of the quarter. IIFCL's Board will forward the semiannual progress reports to ADB by the 10th day of the month following the semiannual review. ADB will review the quarterly progress reports and semiannual reports, and undertake annual review missions during the tripartite reviews chaired by the Government. In addition, a midterm review of the investment program will be conducted in FY2011. The review will cover disbursements, implementation progress (including progress of capacity building initiatives), ESSF implementation, and the status of the IPPMS. The review will identify weaknesses and suggest changes in scope, outputs, and due diligence, as required.

#### **IV. INVESTMENT PROGRAM BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS**

##### **A. Benefits and Impacts**

74. **Benefits of the IIPFF I.** The IIPFF I generated significant benefits as it supported industrial and agricultural development by reducing vehicle operating costs, minimizing delay in passenger and freight movements, and reducing accidents. Specifically, the IIPFF I supported the National Highway Development Program of the Government by financing upgrading of the national and state highway networks by widening existing roads and building new highways. Overall, the IIPFF I supported upgrading and expansion of more than 1,100 km of the road network across the country. Given that on average, 20,000 person-days of employment are generated per km of road construction, the IIPFF I will result in about 22 million person-days of employment. This increased employment opportunity will significantly benefit rural workers in the unorganized sector. Following the IIPFF I success, the IIPFF II is envisaged to increase infrastructure investment, particularly through PPP, to achieve the goal of attracting 30% of overall infrastructure investment from the private sector by 2012. The IIPFF II also envisages financing subprojects for roads, power, and airports; and increase overall availability and reliability of physical infrastructure in India. Improved infrastructure investment will in turn lead to higher productivity, employment, income, and other economic benefits. The summary poverty reduction and social strategy is in Appendix 10. Promotion of infrastructure development through PSP also mitigates fiscal stress both at the central and state levels.

75. **Demonstration Effect as a Model Institution.** The \$700 million IIPFF II, while small in relation to requirements, will have a demonstration effect in restoring investor confidence amid the global financial crisis. Moreover, IIFCL has introduced best practices in infrastructure financing including through innovative financial products and technology. As a result, other ADB developing member countries are currently replicating the institutional and operational model of IIFCL to suit their specific circumstances. Therefore, building upon the success of IIPFF I and the strong partnership established among stakeholders during IIPFF I implementation, IIPFF II will help IIFCL sustain and continue its successful operations as well as perfect its business model in promoting PPP in infrastructure financing in India.

76. **Economic and Financial Returns.** IIPFF II is expected to catalyze an investment of around over \$7.5 billion from the private sector to finance 14 subprojects. While the projects sanctioned by IIFCL are spread across all infrastructure subsectors, the majority of subprojects identified for the IIPFF II are for roads and energy. The economic efficiency of road projects is typically high with an economic internal rate of return (EIRR) in the 25%–30% range and financial internal rate of return (FIRR) in the 10%–15% range. The estimates are also robust from a sensitivity point of view with the EIRRs and FIRRs not declining significantly even in

worst case scenarios. Further, the EIRRs and FIRRs are significantly above the opportunity cost of capital. IIPFF II is also expected to finance power generation and airport projects where EIRR estimates also meet benchmark requirements.<sup>58</sup>

**77. Environmental and Social Safeguards.** ADB took the lead during processing of IIPFF I<sup>59</sup> in developing a common ESSF<sup>60</sup> (Supplementary Appendix F) in consultation with JBIC, KfW, and World Bank for harmonizing the safeguards policy framework for environment, involuntary resettlement, and indigenous peoples in 2007. IIFCL has adopted the ESSF and improved in-house capacity with ADB support. The ESSF is uploaded on IIFCL's website.<sup>61</sup> Additional improvements are under way with the support of the ongoing capacity development.<sup>62</sup> IIFCL will continue to ensure all subproject proposals, to be financed under the IIPFF II, comply with the requirements of the ESSF. IIFCL will appoint qualified specialists in areas of environmental and social safeguards to build in-house capacity for which an advertisement has been placed on IIFCL's website. The ESSF will be reviewed and updated taking into account ADB Board approval of the Safeguard Policy Statement,<sup>63</sup> expected approval of the Indian National Rehabilitation and Resettlement Policy, and ADB's experience in implementing the ESSF under the IIPFF I.

**78. Enhanced Project Financing Framework.** In line with the growing balance sheet and the requirements of the Scheme, IIFCL has evolved a risk assessment and rating migration framework to address credit and market risks. Risk-rating templates were introduced and every loan proposal is subjected to risk rating with ADB assistance. In addition, a framework to address asset and liability mismatches as well as portfolio monitoring mechanisms is being established. Risk-based pricing of subloans by IIFCL provides a benchmark for corporate debt issuance and provides the basis for allocating capital and building up assets based on risk-return criteria. The same will guide policymakers in initiatives designed to improve project returns for any given level of risk. The demands of international rating agencies provide IIFCL with an incentive to adopt best practices for ensuring an investment grade rating and managing borrowing costs.<sup>64</sup>

<sup>58</sup> According to a review paper, Sector Assistance Program Evaluation for the Energy Sector in India 2007, by ADB's Independent Evaluation Department, the EIRRs of ADB-funded energy sector projects in India were higher than 12% ranging from 13% to 31.5%, implying economic efficiency in resource allocation and use.

<sup>59</sup> The process of preparing the environmental and social safeguards framework was guided by ADB's Environmental and Social Safeguards Division. The first meeting of the development partners took place on 9 February 2007 and the second on 13 August 2007. The draft social safeguards framework was uploaded to the ADB website on 17 August 2007. Available at [http://www.adb.org/Documents/Resettlement\\_Plans/IND/40655/default.asp](http://www.adb.org/Documents/Resettlement_Plans/IND/40655/default.asp).

<sup>60</sup> The common safeguards frameworks include (i) the anticipated impacts of the components or projects likely to be financed under the MFF on the environment, involuntary resettlement, and indigenous peoples; (ii) safeguards criteria to be used in selecting projects; (iii) requirements and procedures to be followed to screen and categorize projects, conduct impact assessments, develop management plans, hold public consultations, and disclose public information (including the 120-day disclosure rule, if required), and monitor and report the progress of such projects or project components; (iv) the institutional arrangements (including budget and capacity requirements); and (v) IIFCL's and ADB's responsibilities and authorities for the preparation, review, and clearance of safeguards documents.

<sup>61</sup> Available at [http://www.iifcl.org/whatsnew\\_details.php?wid=18](http://www.iifcl.org/whatsnew_details.php?wid=18).

<sup>62</sup> Under the IIPFF I, two national (one environmental and one social safeguards) specialists were hired in July 2007.

<sup>63</sup> ADB. *Safeguard Policy Statement*. 2009. Manila.

<sup>64</sup> International credit-rating agencies closely monitor all aspects of operating performance and failure to comply with best practice is likely to lead to a rating downgrade and an increase in financing costs.

## B. Assumptions, Potential Risks, and Mitigation

79. The envisaged benefits and impacts are based on several assumptions that are subject to varying degrees of risk, including (i) the Government continues to prioritize and support policy actions for infrastructure development through PPP; (ii) the Government continues its commitment to maintain IIFCL as a commercially oriented entity; and (iii) IIFCL maintains sufficient institutional capacity and staffing for smooth project implementation.

80. Potential risks include (i) a change in the Government infrastructure development focus away from PPP, (ii) poor quality of the IIFCL pipeline resulting from weak internal capacity; and (iii) IIFCL's asset profile having a high degree of concentration in a limited number of infrastructure subprojects creating concentration risk. The following mitigating measures are in place.

81. **Government Commitment.** The Government has reaffirmed its commitment to infrastructure development and the role of the private sector thereby ensuring effective demand for IIPFF II. ADB and other development partners are closely involved in the policy dialogue with the Government and are committed to supporting initiatives that are in line with best practices. The evolution of IIFCL's Scheme has consistently reflected market requirements and is expected to do so going forward.

82. **Institutional Capacity.** Factors mitigating weak internal capacity resulting in poor quality of the subproject pipeline include (i) intensive appraisal of subprojects by IIFCL; (ii) the emphasis of IIFCL's mandate and Scheme on commitment to operating autonomy, good governance, and commercial orientation; and (iii) ongoing ADB and World Bank support to IIFCL for developing systems, procedures, and human resources.

83. **Portfolio Diversification.** IIFCL's Scheme currently does not permit IIFCL to take an exposure in excess of 20% of the total capital costs for any particular project; this ensures sector and geographic diversification in the asset portfolio. The ongoing efforts for mainstreaming PPP will help generate viable subprojects in all parts of the country.

## V. ASSURANCES

84. In addition to the standard assurances, the Government and IIFCL have given the following assurances, which will be incorporated in the individual loan agreement(s) as applicable and mutually agreed by the Government and ADB for each tranche under the MFF.

85. The Government and IIFCL will ensure the following:

- (i) The Government remains committed to the implementation of the *Scheme for Financing Viable Infrastructure Projects* through IIFCL as further amended from time to time. In the event of any change in the Scheme, the Government, IIFCL, and ADB will assess the potential impact on the IIPFF II and evaluate any change in scope, amendment, or continuation, as appropriate, of the IIPFF II.
- (ii) IIFCL complies, at all times, with the prudential norms as made applicable to it by the Government, including capital adequacy, income recognition, classification, and provisioning of nonperforming assets.
- (iii) IIFCL maintains a debt service coverage ratio of at least one and ensures that it has no arrears in repayment of its current debt obligations.
- (iv) The subprojects and subborrowers meet the eligibility criteria agreed with ADB,

- including financial and economic viability and positive development impact.
- (v) The onlending rates to subborrowers are market-based and adequate to cover all costs and risks associated with onlending, including any foreign exchange risk.
  - (vi) The subborrowers adopt and implement appropriate procurement procedures that are based on competitive bidding and foster economy, efficiency, and transparency.
  - (vii) A subloan to a subborrower is made for only such subproject that involves procurement of goods, works, and consulting services from ADB's developing member countries and the amount of which is at least equal to the size of the subloan for such subproject.
  - (viii) IIFCL will provide long-term finance to eligible infrastructure subprojects in accordance with the requirements of its Scheme. IIFCL will select subprojects for financing in accordance with the selection and approval criteria. IIFCL will ensure that the eligibility requirements for subproject and subborrower selection criteria of the IIPFF II adhere to the Scheme.
  - (ix) All subprojects are submitted to ADB for prior review, unless otherwise agreed between ADB and IIFCL.
  - (x) The environmental management system framework, as set out in the ESSF, is implemented in accordance with its terms. The Borrower shall ensure that each subproject is implemented and undertaken in accordance with the terms and conditions of the ESSF acceptable to ADB, and in compliance with applicable environmental laws, rules, regulations and policies of India, relevant State of India, and ADB's *Environment Policy (2002)* or ADB's *Safeguard Policy Statement (2009)* as effective on the date the PFR is submitted. Further, that for each subproject, environmental assessment, as applicable such as initial environmental examination, environmental impact assessment, and the environment management plan, or environmental audit including collective action plans if required, are submitted to ADB for review and approval before IIFCL submits the PFR; and that for any category A or environmentally sensitive B subproject, the initial environmental examination or the summary environmental impact assessment is made available to the public 120 days before a PFR is submitted to ADB.
  - (xi) IIFCL will implement the social safeguards framework, as set out in the ESSF, is implemented in accordance with its terms. IIFCL will ensure that each subproject, which involves land acquisition and has resettlement impacts, is implemented and undertaken in accordance with the terms and conditions of the ESSF acceptable to ADB, and the resettlement plan is submitted to ADB before approval. IIFCL will also ensure that an adequate number of staff are trained and deployed to fully implement and comply with the ESSF.
  - (xii) IIFCL will cause each qualified enterprise to ensure that each subproject, which involves land acquisition and has resettlement impacts, is undertaken in compliance with all the applicable laws of India, the relevant State of India, and ADB's *Involuntary Resettlement Policy (1995)*, or ADB's *Safeguard Policy Statement (2009)* as effective on the date the PFR is submitted. Further, the resettlement plans for those sub-projects proposed for financing under the Facility are submitted to ADB for approval for ADB financing. Furthermore, each subborrower is required by IIFCL to ensure that (a) all land and rights-of-way required for subprojects are obtained in a timely manner, (b) the provisions of the resettlement plans are implemented in accordance with the terms, (c) all compensation and resettlement assistance is given to the affected persons prior to their dispossession and displacement and commencement of civil works, (d)

resettlement plans are updated upon completion of the detailed design and submitted to ADB for approval prior to commencement of civil works, (e) adequate staff and resources are committed to supervising and monitoring implementation of the resettlement plans, and (f) an independent agency acceptable to ADB and IIFCL is engaged by the subborrower to monitor and evaluate results of implementation of resettlement plans and forward reports to ADB and IIFCL as required.

- (xiii) IIFCL shall (a) implement the recommendations set out in the human resources assessment<sup>65</sup> in accordance with the procedures described therein, and (b) update ADB on the status of implementation of the human resources assessment in each quarterly progress report provided to ADB.
- (xiv) Subprojects do not adversely affect vulnerable groups, such as indigenous peoples, and, in the event of any impact or their involvement, IIFCL will implement the social safeguards framework as set out in the ESSF in accordance with its terms to ensure compliance with ADB's *Policy on Indigenous Peoples* (1998), or ADB's *Safeguard Policy Statement* (2009) as effective on the date the PFR is submitted;
- (xv) Accountability and transparency in IIFCL are maintained in its operations through stakeholder meetings and publication of progress reports through the duration of the IIPFF II. Internal procedures and controls are instituted, maintained, and complied with to prevent any corrupt, fraudulent, collusive, or coercive practices and to ensure conformity with ADB's *Anticorruption Policy* (1998 as amended to date). All contracts financed by ADB in connection with the subprojects specify the right of ADB to review and examine the records and accounts of the subborrowers, suppliers, and contractors, as they relate to the subprojects.
- (xvi) IIFCL shall ensure that its annual report to its board of directors, and ADB includes a report upon and discussion of the implementation of its Corporate Governance Framework. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to examine and review any alleged corrupt, fraudulent, and coercive practices relating to qualified subprojects.
- (xvii) All IIFCL subloan agreements appropriately reflect the obligations assumed by IIFCL and the respective subborrowers under the IIPFF II, including those in respect of any existing subprojects that IIFCL has already approved but which receive ADB financing under the IIPFF II.
- (xviii) IIFCL shall further develop and maintain the capacity of PMU staff to perform the responsibilities of the PMU, including developing and maintaining specialist capacity and expertise to conduct and implement environmental and social safeguards due diligence by (a) developing and training existing staff with such capacity and expertise, and/or (b) engaging staff or consultants with such capacity or expertise.

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<sup>65</sup> "Human resources assessment" means the manpower assessment study which assessed the human resources of the Borrower and made recommendations for additional human resource requirements and was approved by the board of directors of the Borrower on 4 June 2009.

## **VI. RECOMMENDATION**

I am satisfied that the proposed multitranche financing facility would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the provision of loans under the multitranche financing facility in an aggregate principal amount not exceeding \$700,000,000 to India Infrastructure Finance Company Limited, to be guaranteed by India, for the Second India Infrastructure Project Financing Facility from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, and such other terms and conditions as are substantially in accordance with those set forth in the Framework Financing Agreement presented to the Board.

Haruhiko Kuroda  
President

26 October 2009

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Improved overall availability and reliability of physical infrastructure</p>	<p>Reduction in peak and average energy deficit (2007 baseline: 124,568 MW; 2012 investment target: \$134 billion)</p> <p>Widening of national highways in line with National Highways Development Project (2007 baseline: 66,590 km; 2012 investment target: \$63 billion)</p> <p>Achieving targeted GDP growth of 9% per annum</p>	<p>International and domestic business climate surveys</p> <p>Annual reports on infrastructure availability including Planning Commission studies</p> <p>Economic Survey of India, industry reports, and relevant government publications</p>	<p><b>Assumptions</b> Continued priority accorded to infrastructure development</p> <p>Continued priority accorded to financial sector development</p> <p>Increased efficiency of infrastructure investment</p> <p>Strong Government commitment to IIFCL</p> <p><b>Risks</b> Dilution of Government commitment to infrastructure and PPP</p> <p>Modification of IIFCL's Scheme</p>
<p><b>Outcome</b> Increased private sector participation in infrastructure projects, particularly through PPP</p>	<p>Private investment in infrastructure to reach 30% of overall infrastructure investment during the 11th FYP (baseline: 17% of infrastructure investment from private sector in 2007)</p> <p>Increased leveraging of private sector resources (baseline: IIFCL's financing currently leverages seven times its own resources from the private sector)</p>	<p>Planning Commission reports</p> <p>Economic Survey of India</p> <p>Relevant government publications</p>	<p><b>Assumption</b> Government policy encouraging PPPs continues</p> <p><b>Risks</b> Dilution of Government commitment to infrastructure and PPP</p> <p>Deepening of global economic and financial crisis</p>
<p><b>Outputs</b> 1. Long-term funding for IIFCL to provide long-term financing to subprojects developed through PPPs</p>	<p>Reduction in asset and liability tenor gap during FY2009–FY2013 (baseline: 25% duration gap in 10, 15, and 20 year maturities)</p>	<p>Quarterly, semiannual, and annual reports of IIFCL including its board of directors' semiannual reports</p> <p>ADB review mission</p>	<p><b>Assumptions</b> IIFCL's long-term lending mandate continues</p> <p>IIFCL undertakes structured borrowing program based on risk-return considerations and</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<p>Increased duration of financing provided by IIFCL for subprojects during FY2009–FY2013</p> <p>Full utilization of IIPFF II (\$700 million; FY2013)</p>	<p>reports including midterm review documents, and analysis of IIFCL's duration gap</p>	<p>subproject financing requirements</p> <p><b>Risks</b> The Government amends IIFCL's Scheme de-emphasizing long-term lending mandate</p> <p>IIFCL's portfolio quality deteriorates leading to shortening of its lending terms</p> <p>Regulatory and policy risks leading to above</p>
<p>2. Financing of 14 infrastructure subprojects as provided in the FFA</p>	<p>Catalyzing private sector investment of around \$7.7 billion for financial closure of 14 identified subprojects by FY2013</p> <p>700 km of roads built; 3,200 MW of power generation capacity brought online</p>	<p>IIFCL's annual reports, IPPMS data, and PMU progress reports</p> <p>Investment bank reports of IIFCL bond issuances</p> <p>IIFCL's annual reports</p> <p>IIFCL website which provides related information on the amendments of the Scheme</p>	<p><b>Assumptions</b> Rating assessments and reviews are rigorous and conducted on time</p> <p>IIFCL is committed to be rated by international rating agencies</p> <p>The mandate of IIFCL, as supported by the Government, is committed to supporting PPP project financing</p> <p><b>Risk</b> Change in Government's priority and commitment in supporting PPP initiatives</p>
<p>3. Improved institutional capacity of IIFCL in areas of (i) governance framework, including risk management systems; and (ii) implementation of updated ESSF</p>	<p>Development and adoption of integrated risk management system and installation of risk management tools including software and hardware, deal documentation formats, pricing tools, and risk appraisal templates by end of December 2009 (completion of system installation)</p> <p>IIFCL continues to be rated annually by</p>	<p>IIFCL ALM data</p> <p>ADB's review missions including midterm review documents</p> <p>Rating agencies' reports</p> <p>IPPMS data and PMU's progress reports</p> <p>Consultant reports</p> <p>IIFCL's compliance certificates for subprojects</p>	<p><b>Assumptions</b> High quality consultant reports prepared on time</p> <p>IIFCL staff are able to adapt to the new risk management and pricing systems</p> <p>Rigorous and timely reviews conducted</p> <p>Timely availability of required documents from subborrowers</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<p>international credit-rating agencies during the loan period</p> <p>Updated ESSF implementation commences in 2009, and the updated ESSF is fully adopted and implemented by FY2010</p>	<p>IIFCL PMU's quarterly progress reports, and board of directors' semiannual reports</p>	<p><b>Risks</b></p> <p>Trained staff may leave IIFCL</p> <p>Staff capability may decline in the absence of continuous training</p> <p>Counterpart staff from IIFCL and subborrowers are not made available on time for the ESSF</p> <p>Delay in obtaining the required documents from subborrowers</p> <p>Nonavailability of qualified staff and resources</p>
<p><b>Activities with Milestones</b></p> <p><b>Part A: Preparatory Activities</b></p> <p>1.1 Identify and finalize subproject pipeline to be financed by ADB's funds (March 2009)—completed.</p> <p>1.2 Update common ESSF (August 2009).</p> <p>1.3 Augmentation of staff resources and capacity in IIFCL's PMU to conduct environmental and social safeguards due diligence of subprojects (by December 2009).</p> <p>1.4 Commence due diligence of subprojects (March 2009).</p> <p><b>Part B: Additional capacity development (to second quarter 2010)</b></p> <p>2.1 Strengthen capacity building for credit risk management and appraisal, and operating procedures (by July 2010).</p> <p>2.1.1 Adopt operating guidelines and manuals, and strengthen capacity for IIFCL resource management and project risk assessment (by December 2009) including</p> <ul style="list-style-type: none"> <li>- adoption of credit risk assessment processes,</li> <li>- implementation of internal controls,</li> <li>- development of pricing tools and risk appraisal templates,</li> <li>- implementation of internal rating system and rating migration, and</li> <li>- installation of resource management system (program software and hardware).</li> </ul> <p>2.1.2 Adopt operating guidelines for</p> <ul style="list-style-type: none"> <li>- accounting policies,</li> <li>- human resource policies,</li> <li>- board procedures,</li> <li>- loan pricing based on project risk appraisal, and</li> <li>- legal procedures.</li> </ul>			<p><b>Inputs</b></p> <p><b>ADB</b></p> <p>\$700 million</p> <ul style="list-style-type: none"> <li>- First tranche of \$210 million</li> <li>- Second tranche of \$250 million</li> <li>- Third tranche of \$240 million</li> </ul> <p><b>Government/IIFCL</b></p> <p>Counterpart staff</p> <p>Office accommodation and transport</p> <p>Administrative services</p> <p>Facilitation for meetings</p> <p>Obtaining necessary information from subborrowers and/or lead syndicators</p> <p>Participation in tripartite meetings</p>

<p><b>Activities with Milestones</b></p> <p><b>Part C: Tranche release progress and reporting (continues to 2014)</b></p> <p>3.1 PFR1 for the first tranche of \$210 million was signed and submitted in FY2009.</p> <p>3.2 Indicate first tranche disbursement requirements (third quarter 2009).</p> <p>3.3 Fully utilize the first tranche of \$210 million by the end of FY2010.</p> <p>3.4 Submit PFR for the second tranche of \$250 million for tranche release no later than 31 March 2011.</p> <p>3.5 Submit PFR for the third tranche of \$240 million for tranche release no later than 31 March 2014.</p> <p>3.6 Fully utilize the second and third tranches no later than 31 December 2014.</p>	
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ADB = Asian Development Bank, ALM = asset-liability management, ESSF = environmental and social safeguards framework, FFA = framework financing agreement, FYP = Five-Year Plan, GDP = gross domestic product, IIFCL = India Infrastructure Finance Company Limited, IPPMS = investment program performance management system, km = kilometer, MW = megawatt, PFR = periodic financing request, PMU = project management unit, PPP = public-private partnership, RBI = Reserve Bank of India.

## INFRASTRUCTURE SECTOR ANALYSIS

1. Average economic growth of 8.6% in India over the past 3 years has resulted in the infrastructure sector in India being stretched significantly beyond capacity. Spiraling demand for air travel; reliable power supply; and efficient ports, roads, and railways have not been matched by a proportionate increase in supply. Severe supply-side bottlenecks are acknowledged to retard the economy's potential rate of growth. To improve India's poor roads, narrow bridges, and dilapidated airports, which choke the flow of goods and people, a large injection of capital into the system is required. Maximum attention is being given in policy to the infrastructure sector to ensure that supply shortages do not trigger runaway inflation.

2. Decades of underinvestment in roads, ports, airports, and power have left India with a severe infrastructure deficit. Roads in the main cities are frequently clogged with heavy traffic and 90% are structurally unsuitable for loaded trucks. Ports are running close to full capacity. Structural impediments in the financial system coupled with the global economic and financial crisis have constrained capital flows to the sector, perpetuating the deficit in core public goods and persistent inefficiencies in the economy. If India improves its physical infrastructure, the entrepreneurial drive is estimated to respond with double-digit growth.

### A. Role of the Private Sector in Infrastructure Development

3. The consensus among policy formulators is growing that the private–public partnership (PPP) mode holds the key to developing infrastructure in the country. In the past, the state dominated infrastructure with limited private sector participation. It is now dismantling long-standing barriers and actively encouraging private investment in large infrastructure projects. Private sector companies have been invited to manage airports, which used to be exclusively government-run. The Government of India (the Government) is also helping private sector developers by mitigating some of the risks in road projects. The introduction of private capital in telecommunications and aviation has demonstrated that this introduces discipline of time management and leads to remarkable results even within the short term. To harness private sector efficiencies in design and construction of infrastructure projects, the Planning Commission envisages that at least 75% of incremental investment in infrastructure will come from the private sector, some in the form of fully private ventures and others as PPPs.<sup>1</sup> The aim is to ensure that infrastructure does not become a capacity constraint on 9% growth rate of the economy. This is feasible when investment in infrastructure grows to about 9% of gross domestic product (GDP) compared with the current 4.5%. The infrastructure requirements of India and the envisaged role of the private sector during the 11th Five-Year Plan (FYP) period are provided in Table A2.1.

4. To meet the infrastructure deficit and address the financing and project management capabilities of the private sector, the Government has taken several initiatives to provide the necessary environment in which the private sector can operate both via direct private sector participation as well as through PPP arrangements. These include (i) introducing model concession agreements in various subsectors such as roads, ports, and airports; (ii) establishing independent regulatory mechanisms to enforce service standards and improve cash flow stability; (iii) encouraging participation of long-term financiers in the market through

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<sup>1</sup> Public sector has been the main provider of basic infrastructure in India. However, public financing—already limited by the deficit reduction provisions of the Fiscal Responsibility and Budget Management Act 2003—will not be able to generate alone the needed levels of investments to improve infrastructure facilities.

credit enhancement measures and provision of implicit risk capital; and (iv) reforming the capital markets to support long-term financing instruments and implicit risk capital. Government policy initiatives indicate that it is being driven by a desire to make infrastructure inclusive. The overall reform agenda is being pursued to ensure that policy and regulatory frameworks under which infrastructure is developed, promote contestable markets that ensure competitive pricing of services provided by natural monopolies.

**Table A2.1: Sector Investment Requirements for the 11th Five-Year Plan**  
(\$ billion)

<b>Subsector</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>Total</b>
Electricity	20.49	25.39	31.60	39.51	49.65	166.63
Roads	12.96	13.70	14.80	17.09	19.99	78.54
Telecommunication	7.84	9.53	12.15	15.41	19.67	64.61
Railways	8.52	10.24	12.38	15.10	19.18	65.45
Irrigation	6.87	8.98	11.80	15.64	20.11	63.33
Water Supply	4.82	5.70	6.83	8.32	10.27	35.93
Ports	3.10	3.70	4.34	5.00	5.85	22.00
Airports	1.30	1.38	1.48	1.66	1.92	7.74
Storage	0.94	1.02	1.11	1.21	1.31	5.59
Gas	0.68	0.75	0.83	0.93	1.03	4.21
<b>Total</b>	<b>67.52</b>	<b>447.24</b>	<b>97.32</b>	<b>119.87</b>	<b>148.98</b>	<b>514.03</b>
<b>Public Sector (%)</b>	<b>71.08</b>	<b>70.69</b>	<b>70.27</b>	<b>69.37</b>	<b>69.01</b>	<b>69.87</b>
<b>Private Sector (%)</b>	<b>28.92</b>	<b>29.31</b>	<b>29.73</b>	<b>30.63</b>	<b>30.99</b>	<b>30.13</b>

Source: Planning Commission, Government of India.

## **B. Current State of Infrastructure**

5. The infrastructure deficit in India requires large-scale investments in all subsectors including roads, ports, airports, power, and urban infrastructure. For power alone, India needs around 10,000 MW of capacity addition every year over the next decade to sustain GDP growth of 9%. This would require an estimated investment of more than \$600 billion over the next few decades. These investments do not include investments needed to augment capacity in fuel supply infrastructure, mining and supply, and ports and terminals to sustain expansion in generation capacity. Thus, meeting infrastructure requirements in one subsector may not be sufficient as subsectors are linked through the supply chain that ultimately delivers electricity, water, transportation, and other services to end beneficiaries. These linkages suggest an overall investment program that includes power plants, electricity transmission and distribution systems, ports, roads and expressways, bridges, railway engines and tracks, product handling, and storage facilities.

### **1. Roads**

6. After the successful implementation of the Golden Quadrilateral project, the next phase of roadways expansion is gathering momentum. In this context, the National Highway Development Program is being executed in five phases. Phases I, II, and IIIA envisage improving more than 25,785 km of arterial routes on national highways to global standards. While problems in land acquisition have resulted in massive delays for several projects, the new model concession agreement has clauses to ensure that the National Highway Authority of India completes 60% of the land acquisition and utilities clearances and passes these on to the road developer before financial closure of the project. Phase IV of the National Highway Development Project includes doubling of lanes for about 1,000 km of intermediate lane and

single-lane roads and upgrading 20,000 km of national highways with paved shoulders. Phase IV is divided into four phases, each comprising 5,000 km, to be approved by 2009 and completed by 2015. Phase V envisages six-laning 6,500 km of four-lane national highways.

## **2. Power**

7. According to the Planning Commission's estimates, the electricity subsector (including nonconventional power) requires an investment of around \$134 billion during the 11th FYP period. Of this, 27.8% is expected to come from the private sector. As of November 2008, the 1,482 power projects entailed a total investment of \$240 billion. Collectively, these projects aim to install more than 200,000 MW of power generation capacity. The ultra-mega power projects developed by the private sector were expected to be financed through external commercial borrowings. However, the global financial crisis has severely constrained this avenue of funding. This, coupled with known hurdles like delays in land acquisition, awarding of contracts, and supply of equipment, means the country may have difficulty meeting the capacity addition target of 78,000 MW during the 11th FYP period. While planned capacity addition targets are largely on track on an overall basis, during FY2007, the first year of the 11th FYP, about 60% of the targeted 11,061 MW materialized. However, the Government is optimistic of achieving the FYP target.

## **3. Airports**

8. Civil aviation is experiencing double-digit growth, growing at about 25%–30%—this rate is expected for the next 5 years. Investments in aviation are expected to be \$30 billion by 2012 and about \$50 billion by 2015.<sup>2</sup> The airport subsector is struggling with a strange dichotomy where ground infrastructure is not fully prepared to handle increased traffic—number of aircrafts has grown exponentially. India's major airports are overloaded. Estimates suggest that during peak passenger traffic hours, New Delhi and Mumbai international airports operate at about 20%–25% overcapacity.

9. Rapid expansion of airport infrastructure is essential due to unprecedented growth. International air traffic has been growing at 15% annually, while domestic passenger traffic growth has at times surpassed 40%. The domestic market size is expected to reach 60 million and international traffic 20 million at the end of 2010. India expects to add aircraft worth about \$80 billion by 2020. This would necessitate an investment of about \$30 billion in airport infrastructure. Given the difficulty in generating resources from either the public sector or PPP, the Government is exploring the option of merchant airports.

## **4. Railways**

10. Indian Railways has a registered growth rate of 14% in passenger earnings and 17% in freight earnings, and reported a surplus of almost \$4 billion during the last few years. However, railway modernization and infrastructure projects require around \$12 billion—additional funds are needed to complete existing and new projects in a time-bound manner. Indian Railways has identified 22 stations to be modernized under PPP including setting up of shopping and food plazas, budget hotels, and retiring rooms. This includes setting up spatial segregation of facilities on different floors for smooth passenger flow. While newly designed railway stations

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<sup>2</sup> Aviation investment includes airport infrastructure (runways and air traffic controls), aircraft, noncommercial airports, aircraft components, feeder services, and air catering.

will present the customer-friendly face of Indian Railways, its freight stations with new intermodal facilities will be its main sources of revenue in the years to come. The Ministry of Railways has selected 16 such terminals to be provided with amenities for better communication facilities with control offices and road connectivity. Modernized terminals will help reduce turnaround time and facilitate quicker material handling at terminals. Indian Railways has established Dedicated Freight Corridor Corporation of India Ltd. to implement the freight corridor project over the next 5 years.<sup>3</sup> The corporation currently has authorized capital of \$800 million, which is likely to be increased depending on requirements.

## 5. Ports

11. Ports handle almost 95% of the export–import trade—port capacity is a constraint in sustaining 9% GDP growth. The Government plans to double the total capacity of major and nonmajor ports in the country to 1,500 million tons per annum from the current capacity of 750 million tons per annum by FY2011 and create surplus port capacity of around 30% by FY2011. While the bulk of funding for increased cargo-handling capacity would be obtained from the private sector and the ports themselves through internal resource generation and borrowings, the Government will contribute about \$600 million to dredging major ports to enable them to cater to large ships. Jawaharlal Nehru Port in Mumbai has developed projects costing more than \$200 million, Mumbai Port Trust has drawn up plans for new berths and terminals requiring \$500 million, Kandla Port is expecting an investment of \$300 million, and Tuticorin Port has berth development projects costing more than \$200 million. In response, the Ministry of Shipping and Transport proposes to set up five megaports with total capacity of 500 million tons.

## 6. Urban Infrastructure

12. Adequate and equitable distribution of urban infrastructure services, such as water and sewage disposal and per capita provision of these basic services, is not in accordance with the prescribed norms.<sup>4</sup> According to the Ministry of Urban Development data, only about 77 of the 393 class I cities have water supply coverage. Per capita water supply is as low as 9 liters per capita per day in some areas. Also, 203 of the 401 class II towns have supply of less than 100 liters per capita per day. The Jawaharlal Nehru National Urban Renewal Mission envisages assistance of around \$12.74 billion over the next 7 years to improve infrastructure in 63 cities across the country, with total investments of about \$26.28 billion.

13. While five cities including Ahmedabad, Bangalore, Chennai, Hyderabad, and Mumbai have opted for mass rapid transit systems, an estimated 26 or more cities in the country require these systems. The Government has been formulating measures to bring in an element of uniformity in the execution of these projects and is planning to bring all metrorail systems across the country under the purview of a single central authority. To bring consistency and transparency in the execution of urban transport projects, the Government is planning to introduce a model concession agreement for metrorail projects across the country. Further, the Government has approved the operation of a bus rapid transit system, via PPP, in the cities of Ahmedabad, Indore, Nagpur, and Pune in an effort to improve urban transportation.

<sup>3</sup> The existing trunk routes of Howrah-Delhi on the eastern corridor and Mumbai-Delhi on the western corridor are highly saturated with line capacity utilization varying between 115% and 150%. The surging power needs requiring heavy coal movement, booming infrastructure construction, and growing international trade led to the conception of dedicated freight corridors along the eastern and western routes.

<sup>4</sup> The Planning Commission prescribes norms such as for per capita water availability, sewerage coverage and treatment, waste disposal, and sanitation.

## C. Conclusion

14. The infrastructure sector in India faces multiple constraints, and the policy and institutional response is appropriately designed. With regard to financing, initiatives are underway to strengthen the capital market to channel long-term funds to the sector. Simultaneously, institutional mechanisms will provide the market with the necessary risk capital to attract long-term debt and equity. Initiatives are also underway to establish appropriate regulatory mechanisms in various subsectors. While these initiatives are ongoing, they have not yet been fully completed. Various subsectors still require regulatory commissions, regulatory rulings, and redressal mechanisms. These mechanisms need to be strengthened to provide stability to long-term cash flows and reduce the need for risk capital and/or allow the market-based provision of the same. The scale of financing required is beyond the financial capabilities of the public sector alone. Widespread reforms are thus underway to ensure sustained and viable private sector operations in infrastructure development.

**Table A2.2: Overview of Private Sector Participation and Public–Private Partnership Policy Initiatives in the Infrastructure Sector**

Sector	Key Reform Initiatives	Forward Reform Agenda
Roads and Highways	<p>MCA for PPPs in national highways mandated</p> <p>To attract private investment in road development, maintenance, and operation, the National Highways Act 1956 amended in June 1995 enabling (i) private investment in national highway projects by allowing private investors to levy, collect, and retain user fees; (ii) regulation of traffic on national highways in accordance with the Motor Vehicle Act 1988</p> <p>The Government removed the requirement for cabinet approval of projects valued at less than \$100 million, NHAI may now clear these</p> <p>Development of state highways under PPP initiated</p> <p>Draft rules of new toll policy firmed up</p>	<p>Reduce resource constraints in terms of finances, technical human resources, project management, and institutional strengthening in sector institutions.</p> <p>Establish a policy framework for PSP in states as most roads are in the state sector.</p> <p>States to plan state highway development program on the lines of the NHDP.</p> <p>Provide duty concessions and dedicated funding mechanisms for state projects similar to national projects.</p>
Railways	<p>Indian Railways established the Rail Land Development Authority to commercially exploit railway land for PPP</p> <p>20 stations identified for modernization under PPP</p> <p>Plans formulated for modernization of railway freight terminals through PPP</p> <p>Dedicated Freight Corridor Corporation established to implement the freight corridor project through PPP</p>	<p>Develop logistics parks along major stations via PPP.</p> <p>Complete land acquisition and financial closure of Dedicated Freight Corridor project.</p> <p>Implement freight business models on railway land.</p>
Ports	<p>TAMPs established to regulate the tariff ceiling</p> <p>Comprehensive national maritime policy being formulated to articulate the vision and development strategy until FY2024</p> <p>Government prepared report on reduction in dwell time to improve port capacity</p> <p>Minor ports policy formulated by certain state</p>	<p>Improve inland connectivity to major ports.</p> <p>Improve tariff fixation procedures (by TAMP).</p> <p>Consider private operator request to lengthen concession period to increase financial viability of PPP projects and</p>

Sector	Key Reform Initiatives	Forward Reform Agenda
	governments such as Tamil Nadu	on the setting of tariffs and royalty charges.  Finalize MCA for ports.
Airports	<p>Airports Economic Regulatory Authority Bill passed by the Parliament</p> <p>Bill sets up Appellate Tribunal to adjudicate disputes between two or more service providers</p> <p>Under new civil aviation policy, the Ministry of Civil Aviation proposes establishing fund to provide subsidy for uneconomical but essential routes</p> <p>Government initiated construction of state-of-the-art Bangalore and Hyderabad airports under PPP</p> <p>Government initiated the process of building 35 smaller city airports under the PPP</p>	<p>Raise the FDI cap on air cargo business to 74%.</p> <p>Develop private and merchant airports.</p> <p>Implement PPP modality in state airports.</p> <p>Consider proposals for revamping AAI to upgrade air traffic controller services.</p> <p>Develop airport-based SEZ through PPP.</p>
Urban Infrastructure	<p>Approval granted for operation of bus rapid transit system through PPP</p> <p>Government planning to introduce MCA in metrorail projects</p> <p>Guidelines issued by the Ministry of Urban Development in FY2004 to sensitize ULBs of policy and procedural issues to reform urban water and sewerage services and facilitate PPP</p> <p>In March 1999, the Parliament repealed the Urban Land Ceiling and Regulation Act 1976 to facilitate the development and disposal of excess land</p>	<p>Bring all metrorail systems operating in India under a central regulatory authority.</p> <p>Establish state or regional regulatory mechanism to regulate tariffs and monitor service for water supply.</p> <p>Strengthen municipal or local body finances through (i) sharing revenues between the state and ULBs, (ii) rationalizing user charges, and (iii) enabling ULBs to access capital markets.</p>
Power	<p>The Electricity Act 2003 and National Electricity Policy 2005 passed advocating:</p> <p>promotion of competition to maximize consumer benefits,</p> <p>reduction of technical and commercial losses, and</p> <p>remunerative returns on investments</p> <p>Under the provisions of the Electricity Act 2003, more than 160 towns reduced aggregate technical and commercial losses to below 15%</p> <p>Central Electricity Regulatory Commission proposed several investor-friendly changes under Section 61 of the Electricity Act</p> <p>Central Electricity Regulatory Commission issued interstate trading licenses to more than 10 traders</p>	<p>Improve financial conditions in state utilities:</p> <p>improve tariff structures and realizations;</p> <p>reduce commercial and technical losses; and</p> <p>simplify procedures to reduce delays in finalizing contracts such as power purchase, fuel supply, and fuel transport agreements.</p> <p>Establish a power project monitoring board with constitutional powers to improve project implementation.</p> <p>Issue state electricity regulatory commission guidelines for open access.</p>

FDI = foreign direct investment, MCA = model concession agreement, NHAI = National Highway Authority of India, NHDP = National Highway Development Program, PPP = public-private partnership, TAMP = tariff authority for major ports, ULB = urban local bodies.

Source: Infrastructure Development Finance Company. 2008. New Delhi. *India Infrastructure Report 2008*.

## MARKET ANALYSIS OF THE ROLE OF INDIA INFRASTRUCTURE FINANCE COMPANY LIMITED

1. India Infrastructure Finance Company Limited (IIFCL) was incorporated as a special purpose vehicle on 5 January 2006 under the Companies Act 1956 as a 100% government-owned company. IIFCL is a dedicated financial institution assuming a development and catalytic role in the financing of infrastructure in India with the primary objective of providing long-term financing. The authorized capital of IIFCL is about \$400 million of which the current paid-up capital is around \$263 million. Given its incorporation under the Companies Act, it is not subject to Reserve Bank of India (RBI) regulations and guidelines with respect to capital adequacy norms despite being a financial intermediary. The Scheme for Financing Viable Infrastructure Projects through the India Infrastructure Finance Company Limited (the Scheme) (Supplementary Appendix B) articulates the mechanism through which IIFCL will play a catalytic role in the infrastructure finance market in India.

### A. Operating Paradigm

2. The Scheme governs IIFCL's operations and enables it to play a key role in infrastructure finance in India. Its role is not only to catalyze investments from the private sector for infrastructure projects with an emphasis on public-private partnership (PPP), but also to draw-in investable long-term resources from the market. The key elements of the Scheme are designed to catalyze complementary financing on the debt and equity side, reduce market risk, draw-in latent long-term resources, and leverage project development and management skills available in complementary institutions in the market.

3. In this context, IIFCL does not function in isolation but is central to the coordinated PPP strategy of the Government. The key pillars of this strategy are

- (i) PPP cell in the Department of Economic Affairs in the Ministry of Finance for coordinating the mainstreaming of PPPs nationwide;
- (ii) PPP cells in selected state and central line ministries for identifying PPP opportunities, developing projects, and bringing them to the market for financial closure;
- (iii) Transaction advisors and standardized bidding and contractual documents such as master concession agreements;
- (iv) India Infrastructure Project Development Fund for financing PPP project preparation activities such as conduct of feasibility studies;
- (v) IIFCL, the executing agency for the proposed Second India Infrastructure Project Financing Facility, for providing long-term funds for infrastructure development; and
- (vi) Viability gap fund with a current annual allocation of about \$309 million for encouraging PPPs.<sup>1</sup>

4. In addition to providing direct debt financing, IIFCL has (i) participated in India Infrastructure Finance Initiative, a private equity fund with a subscribed capital of \$875 million;

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<sup>1</sup> The viability gap fund can provide catalytic grant assistance of up to 20% of the capital costs through which it expects several projects to become bankable, attract private capital, and mobilize private sector efficiencies. This support is especially important for regions and sectors where the private sector is not readily forthcoming. The amount indicated is the allocation in the FY2010 budget.

(ii) established the India Infrastructure Finance Company (United Kingdom) Ltd. as a wholly owned subsidiary to borrow from RBI and onlend the resources to Indian infrastructure companies for meeting capital expenditure outside India; (iii) undertaken refinancing to reduce the asset and liability mismatch of banks and enable banks to continue financing viable projects and thus sustain investor interest in PPP projects; and (iv) provided subordinated debt to augment risk capital in the market. Taken as a whole, these initiatives, in conjunction with the mechanisms of the Scheme, capital market and financial sector reforms, additional measures to facilitate PPP, and sector reforms (Appendix 2) are designed to work in concert and facilitate commercial financing for infrastructure and catalyze private sector interest.

## **B. Historical Context**

5. IIFCL's role is rooted in India's experiences with development finance institutions (DFIs). DFIs were originally set up to provide cheap long-term funding to industries. In the absence of a well-developed market for long-term capital, DFIs were the vehicles through which corporations met project financing needs. The Government provided long-term funding at concessional terms to DFIs and directed onlending of funds by them. This was the primary reason for inefficient price discovery and suboptimal capital allocation. As part of financial reforms starting mid-1990s<sup>2</sup>, access to subsidized funding to DFIs from the Government was gradually restricted. As a result, DFIs had to float bonds to meet funding requirements. Since the maturity of available funding became shorter, while infrastructure financing needs remained long-term, maturity mismatches developed. Locking up funds in projects adversely affected DFIs' cash flows in the absence of an efficient secondary market for corporate debt that would have provided exit opportunities. At the same time, liberalization allowed blue chip corporations to raise money internationally, enabling them to source cheaper funds.

6. In response, DFIs moved into the territory of commercial banks.<sup>3</sup> In April 2001, RBI announced that DFIs could become commercial banks if they met prudential and regulatory requirements. The Industrial Credit and Investment Corporation of India was the first to submit a road map for this purpose in late 2000 and subsequently merged with Industrial Credit and Investment Corporation of India Bank Ltd. and became a commercial bank. In FY2002, the Government approved the conversion of Industrial Development Bank of India into a commercial bank. In FY2005, its restructuring was preceded by the repeal of the Industrial Development Bank of India Act 1964, which provided the foundation for its transition to a commercial bank.

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<sup>2</sup> Starting in 1948 and throughout the 1950s and 1960s, the Government of India (the Government) established three DFIs to provide long-term finance: Industrial Finance Corporation of India (1948), Industrial Credit and Investment Corporation of India (1955), and Industrial Development Bank of India (1964). RBI and the Government nurtured the DFIs through financial incentives and other policy measures, such as the provision of low-cost funds and guarantees by the Government for bond issuances. RBI allocated a substantial part of its national industrial credit (long-term operations) funds to Industrial Development Bank of India.

<sup>3</sup> On 8 December 1997, RBI constituted a working group chaired by S.H. Khan to bring about greater clarity in the respective roles of banks and other financial institutions for greater harmonization of facilities and obligations. The report of the committee on banking reforms (the Narasimham committee) had a major bearing on the issues considered by the Khan working group. The Narasimham committee suggested that DFIs should convert ultimately into either commercial banks or nonbank finance companies. The Khan working group also held the view that DFIs should be allowed to become banks at the earliest opportunity. The feedback on the working group recommendations indicates that universal banking is desirable from the point of view of efficient use of resources.

7. With the conversion of DFIs into commercial banks (without a core infrastructure focus) and the limited ability of debt markets to provide long-term debt, financing sources for long-term debt have dried up. Banks largely depend on short-term deposits for funding and do not undertake long-term market borrowings.<sup>4</sup> Loan officers of banks are typically not trained to assess the long-term stability of cash flows from a project finance perspective. Further, institutions such as Infrastructure Leasing and Financial Services and Infrastructure Development Finance Company that have the ability and expertise to finance large subprojects are unable to do so due to capital constraints.

8. While the demise of DFIs should have encouraged corporates to go to the market for resources, leading to a vibrant corporate debt market, the corporate debt market remains weak, illiquid, and does not offer long-term financing instruments. Several initiatives are ongoing to develop the long-term corporate debt market. The Government appointed the Patil committee<sup>5</sup> to recommend measures to develop the corporate debt market. Key recommendations include (i) develop a credit enhancement mechanism for bonds issued by state-owned corporations or other special purpose vehicles for financing infrastructure, (ii) apply an affordable stamp duty on debt assignments, and (iii) allow repossession of corporate bonds.<sup>6</sup> In addition, the Securities and Exchange Board of India is providing the regulatory framework for the secondary corporate debt market. RBI has also drafted guidelines on the use of credit derivatives (specifically credit default swaps).<sup>7</sup>

9. Illiquid secondary markets put banks at risk by constraining their ability to hedge risk and have adverse implications for infrastructure financing:

- (i) **Insufficient market maturity and absence of benchmarks.** A weak secondary market leads to illiquid interest rate derivatives and hedging mechanisms. In response to these constraints, banks generally charge floating rates that effectively make loans short in duration.
- (ii) **Lack of investor interest.** Given investor comfort with protected investments, investors are unwilling to accept a risk of decline in the value of assets in the absence of liquid secondary markets. On the other hand, institutional investors, such as insurance and pension funds, have investment criteria for credit ratings (minimum AA) constraining them to invest in government securities.<sup>8</sup>

10. Further, during FY1996–FY2006, the bulk of corporate issuances belonged to the public sector (81%) through private placements (on the back of a government guarantee). Regulations that allow market accessibility only to top-rated companies are a major reason for low private sector mobilization. Of the total issuance of \$14.11 billion in FY2004, \$13.70 billion was credit-rated, suggesting that credit rating is necessary for market access.<sup>9</sup>

<sup>4</sup> Long-term issuances of government securities are usually absorbed by pension and insurance funds and held until maturity.

<sup>5</sup> High Level Committee on Corporate Bonds and Securitization 2005.

<sup>6</sup> This measure is to give investors who have illiquid corporate bonds an opportunity to recycle them.

<sup>7</sup> Source: RBI, DBOD. NO.BP.1409.157/2006-07, 16 May 2007.

<sup>8</sup> At present, except for raising funds for infrastructure projects, banks are not allowed to issue bonds with long maturities. Thus, there are not enough issuers of bonds. Restrictions have also been imposed on the investment activity of life insurance companies and mutual funds—these restrictions are one of the reasons for the lack of growth in bond investment.

<sup>9</sup> Investors in corporate debt instruments are excessively safety conscious, as can be noted from the fact that demand for paper rated below AA or its equivalent is almost negligible. Debt instruments with credit rating of BBB (or its equivalent) and above are considered investment grade.

11. Despite reforms and measures to improve the regulatory environment and develop long-term debt markets, policy, institutional, and market gaps remain as financial and infrastructure sector reforms are ongoing. The existence of several interlocking factors (regulatory and policy gaps, the conversion of DFIs, illiquid capital markets, higher risk profile of infrastructure subprojects, inadequate risk capital,<sup>10</sup> and suboptimal risk allocation) requires an innovative response to address market gaps. The establishment of IIFCL and the elements of its operating paradigm (the Scheme) are a reflection of the Government's response to these interlocking factors and a part of the ongoing reform agenda for the financial and infrastructure sectors.

### C. Market Justification for IIFCL's Operating Model

12. The key elements of IIFCL's Scheme have a specific role in promoting an enabling environment for PPP and infrastructure development, and filling the gaps.

13. **Guarantee Arrangement.** The individual investor in India is very risk averse and, even at very large negative real returns, prefers risk-free investments to risky ones. The same is the case for pension and insurance funds. Thus, intermediaries and markets are needed to perform the three functions of risk, maturity, and duration transformation; and attract funds from the above-mentioned sources by providing an additional layer of credit enhancement. In this context, government guarantees, as provided to IIFCL, can be a viable mechanism for providing the required risk capital in an environment where the Government is seeking to remain within its fiscal limits.<sup>11</sup> Typically, such credit enhancements should come from the market, through specialized guarantee mechanisms or credit derivatives. However, this is not possible in the current Indian context as the markets are not fully developed and the reform process is ongoing.

14. The requirement for the guarantee comes from the state of available risk mitigation mechanisms. Credit derivatives have not become fully established in India, while banks are not permitted to trade in equity and commodity derivatives.<sup>12</sup> Further, the market for interest rate derivatives is limited given the strict restrictions on the participation of banks in exchange-traded derivatives. While over-the-counter derivatives may be traded by banks, public sector banks are largely absent from the market. Insurance companies (the other natural counterparties to infrastructure providers) have not received permission from the Insurance Regulatory and

<sup>10</sup> The risk capital required in the infrastructure sector can be explained as the explicit capital brought in as equity by the project sponsors and the implicit risk capital provided by the lenders to projects. Implicit risk capital is therefore the credit enhancement provided to retail and long-term investors to draw in funds for infrastructure. Implicit capital providers seek to manage their risk-return reward by ensuring availability of adequate explicit capital and diversification across various projects. Given this profile of explicit capital, greater flow of risk capital can be ensured by removing the effects of controllable uncertainties in the policy environment and making available the benefits of diversification through alternate mechanisms. New sources of this risk capital can be sourced by (i) providing risk guarantees (through IIFCL's Scheme), (ii) forming highly capitalized financial intermediaries (unlikely in a fiscally constrained regime), and (iii) encouraging securitization transactions.

<sup>11</sup> In the United States, monoline insurance companies like MBIA Inc. provide such credit enhancements for urban local bodies and other borrowers. MBIA is a US-based financial guarantee insurance company, rated AAA by Standard & Poor's. It has been providing AAA credit enhancement for municipal and structured debt obligations since 1974, and guaranteed more than 35,000 municipal and asset-backed transactions with a total value exceeding \$1.5 trillion.

<sup>12</sup> As a consequence, banks that have lent against the security of shares have been unable to hedge their exposure in falling markets and have lost money. Further, insurance companies, which largely have very long duration and fixed-income liabilities, have lost value almost every month as interest rates have fallen and they have been unable to hedge their exposure. Finally, banks and DFIs that have lent to companies engaged in commodity businesses, such as cement, paper, and steel, have been unable to lay off the underlying commodity exposures in the international market and have lost value as commodity cycles have turned against them. Studies suggest that interest rate risk exposure inherent in the balance sheet of most banks is very high.

Development Authority<sup>13</sup> to enter the market in the absence of credit enhancing instruments.

15. Thinly capitalized entities, from a risk-weighted perspective, that focus on infrastructure finance are unlikely to maintain viability if they finance subprojects without exposure limits. These limits will impose financing constraint on subprojects given their long gestation periods and length of debt amortizations. Further, no single entity will have sufficient capital to meet all infrastructure finance requirements. Thus, spreading the risk among a large number of investors, for each of whom this represents only a small exposure, is the only way this risk capital can be sourced. In the context of IIFCL's guarantee, this amounts to commoditizing risk as a public good (as it is borne by the Government). This credit enhancement mechanism stems from recommendations of the Patil committee.

16. **Exposure Limit.** By financing only 20% of the capital costs of a project, IIFCL functions as part of a lending consortium and will only finance commercially viable projects. The limited project financing provided by IIFCL ensures that it builds a diversified portfolio and does not suffer from a lumpy investment profile that previously caused distress to DFIs. In this respect, IIFCL will benefit from the PPP development initiatives currently underway. Thus, IIFCL functions under a different paradigm from earlier DFIs and does not undertake subproject origination and/or have directed lending requirements.

17. **Efficient Capital Allocation.** The presence of IIFCL results in efficient capital allocation in financial institutions engaged in infrastructure finance. With IIFCL providing an independent source of funding, financial institutions may take exposures for projects in line with their risk return capital allocation framework. While the combined exposures of financiers may be insufficient to meet project needs, an additional independent source of funding through IIFCL would likely fill the financing gap. The optimal capital allocation and risk-based return on capital promoted through this framework will provide additional benchmarks for the pricing of infrastructure risk in the market.

18. **Long-Term Financing.** IIFCL will offer long-term financing for tenors not currently being offered by the market. This is expected to improve the bidding mechanism and quality of bids. As project sponsors will have better cash flow projections, the bidding process will be facilitated and will not normally include anomalies on notional hedging costs to account for repricing uncertainties. Long tenor financing with maturity of more than 20 years will enable IIFCL to take an exposure to projects in line with the length of the concession agreements. Thus, potential investors in special purpose vehicles of subprojects and/or concessionaires will be provided with an additional layer of comfort given debt exposure to a subproject that matches the length of equity exposure. Thus, IIFCL will also catalyze explicit risk capital (private equity share in special purpose vehicles of subprojects) in addition to its other market enhancing roles. IIFCL will onlend to subprojects based on market borrowing. Thus, unlike the older DFIs, IIFCL does not have subsidized financing sources.

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<sup>13</sup> As per the Insurance Regulatory and Development Authority regulations, life insurance and general insurance companies are required to invest minimum amounts (20% for general insurance and 25% for life insurance) in different combinations of state and central government securities (without any quota for state governments). Further, while there are stipulations for investments in infrastructure and social sectors (15% for life insurance and 10% for general insurance sectors), the stipulation of a minimum rating of AA for such investments makes availability of such funds very limited. If such stipulation cannot be removed, the case for a first loss deficiency guarantee-backed investment becomes compelling.

19. **Market Benchmarks.** Currently, the Indian market does not fully support risk-based pricing of loans. In this context, IIFCL is establishing procedures and systems to price loans on a risk basis. This will form the basis through which long-term debt can be structured for project finance by sourcing financing from insurance and pension funds. The critical element of this mechanism is the pricing of IIFCL's loans on a risk-adjusted return on capital principle.<sup>14</sup> Recent equity infusions by the Government have resulted in IIFCL having a comfortable enough capital base to price loans based on a risk-return basis.<sup>15</sup> This pricing mechanism holds the potential to create a risk-based benchmark for infrastructure debt. Risk-based pricing benchmarks provide an opportunity for allocating exposure based on a capital asset pricing model. This serves as a guide for policy makers to develop policy reform to improve the risk-return profile of infrastructure projects and expand financing to the sector.

20. **Subordinated Debt.** Amendments of IIFCL's Scheme enable it to provide long-term subordinated debt at tenors beyond the longest tenors offered by the lead bank and be priced accordingly. The subordinated debt represents a quasi explicit risk capital, which is scarce in the Indian market. The subordinated debt offering dovetails risk-based pricing, benchmarking, and implicit risk capital (through the guarantee). This combination of products, in conjunction with the Scheme, provides the basis for a new financing model for the delivery of financing products needed to effect (i) risk transfer, (ii) mezzanine financing, (iii) capital allocation, (iv) credit enhancement, (v) private equity, and (vi) transaction advisory.

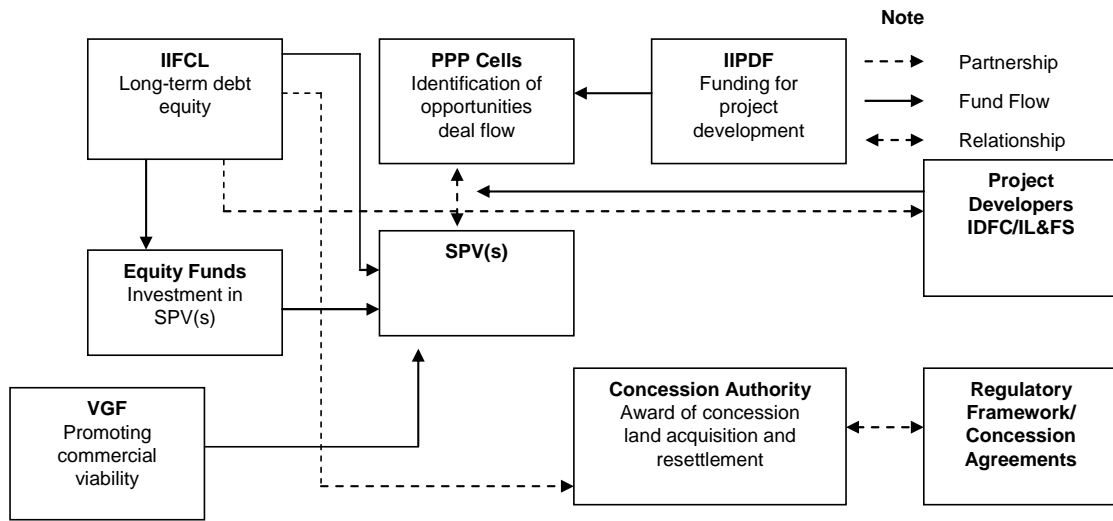
21. **Public-Private Partnership.** IIFCL will seek to leverage resources available in the market to improve the viability of projects by reducing financing risk. In this context, IIFCL has developed partnerships with project developers such as Infrastructure Development Finance Company and Infrastructure Leasing and Financial Services, as well as with concession-awarding agencies such as National Highway Authority of India. The role played by IIFCL in PPP development is provided in Figure A3.1.

22. IIFCL takes a complementary role in the infrastructure finance market. It addresses market gaps for encouraging PPP by (i) providing draw-in equity funds; (ii) providing long-term debt; (iii) partnering with complementary project development agencies; and (iv) promoting capital efficiency in the consortium institutions. Thus, IIFCL's presence in the market allows the financing of projects that would otherwise have been denied financing. The role played by IIFCL is also demonstrated in the manner PPP-type subprojects are brought to the market and operationalized (Figure A3.2).

<sup>14</sup> As it became clearer that banks needed to add an appropriate capital charge in the pricing process, the concept of risk adjusting the return or risk adjusting the capital arose. The value-producing capacity of an asset (or a business) is expressed as a ratio that allows comparisons to be made between assets (or businesses) of varying sizes and risk characteristics. The ratio is based either on the size of the asset or the size of the capital allocated to it. When an institution can observe asset prices directly (and/or infer risk from observable asset prices), then it can determine how much capital to hold based on the volatility of the asset. Risk-adjusted return on capital principle allocates a capital charge to a transaction or a line of business at an amount equal to the maximum expected loss (at a 99% confidence level) over a year on an after-tax basis. As may be expected, the higher the volatility of the returns, the more capital is allocated. The higher capital allocation means that the transaction has to generate cash flows large enough to offset the volatility of returns, which results from the credit risk, market risk, and other risks taken.

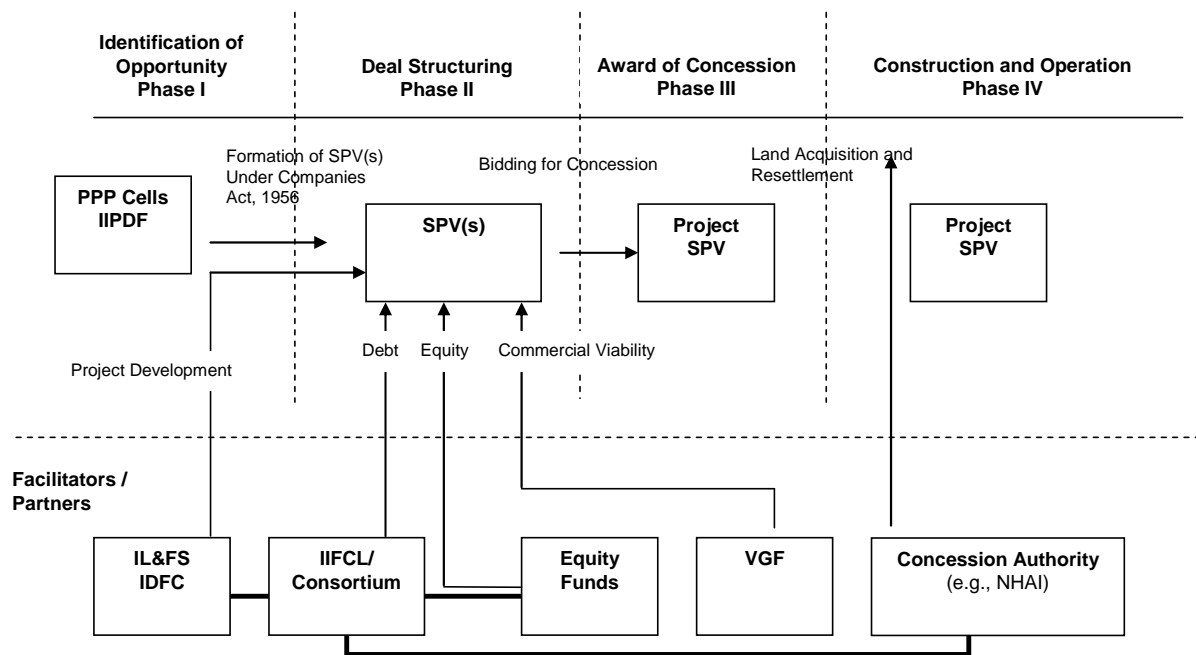
<sup>15</sup> The principle that potential return rises with an increase in risk. Low levels of uncertainty (low risk) are associated with low potential returns, whereas high levels of uncertainty (high risk) are associated with high potential returns. According to the risk-return tradeoff, invested money can render higher profits only if it is subject to the possibility of being lost. Because of the risk-return tradeoff, investors are aware of risk tolerance when choosing investments. Taking on some risk is the price of achieving returns. Therefore, if you want to make money, you cannot cut out all risks. The goal instead is to find an appropriate balance.

**Figure A3.1: 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, PSP = private sector participation, SPV = special purpose vehicle, VGF = viability gap funding.  
 Source: Asian Development Bank estimates.

**Figure A3.2 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.  
 Source: Asian Development Bank estimates.

## **CORPORATE GOVERNANCE FRAMEWORK OF INDIA INFRASTRUCTURE FINANCE COMPANY LIMITED AND PROPOSED ENHANCEMENTS**

1. The India Infrastructure Finance Company Limited (IIFCL) is a unique entity established by the Government of India (the Government) under the Companies Act 1956 and is governed by the provisions of the act. Further, IIFCL has undertaken a series of internal initiatives to scale up capacity and functional norms to manage the expansion of its balance sheet in an efficient manner.

### **A. Companies Act 1956**

2. The Companies Act (1956, amended from time to time) is the most important piece of legislation empowering the Government to regulate the formation and functioning of companies. The Government administers the act through the Ministry of Corporate Affairs and the offices of bodies such as the Registrar of Companies,<sup>1</sup> official liquidators, public trustee, company law board, and director of inspection.

3. The Companies Act states that a company is "a company formed and registered under the Act or an existing company, i.e. a company formed or registered under any of the previous company laws." The basic objectives of the law are to (i) enforce a minimum standard of good behavior and business honesty in company promotion and management, (ii) ensure fair and true disclosure of the company's affairs in its annual published balance sheet and profit and loss accounts, (iii) provide investigation into the affairs of any company managed in a manner oppressive to a minority of the shareholders or prejudicial to the interest of the company as a whole, and (iv) enforce performance of duties by those engaged in the management of public companies or their subsidiaries by providing sanctions in the case of breach and subjecting management to restrictive provisions of the law.

### **B. Corporate Governance Framework**

4. The peak policy-making body of IIFCL is the empowered committee of secretaries, which is authorized to make changes to the 'Scheme for Financing Infrastructure through the India Infrastructure Finance Company Limited' (the Scheme). The committee is independent of IIFCL's board, with minimal duplication of membership, and includes one member (secretary) from the line ministry that will be impacted by, or has sought changes to, the Scheme (i.e., the empowered committee could have one floating member based on the subject under consideration). This mechanism ensures separation between policy-making and implementation, and minimizes potential conflict of interest and the possibility of structuring the Scheme to favor a particular subsector or lending modality. Further to the empowered committee, the oversight committee was established to implement the regulatory process. The composition of the oversight committee is independent and distinct from the empowered committee—the two committees do not have any common members.

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<sup>1</sup> Registrars of companies appointed under Section 609 of the Companies Act covering the various states and union territories are vested with the primary duty of registering companies floated in the respective states and the union territories, and ensuring that such companies comply with statutory requirements under the act. These offices function as a registry of records relating to the companies registered with them and the records are available for inspection by members of the public on payment of the prescribed fee. The central government exercises administrative control over these offices through the respective regional directors.

5. As per its Memorandum and Articles of Association, IIFCL will have no fewer than three directors and no more than 13, or such number as may be determined from time to time by IIFCL in its general meeting in accordance with the aforesaid limit and provisions of the Companies Act 1956. As per the Memorandum and Articles of Association, the board of directors will consist of the following:

- (i) two full-time directors (one of whom will be chairperson and managing director) who will not be liable to retire on rotation;
- (ii) two directors who may be nominated officials of the Government;
- (iii) three expert part-time directors from outside the Government; and
- (iv) directors elected by the members other than the Government, as follows:
  - (a) two directors, when the total amount of equity share capital issued to such shareholders is 25% or less of the total issued equity capital;
  - (b) four directors, when the total amount of equity share capital issued to such shareholders is more than 25% but less than 40% of the total equity share capital; and
  - (c) six directors, when the total amount of equity share capital issued to such shareholders is 40% or more of the total issued equity capital.

6. **Powers of Directors.** As per the Memorandum and Articles of Association, the board will exercise powers on behalf of the company and by means of resolutions passed in its meetings:

- (i) make calls on shareholders for money unpaid on their shares,
- (ii) authorize the buy-back of shares,
- (iii) issue debentures,
- (iv) borrow money by means other than debentures,
- (v) invest the funds of the company, and
- (vi) make loans.

7. **Board Procedures.** The comprehensive business plan proposes the following prudent board procedures:

- (i) Board meetings will be held at least four times a year, with a maximum interval of 4 months between any two meetings.
- (ii) The information provided to the board periodically will include
  - (a) annual operating and resources plans;
  - (b) quarterly results;
  - (c) minutes of meetings of the audit committee and other board committees;
  - (d) information on recruitment and remuneration of senior management;
  - (e) details of any collaboration agreements and signed memoranda of understandings; and
  - (f) credit risk and portfolio analysis, market risk reports including interest rate sensitivity statements, and statements on foreign exchange exposure and hedging.

8. **Disclosures.** The comprehensive business plan emphasizes transparency in IIFCL operations through an appropriate disclosure plan as follows.

- (i) All pecuniary relationships or transactions of the nonexecutive directors with IIFCL will be disclosed in the annual report. In addition, compensation of all the directors will be disclosed.
- (ii) Management will disclose to the board relating to all material financial and commercial transactions where they have personal interest that may have a potential conflict with the interest of the company at large.
- (iii) Management will provide a clear description of each material contingent liability and its risks to be accompanied by auditors' comments.
- (iv) IIFCL will aim to include (as part of the directors' report in the annual report or as an addition thereto) a management discussion that includes (a) financial performance, (b) risks and concerns, (c) internal control systems and their adequacy, and (d) material developments in human resources including the number of people employed.
- (v) IIFCL will present its corporate governance framework in a separate section in its annual report.

9. In addition, IIFCL undertakes (i) concurrent internal audit by a firm of chartered accountants, (ii) statutory audit by an independent firm of chartered accountants appointed by the comptroller and auditor general of India, and (iii) supplementary audit by the comptroller and auditor general of India.

### **C. Internal Process Improvements**

10. **Information Technology.** A robust information technology system is expected to play a predominant role in the effective functioning of IIFCL considering the nature of operations and growth curve of the organization. The information technology plan envisages a robust and enterprise-wide information technology platform for supporting business strategies and the management control process using a long-term perspective. Information system structures will include the following systems: (i) loan origination, (ii) appraisal and administration, (iii) loan recovery, (iv) resource mobilization, (v) treasury management, (vi) financial accounting, (vii) payroll and human resources, and (viii) the secretarial system for the chair and managing director.

11. **Resources and Treasury.** The expansion of IIFCL's balance sheet under its Scheme requires it to meet short and long-term resource requirements, and enable IIFCL to cater to sector needs of credit in line with expansion in operations. In this context, the resources manual includes funding policies, preparation of long-term and annual resource budgets, various instruments for raising resources in rupee and foreign currencies, approvals from authorities, designing of instruments and checking of statutory requirements, detailed procedure for appointment of approved brokers, selection of brokers from an approved list, accounting of resources and servicing procedures, requirements of the management information system, and checks and balances.

12. **Legal.** As per the provisions of its Scheme, IIFCL is engaged in financing infrastructure projects but not as the lead bank. The legal documentation for the terms of concession agreements is ensured by the lead lender, the lender's legal counsel and/or security trustee, which may be a bank or any other financial institution on behalf of other participants of the consortium, who agree to finance the project together as a consortium. Therefore, a certain specialized set of legal documents are required to be executed by all the lenders who are a part of a consortium for all loans sanctioned by IIFCL. The documentation for credit finance can be broadly classified as (i) financing documentation, (ii) security documentation, (iii) creation of security documentation, and (iv) other related documentation.

13. Further, legal documentation is required for raising resources such as information memorandum, trustee agreement, terms of appointment of the credit-rating agency, and Government guarantee for resource-raising, staff loans, and purchase and lease agreements for human resource requirements.

14. In the context of establishing proper systems, the operating procedures for business development are conducted by the planning and business development department for IIFCL. It is responsible for planning and keeping the organization updated with market conditions, fluctuations, and ever-changing economic requirements. Operating procedures are set out to be followed by the department. The procedures are documented in the planning and business development manual and have to be strictly implemented.

15. **Credit Risk Management and Policy.** IIFCL's credit risk management policy is based on the nature and objectives of the organization as articulated in its Scheme. The objectives of the policy are to (i) establish a credit strategy aligned with the goals of the organization; (ii) define the organization structure for implementing the risk framework including roles and responsibilities of the credit risk management department (CRMD), which is an integral part of the credit department under the general manager (credit) or vice president (credit); (iii) define credit and risk management processes so that credit risk can be identified, measured, and managed; (iv) set up proper pricing framework to ensure that the return is commensurate with the risk involved; (v) put in place an adequate management information system for early identification of problem accounts to initiate remedial action; and (vi) define information technology infrastructure supporting credit and risk functions.

16. **Risk Strategy.** The risk strategy is designed to help IIFCL focus on achieving the primary objectives of funding infrastructure projects while managing associated risks. The strategy has goals to (i) implement internal rating models to evaluate credit risk for infrastructure projects, (ii) use internal ratings (obtained from the rating models) in making lending decisions, (iii) install a framework to eventually link pricing to internal ratings, and (iv) develop a road map to implement the building blocks to ensure that IIFCL can maintain risk-based capital.

17. **Risk Management Committee and Credit Risk Management Department.** The credit risk strategy is implemented by the risk management committee (RMC) under the guidance of the board, which periodically reviews the management of credit risk as per the processes and policies laid down for the RMC. The board also periodically provides directives to the RMC for modifying the risk policy to suit the changing environment, amends the roles and responsibility of the RMC based on requirements, comments on issues raised by the RMC, and provides feedback on strategic direction and on any other matter deemed fit by the board in the normal course of business.

18. The CRMD implements the credit risk management policy and guidelines of the RMC. The CRMD identifies, measures, and manages credit risk within the limits set by the board and RMC. In addition, it assists the RMC in performing its activities as envisaged by the board and designs, implements, and validates the credit risk models. Further, the CRMD reviews the outstanding portfolio including review and analysis of the past behaviour of assets, sanctions, and disbursements. Finally, the CRMD specifies activities of day-to-day management, including providing comments on proposals and cases considered for financing, laying down benchmarks for the different credit risk models used at IIFCL and benchmarks risk premium table (rating grade-wise), while reporting any exceptions to the policy.

19. **Accounting.** As IIFCL is governed by the provisions of the Companies Act 1956, all accounting standards pronounced by the Institute of Chartered Accountants of India are applicable. Further, IIFCL is required to maintain all the statutory registers as mandated by various provisions of the Companies Act. In this context, the accounting and auditing procedures outlined in the accounting manual compiles all routine accounting policies and procedures, educates employees to facilitate day-to-day matters, and ensures standardization in accounting of transactions. The accounting procedures and practices outlined in the manual also serve as a tool for auditors to measure performance with reference to adherence to policies and procedures set in the manual. In addition, IIFCL undertakes (i) concurrent internal audit by a firm of chartered accountants, (ii) statutory audit by an independent firm of chartered accountants appointed by the comptroller and auditor general of India, and (iii) supplementary audit by the comptroller and auditor general of India.

20. **Human Resources.** IIFCL adopted a human resources plan that presents the organization's policies and procedures with regard to employed staff. The human resources manual is a tool designed to acquaint managers and supervisors with the organization's policies and procedures, and to help them carry out their day-to-day responsibilities. It states the human resources policy of the company and a broad overview of the various processes, such as human resource planning, recruitment, compensation and benefits, training and employee administration. With growth, other processes may be added to keep the manual updated.

21. **Management Structure.** The organization of IIFCL is setup to ensure that the loan appraisal, resource mobilization and treasury, and loan recovery functions are separate. The functional segregation is based on minimizing conflict of interest and ensuring independence in loan evaluation, pricing, and risk evaluation (e.g., the risk management function has no lending targets and performance is assessed on the basis of documentation and data integrity). Further, the responsible officers are selected on the basis of their banking experience and are drawn from various commercial banks. Figure A4 details the IIFCL operating structure.

22. Functional segregation and independence is ensured through the Scheme, which mandates that project appraisal be undertaken by specialized agencies. Thus, there is no loan origination in IIFCL and it finances projects cleared by the boards of other consortium members.

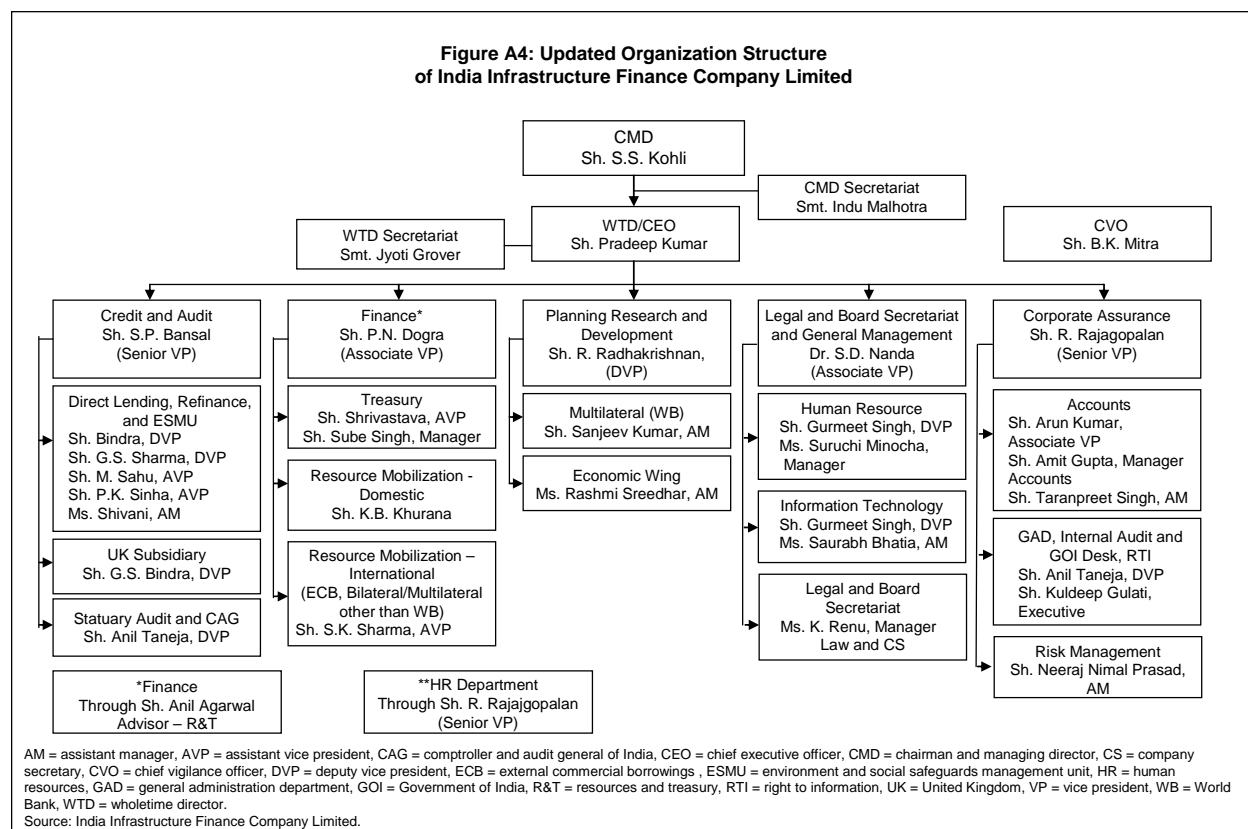
#### **D. Proposed Credit Risk and Financial Operations Framework**

23. Given envisaged growth, a new and strengthened corporate governance framework is proposed within IIFCL to ensure efficient business expansion.<sup>2</sup> Under the new framework, it is proposed that the functions of resource mobilization and treasury be performed by separate personnel within the department as the objectives of the two functions are different. It is further proposed that a separate corporate assurance division be created to serve a specialized credit risk assessment and management function. As the organization grows, this segregation of activities would develop specialization within the department.

24. **Credit Department.** The credit department will be responsible for lending operations and will be responsible for direct lending, refinancing, environmental and social safeguards monitoring, and project appraisal. The key activities envisaged within the credit department include project appraisal and compliance review with pre-disbursement conditions including environmental and social safeguards and project monitoring including site visits. A key aspect of

<sup>2</sup> Proposed in the Ma Foi Manpower Assessment Study which was adopted by the IIFCL board on 14 June 2009.

project monitoring is following-up of interest and loan installments. In addition, the credit department would also be responsible for refinancing in line with the Government's view of using IIFCL as the key refinancing agency.



25. **Finance Department (Resource Mobilization and Treasury).** The resource mobilization division is expected to coordinate with banks, financial institutions, and other lending agencies like insurance companies for fund mobilization. The division is expected to review the domestic market from time to time with respect to exercise the call option, derivative/swap possibilities, prepayment, rollover interest reset, etc.

26. The treasury department is expected to deploy funds with scheduled commercial banks empanelled with IIFCL of other avenues as decided by the management from time to time and to meet funding shortfalls by availing funds based on a cost-benefit analysis. Broadly, the treasury is expected to (i) empanel banks and fix exposure limits for deployment of surplus funds, (ii) meet working capital requirements, (iii) prepare cash flow statements as required from time to time, and (iv) coordinate with the resource mobilization division for funds requirements. It is further expected that the front office and back office activities be performed by separate personnel to have effective controls over treasury management.

27. **Corporate Assurance.** The corporate assurance department is expected to play a strategic role in reviewing the risk management framework and processes ensuring that there are sufficient and systematic arrangements for review of risks across businesses. The corporate assurance division will be subdivided into divisions responsible for the credit risk management, resources and treasury risk management, and auditing and coordination/compliance. The key responsibilities of the credit risk management division would include establishing an appropriate

credit risk environment in order to identify, measure, and manage credit risk within the limits set by the board. Further, the credit risk management division would ensure adequate controls over credit risk by designing, implementing, and periodically validate the credit risk model and lay down benchmarks for the different credit risk models used by IIFCL. The resources and treasury risk management division would be responsible for improving cash forecasting and positioning and optimizing liquidity and improving foreign exchange and interest exposure management.

28. The auditing and accounting functions, which are presently subdepartments within the credit department and resources and treasury, respectively, are recommended as independent divisions with the corporate assurance department. The division would be responsible for internal audits, statutory audit under the Companies Act, and audit by the comptroller and auditor general of India. The coordination and compliance division would be responsible for coordination with the department of financial services and other government agencies. The division would also provide management information system with respect to information required by the above departments. Finally, the division would be responsible for compliance with the right to information Act.

#### **E. Proposed Human Resource Framework**

29. IIFCL has decided to scale up its human resources capabilities and framework to successfully implement internal initiatives with respect to the credit assessment and financial management framework. The credit, finance, and corporate assurance departments will report to separate functional heads. Further, the manpower composition (footnote 2) of each of the functional streams and the scaling up required up to 2011 has been established. The required level of expertise at each level of management within the overall human resources structure has also been established. Further, the manpower planning and succession norms are being implemented across IIFCL to mainstream the human resource framework.

**ASIAN DEVELOPMENT BANK ASSISTANCE TO THE INFRASTRUCTURE SECTOR**  
(as of 30 April 2009)

ADB Assistance	Number of Projects		Amount (\$ million)	
	ADB	India	ADB	India
<b>A. Loan</b>				
<b>1. Energy</b>				
a. Conventional Energy Generation (other than hydropower)				
OCR	44	8	3,764.63	1,767.00
ADF	22	0	682.06	0.00
<b>Subtotal (a)</b>	<b>66</b>	<b>8</b>	<b>4,446.69</b>	<b>1,767.00</b>
b. Energy Sector Development				
OCR	49	9	7,145.33	1,332.60
ADF	16	0	417.21	0.00
<b>Subtotal (b)</b>	<b>65</b>	<b>9</b>	<b>7,562.54</b>	<b>1,332.60</b>
c. Hydropower Generation				
OCR	33	4	2,205.90	284.92
ADF	19	0	453.85	0.00
<b>Subtotal (c)</b>	<b>52</b>	<b>4</b>	<b>2,659.75</b>	<b>284.92</b>
d. Renewable Energy Generation				
OCR	6	1	532.70	100.00
ADF	2	0	180.00	0.00
<b>Subtotal (d)</b>	<b>8</b>	<b>1</b>	<b>712.70</b>	<b>100.00</b>
e. Transmission and Distribution				
OCR	88	13	9,020.65	2,676.00
ADF	71	0	2,237.42	0.00
<b>Subtotal (e)</b>	<b>159</b>	<b>13</b>	<b>11,258.07</b>	<b>2,676.00</b>
<b>Subtotal (A1)</b>	<b>350</b>	<b>35</b>	<b>26,639.75</b>	<b>6,160.52</b>
<b>2. Transport, and Information and Communication Technology</b>				
a. Civil Aviation				
OCR	8	0	430.30	0.00
ADF	14	0	196.72	0.00
<b>Subtotal (a)</b>	<b>22</b>	<b>0</b>	<b>627.02</b>	<b>0.00</b>
b. Multimodal Transport and Sector Development				
OCR	1	0	30.60	0.00
ADF	0	0	0.00	0.00
<b>Subtotal (b)</b>	<b>1</b>	<b>0</b>	<b>30.60</b>	<b>0.00</b>
c. Ports, Waterways, and Shipping				
OCR	48	5	2,099.98	614.60
ADF	22	0	199.45	0.00
<b>Subtotal (c)</b>	<b>70</b>	<b>5</b>	<b>2,299.43</b>	<b>614.60</b>
d. Railways				
OCR	24	3	4,480.00	728.60
ADF	8	0	397.00	0.00
<b>Subtotal (d)</b>	<b>32</b>	<b>3</b>	<b>4,877.00</b>	<b>728.60</b>
e. Roads and Highways				
OCR	150	20	20,246.85	4,322.65
ADF	110	0	4,947.20	0.00
<b>Subtotal (e)</b>	<b>260</b>	<b>20</b>	<b>25,194.05</b>	<b>4,322.65</b>
f. Telecommunications and Communications				
OCR	14	3	1,305.18	253.00
ADF	12	0	103.73	0.00

ADB Assistance	Number of Projects		Amount (\$ million)	
	ADB	India	ADB	India
Subtotal (f)	26	3	1,408.91	253.00
Subtotal (A2)	411	31	34,437.01	5,918.85
<b>Total (A1+A2)</b>	<b>761</b>	<b>66</b>	<b>61,076.76</b>	<b>12,079.37</b>
<b>B. Technical Assistance</b>				
<b>1. Energy</b>				
a. Conventional Energy Generation (other than hydropower)	81	13	16.18	5.24
b. Energy Sector Development	270	35	130.93	16.78
c. Hydropower Generation	65	3	33.46	1.30
d. Renewable Energy Generation	39	3	20.88	1.45
e. Transmission and Distribution	120	3	57.62	1.80
<b>Subtotal (B1)</b>	<b>575</b>	<b>57</b>	<b>259.07</b>	<b>26.57</b>
<b>2. Transport, and Information and Communication Technology</b>				
a. Civil Aviation	35	0	14.57	0.00
b. Multimodal Transport and Sector Development	51	2	30.06	1.15
c. Ports, Waterways, and Shipping	115	10	41.54	6.71
d. Railways	80	6	40.44	4.24
e. Roads and Highways	418	49	203.59	27.66
f. Telecommunications and Communications	36	5	15.20	1.42
<b>Subtotal (B2)</b>	<b>735</b>	<b>72</b>	<b>345.40</b>	<b>41.18</b>
<b>Total (B1+B2)</b>	<b>1,310</b>	<b>129</b>	<b>604.47</b>	<b>67.75</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources.

Sources: ADB's loan, technical assistance, and equity approvals.

## EXTERNAL ASSISTANCE TO THE INFRASTRUCTURE SECTOR

Table A6.1: World Bank

Project Name	Amount (\$ million)	Date Approved
<b>A. Rural</b>		
Andra Pradesh Community Forest Management	108.0	16 Jul 2002
Andra Pradesh Rural Poverty Reduction	150.0	20 Feb 2003
Assam Agriculture Competitiveness	154.0	14 Dec 2004
Chattisgarh District Rural Poverty	92.5	24 Apr 2003
Global Environment Facility Biosafety Project	1.0	23 Jul 2003
Hydrology II	105.0	24 Aug 2004
Karnataka Tank Management	73.8	25 Apr 2002
Karnataka Watershed	80.3	21 Jun 2001
Maharashtra Water Sector	325.0	23 Jun 2005
Mid-Himalayan Watersheds	60.0	13 Dec 2005
Madhya Pradesh District Poverty	90.0	07 Nov 2000
Madya Pradesh Water Sector	394.0	07 Sep 2004
National Agrarian Innovation	200.0	18 Apr 2006
Rajasthan District Poverty Initiatives	100.5	25 Apr 2000
Rajasthan Water Sector	125.0	19 Feb 2002
Tamil Nadu Empower and Poverty Reduction	120.0	12 Jul 2005
Tamil Nadu Irrigation Agriculture	485.0	23 Jan 2007
Uttar Pradesh Water Sector	109.1	19 Feb 2002
Uttaranchal Watershed	69.6	20 May 2004
Orissa Community Tank Management Project	112.0	31 Sep 2008
Karnataka Community-Based Tank Management Project	64.0	25 Sep 2007
Andra Pradesh Community-Based Tank Management Project	189.0	19 Apr 2007
Andra Pradesh Rural Poverty Reduction (additional financing)	65.0	10 Jul 2007
<b>Subtotal (A)</b>	<b>3,272.8</b>	
<b>B. Energy</b>		
Power System Development III	400.0	19 Jan 2006
Renewable Energy II	104.0	27 Jun 2000
Power System Development IV	600.0	13 Mar 2008
Power System Development IV (additional financing)	400.0	21 Oct 2008
Rampur Hydropower Project	400.0	13 Sep 2008
<b>Subtotal (B)</b>	<b>1,304.0</b>	
<b>C. Rural Water</b>		
Karnataka Rural Water Supply	136.6	18 Dec 2001
Kerala Rural Water Supply	53.2	07 Nov 2000
Maharashtra Rural Water	181.0	26 Aug 2003
Punjab Rural Water Supply and Sanitation	154.0	14 Dec 2006
Uttaranchal Rural Water Supply and Sanitation	120.0	05 Sep 2006
Tamil Nadu Irrigated Agriculture Modernization and Water-Bodies Restoration and Management Project	485.0	23 Jan 2007
<b>Subtotal (C)</b>	<b>1,129.8</b>	
<b>D. Transport</b>		
Allahabad Bypass	240.0	14 Oct 2003
Grand Trunk Road	576.5	21 Jun 2001
Gujarat Highways	280.0	05 Sep 2000
Karnataka Highways	360.0	24 May 2001
Kerala State Transport	255.0	14 Mar 2002
Lucknow–Muzaffarpur National Highway	620.0	21 Dec 2004
Mizoram Roads	60.0	14 Mar 2002

<b>Project Name</b>	<b>Amount (\$ million)</b>	<b>Date Approved</b>
Mumbai Urban Transport	542.0	18 Jun 2002
National Highways III	490.8	08 Jun 2000
Punjab State Roads Project	250.0	05 Dec 2006
Rural Roads Project	399.5	23 Sep 2004
Tamil Nadu Roads	348.0	17 Jun 2003
Uttar Pradesh Roads	488.0	19 Dec 2002
India Orissa State Roads Project	250.0	30 Sep 2008
Himachai Pradesh State Roads Project	220.0	05 Jun 2007
Mizoram Roads (additional financing)	18.0	22 Mar 2007
<b>Subtotal (D)</b>	<b>5,397.8</b>	
<b>E. Urban Water</b>		
Gujarat Emergency Earthquake	327.6	02 May 2002
Karnataka Municipal Reforms	216.0	14 Mar 2006
Karnataka Urban Water Improvement	39.5	08 Apr 2004
Tamil Nadu Urban III	300.0	05 Jul 2005
Tsunami Emergency Recons	465.0	03 May 2005
<b>Subtotal (E)</b>	<b>1,348.1</b>	
<b>Total (A+B+C+D+E)</b>	<b>12,452.5</b>	

Source: World Bank.

Available: <http://www.worldbank.org.in/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/INDIAEXTN/0,contentMDK:20195738>**Table A6.2: Japan International Cooperation Agency**

<b>Project Name</b>	<b>Amount (¥ million)</b>	<b>Date Approved</b>
<b>A. Energy Sector</b>		
Tuirial Hydroelectric Power Station Project	11,695	25 Feb1997
Simhadri and Vizag Transmission System Project II	6,400	10 May2002
West Bengal Transmission System Project II	3,127	10 May 2002
Bakreshwar Thermal Power Station Units Extension Project	36,771	31 Mar 2003
Purulia Pumped Storage Project II	23,578	31 Mar 2004
Dhauliganga Hydroelectric Power Plant Construction Project III	13,890	31 Mar 2004
Umiam Stage II Hydro Power Station Renovation and Modernization Project	1,964	31 Mar 2004
North Karanpura Super Thermal Power Project I	15,916	31 Mar 2005
Purulia Pumped Storage Project III	17,963	31 Mar 2006
Rural Electrification Project	20,629	31 Mar 2006
Bangalore Distribution Upgradation Project	10,643	30 Mar 2007
Transmission System Modernization and Strengthening Project in Hyderabad Metropolitan Area	23,697	30 Mar 2007
Maharashtra Transmission System Project	16,749	14 Sep 2007
Haryana Transmission System Project	20,902	10 Mar 2008
Micro, Small, and Medium Enterprises Energy Saving Project	30,000	21 Nov 2008
<b>Subtotal (A)</b>	<b>253,924</b>	
<b>B. Transportation Sector</b>		
Delhi Mass Rapid Transport System Project II	6,732	30 Mar 2001
Delhi Mass Rapid Transport System Project III	28,659	13 Feb 2002
Delhi Mass Rapid Transport System Project IV	34,012	31 Mar 2003
Delhi Mass Rapid Transport System Project V	59,296	31 Mar 2004
Delhi Mass Rapid Transport System Project VI	19,292	31 Mar 2005
Delhi Mass Rapid Transport System Project (Phase 2) I	14,900	31 Mar 2006
Bangalore Metro Rail Project	44,704	31 Mar 2006
Visakhapatnam Port Expansion Project (Engineering Services)	161	31 Mar 2006
Delhi Mass Rapid Transport System Project (Phase 2) II	13,583	30 Mar 2007

<b>Project Name</b>	<b>Amount (¥ million)</b>	<b>Date Approved</b>
Visakhapatnam Port Expansion Project	4,129	30 Mar 2007
Delhi Mass Rapid Transportation System Project Phase 2 III	72,100	10 Mar 2008
Kolkata East West Metro Project	6,437	10 Mar 2008
Hyderabad Outer Ring-Road Project (Phase 1)	41,853	10 Mar 2008
Chennai Metro Project	21,751	21 Nov 2008
Hyderabad Outer Ring-Road Project (Phase 2)	42,027	21 Nov 2008
Delhi Mass Rapid Transport System Project Phase 2 (IV)	77,753	31 Mar 2009
<b>Subtotal (B)</b>	<b>487,389</b>	
<b>C. Urban and Regional Development</b>		
Kerala Water Supply Project	11,997	25 Feb 1997
Yamuna Action Plan Project II	13,333	31 Mar 2003
Bisalpur Jaipur Water Supply Project (Transfer System)	8,881	31 Mar 2004
Ganga Action Plan Project (Varanasi)	11,184	31 Mar 2005
Bangalore Water Supply and Sewerage Project (II-Phase 1)	41,997	31 Mar 2005
Bangalore Water Supply and Sewerage Project (II-Phase 2)	28,358	31 Mar 2006
Hussain Sagar Lake and Catchment Area Improvement Project	7,729	31 Mar 2006
Kolkata Solid Waste Management Improvement Project	3,584	31 Mar 2006
Kerala Water Supply Project II	32,777	30 Mar 2007
Agra Water Supply Project	24,822	30 Mar 2007
Amritsar Sewerage Project	6,961	30 Mar 2007
Orissa Integrated Sanitation Improvement Project	19,061	30 Mar 2007
Goa Water Supply and Sewerage Project	22,806	14 Sep 2007
Hogenakkal Water Supply and Fluorosis Mitigation Project	22,387	10 Mar 2008
Tamil Nadu Urban Infrastructure Project	8,551	10 Mar 2008
Guwahati Water Supply Project	29,453	31 Mar 2009
Hogenakkal Water Supply and Fluorosis Mitigation Project (Phase 2)	17,095	31 Mar 2009
Kerala Water Supply Project III	12,727	31 Mar 2009
<b>Subtotal (C)</b>	<b>323,703</b>	
<b>D. Agriculture, Water, and Other Sectors</b>		
Attappady Wasteland Comprehensive Environmental Conservation Project	5,112	25 Jan 1996
Rengali Irrigation Project II	6,342	31 Mar 2004
Kurnool Cuddapah Canal Modernization Project II	4,773	31 Mar 2004
Rajasthan Minor Irrigation Improvement Project	11,555	31 Mar 2005
Andhra Pradesh Irrigation and Livelihood Improvement Project	23,974	30 Mar 2007
Punjab Afforestation Project II	5,054	31 Mar 2003
Rajasthan Forestry and Biodiversity Project	9,054	31 Mar 2003
Integrated Natural Resource Management and Poverty Reduction Project in Haryana	6,280	31 Mar 2004
Tamil Nadu Afforestation Project II	9,818	31 Mar 2005
Karnataka Sustainable Forest Management and Biodiversity Conservation Project	15,209	31 Mar 2005
Swan River Integrated Watershed Management Project	3,493	31 Mar 2006
Orissa Forestry Sector Development Project	13,937	31 Mar 2006
Tripura Forest Environmental Improvement and Poverty Alleviation Project	7,725	30 Mar 2007
Gujarat Forestry Development Project Phase 2	17,521	30 Mar 2007
Uttar Pradesh Participatory Forest Management and Poverty Alleviation Project	13,345	10 Mar 2008
Capacity Development for Forest Management and Personnel Training Project	5,241	21 Nov 2008
Ajanta-Ellora Conservation and Tourism Development Project II	7,331	31 Mar 2003
Uttar Pradesh Buddhist Circuit Development Project	9,495	31 Mar 2005

<b>Project Name</b>	<b>Amount</b> (¥ million)	<b>Date</b> <b>Approved</b>
<b>Subtotal (D)</b>	<b>175,259</b>	
<b>Total (A+B+C+D)</b>	<b>1,240,275</b>	

Source: Japan International Cooperation Agency, New Delhi.

**Table A6.3: Japan Bank for International Cooperation**

<b>Project Name (ongoing)</b>	<b>Amount</b> (¥ million or \$ million)	<b>Date</b> <b>Approved</b>
Bara Super Thermal Power Project	\$380.0 million	20 December 2007
L&T-MHI Boilers and L&T-MHI Turbine Generator Projects	\$153.7 million	20 July 2009
Toshiba JSW Turbine and Generator Projects	\$90.0 million	22 October 2009
<b>Total</b>	<b>\$623.7 million</b>	

L&T = Larsen and Turbo, MHI = Mitsubishi Heavy Industries.

Source: Japan Bank for International Cooperation, New Delhi.

**Table A6.4: Kreditanstalt für Wiederaufbau**

<b>Project Name (ongoing)</b>	<b>Amount</b> (€ million or \$ million or Rs million)
Power Sector Reform Program I, Andhra Pradesh (Krishnapatnam)	€562.12 loan
REC Energy Efficiency	€70 loan
REC Energy Efficiency II	€70 loan
Energy Investment Program (PFC I)	€23.76 loan
Energy Investment Program (PFC II)	€100.56 loan + €3.33 grant
Pare Hydropower Project	€80 loan
IREDA II-Sustainable Energy Program	€50 loan
NTPC Promotional Loan	\$100 loan
LNG Terminal Dahej	R 3,375 loan
Private Sector Infrastructure Facility II	€54 loan
TNUF Infrastructure Development in Tamil Nadu	€65 loan
Watershed Development Maharashtra (Phase 2)	€12.78 grant
Watershed Development Maharashtra (Phase 3)	€19.94 grant
Watershed Development Andhra Pradesh	€8.69 grant
Watershed Development Gujarat	€9.2 grant
Watershed Development Rajasthan	€11 grant
Watershed Development Andhra Pradesh-Accompanying Measures	€2 grant

IREDA = India Renewable Energy Development Agency, NTPC = National Thermal Power Corporation, LNG = liquefied natural gas, PFC = Power Finance Corporation, REC = Rural Electrification Corporation, PSIF = private sector infrastructure projects, TNUF = Tamil Nadu Urban Development Fund.

Source: Kreditanstalt für Wiederaufbau, New Delhi.

## COORDINATION WITH THE DEVELOPMENT PARTNERS

1. The Asian Development Bank (ADB) closely coordinated the processing of the First India Infrastructure Project Financing Facility (IIPFF I) and the Second India Infrastructure Project Financing Facility (IIPFF II) with the Japan Bank for International Cooperation (JBIC), Japan International Cooperation Agency, and Kreditanstalt für Wiederaufbau (KfW) and the World Bank. In addition to financing support to the India Infrastructure Finance Company Limited (IIFCL), the scope of coordination with development partners covers (i) the environmental and social safeguards framework (ESSF), (ii) credit rating, and (iii) financial management assessment (FMA).

2. A key area of concern for the development partners is to ensure that the funds are only relent to those subprojects that conform to national environmental and social safeguards norms as well as those of the development partners. The development partners agreed that the IIFCL should have common 'safeguards policy frameworks' for involuntary resettlement, environment, and indigenous peoples. In addition, capacity building to undertake the same was considered integral to operationalizing this approach. In this context, ADB organized donor harmonization meetings with JBIC, KfW, and the World Bank to (i) discuss developing a common donor ESSF which satisfies the Government and donor requirements, and (ii) map out issues relating to capacity building in IIFCL to implement the ESSF. The ESSF,<sup>1</sup> developed under the guidance of the Regional and Sustainable Development Department, was subsequently endorsed by the development partners. ADB is providing support for in-house capacity building of IIFCL to ensure that subprojects financed from ADB support conform to the common ESSF.<sup>2</sup>

3. The World Bank<sup>3</sup> is providing technical assistance to assist IIFCL in developing an operations manual, project implementation plan, and in identifying capacity gaps. Closely aligned to this initiative is the ADB technical assistance (footnote 2) to procure and install hardware and software to assist IIFCL in evaluating credit risk of projects and price loans in line with the requirements of the operations manual and efficiently manage business expansion. Showing an appreciation of IIFCL's forward borrowing program, ADB also assisted<sup>4</sup> IIFCL with an international credit rating. This enabled IIFCL to access the international capital markets and thus benefits other lenders interested in participating in IIFCL's borrowing program. Given IIFCL's desire to expand sources of financing to include all potential sources, the credit rating would also be necessary in the event that IIFCL accesses funding from the International Finance Corporation.

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<sup>1</sup> The common safeguards frameworks will cover specific information of the Second India Infrastructure Project Financing Facility and ADB's safeguard policy requirements including (i) anticipated impacts of the components or subprojects (likely to be financed under the multitranches financing facility) on environment, involuntary resettlement, and indigenous peoples; (ii) safeguards criteria to be used in selecting project components or subprojects; (iii) requirements and procedure to be followed to screen and categorize them, conduct impact assessments, develop management plans, hold public consultation and disclose public information (including the 120-day disclosure rule, if required), and monitor and report the progress of such subprojects or project components; and (iv) the institutional arrangements (including budget and capacity requirements), and counterparty's and ADB's responsibilities and authorities in the preparation, review, and clearance of safeguards documents.

<sup>2</sup> ADB. 2007. *Technical Assistance to India for Capacity Development for India Infrastructure Finance Company Limited*. Manila (TA 7030-IND approved on 14 December for \$500,000).

<sup>3</sup> Policy and Human Resources Development grant for \$1 million.

<sup>4</sup> ADB. 2006. *Technical Assistance Cluster to India for Project Processing and Capacity Development*. Manila (TAC 4814-IND approved on June 2006 for \$100,000).

4. Given the strong support from donor organizations during the nascent stages of IIFCL's operations, ADB closely coordinated its efforts in finalizing the FMA. While the World Bank conducted its own FMA, ADB and the World Bank project teams shared and discussed the findings of their respective FMA reports. As needed, the FMAs will be made available to other development partners.

5. Since ADB is the first development partner to provide lending support to IIFCL, its assessment of IIFCL capacity and systems and procedures is a valuable input for the development partners that plan to provide funding support to IIFCL. Accordingly, ADB review missions have shared implementation progress and issues. In addition, coordination is also maintained in terms of subprojects to be financed. ADB and the World Bank also coordinate capacity building to states for identifying and conceptualizing public–private partnership projects.

6. Since IIFCL catalyzes consortium financing, coordinated efforts on ESSF, credit rating, and FMA supports implementation of IIFCL's mandate. The achievement of common development and capacity building objectives is a key feature of the coordination efforts. Going forward, coordination efforts would include supporting IIFCL's access to international capital markets and the strengthening of IIFCL's capacity to provide a greater sophistication in market-based financial and risk management products and services.

**LIST OF SUBPROJECTS**  
(\$ million)

Sl. No.	Name of Company	Project	Project Cost	Loan Sanctioned to IIFCL	Loan Allocated to IIFCL	Disbursement until 31 March 2009
1.	BSC-C and C-Kurali Toll Road Ltd.	Road project of Kurali Kiratpur section on NH-21	84.00	9.26	9.26	3.16
2.	Gorakhpur Infrastructure Co. Ltd.	Road project of Gorakhpur bypass road on NH-28	133.63	21.58	16.46	0.00
3.	L&T Halol Shamlaji Tollways Private Limited	Augmentation of existing road on Halol-Godhra-Shamlaji State Highway-5 in Gujarat	2,778.92	49.40	Not yet finalized	0.00
4.	L&T Rajkot Vadinar Tollway Private Limited	Road project from Rajkot to Vadinar on state highway-25 in Gujarat	225.60	49.40	Not yet finalized	0.00
5.	Pink Pink City Expressway Private Limited	Strengthening of the existing carriageway on the Gurgaon-Kotputli-Jaipur section of NH -8	619.39	49.40	46.10	0.00
6.	Pondicherry-Trindivanam Tollway Ltd.	Road project of Pondicherry-Tindivanam road section of NH-66	64.76	12.86	10.04	3.24
7.	SEW Navayuga Barwani tollways Pvt. Ltd.	Road project on NH-3	160.97	25.73	24.70	4.47
8.	Vijaywada Tollway Pvt.Ltd.	Road stretch project on NH-5	165.50	30.87	19.55	0.00
9.	Coastal Gujarat Power Ltd.	4,000 MW (5x800 MW units) coal-based ultra mega thermal power project in Kutch	3,504.32	380.52	370.52	60.07
10.	Gayatri-Jhansi Roadways Ltd. "UP2"	Road project between Jhansi band Lalitpur on NH-25/26 on BOT basis	86.66	15.43	15.43	7.93
11.	Gayatri-Jhansi Roadways Ltd. "UP3"	50km road on stretch between Jhansi and Lalitpur on NH-25/26 on BOT basis	64.34	12.35	10.49	8.14
12.	Gwalior-Jhansi Expressways Limited	Construction, Operation and Maintenance of Km 16 to Km 96 stretch on NH-75	148.48	29.81	20.79	2.88
13.	Malaxmi Highways Pvt. Ltd.	Four Laning of Lakhnadon-Seoni on NH-7 on BOT annuity basis	58.61	11.29	10.29	6.81
14.	MSRDC	Bandra-Worli Sealink Project	279.95	31.87	30.87	20.58
	<b>Total (Rs10,000,000)</b>		<b>38,634.47</b>	<b>3,371.04</b>		<b>541.01</b>
	<b>Total (\$ million)</b>		<b>8,375.13</b>	<b>730.77</b>		<b>117.28</b>

BOT = build-operate-transfer, IIFCL = India Infrastructure Finance Company Limited, MW = megawatt, MSRDC = Maharashtra State Road development Corporation Limited, NH = national highway.

Note. \$1 = Rs46.13 as on 15 October 2009.

Source: India Infrastructure Finance Company Limited.

## IMPLEMENTATION SCHEDULE

Activity	2009												2010												2011												2012												2013												2014 (Jan-Dec)																																																																																			
	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12																																																																								
<b>A. Project Preparation</b>																																																																																																																																																
1. Identification of potential projects to be financed through IIPFF																																																																																																																																																
2. Updating ESSF																																																																																																																																																
3. Augmenting staff resources and strengthening PMU																																																																																																																																																
4. Preparation of IPPMS formats and benchmarks																																																																																																																																																
5. Conduct due diligence of subprojects by E&S consultants for determining project compliance																																																																																																																																																
<b>B. Capacity Development within IIFCL</b>																																																																																																																																																
1. Capacity building in IIFCL for project credit risk assessment and pricing																																																																																																																																																
a. Adoption of credit risk assessment processes and internal structures																																																																																																																																																
b. Adoption and implementation of internal control procedures																																																																																																																																																
c. Implementation of rating migration systems																																																																																																																																																
d. Procurement and installation of hardware and software																																																																																																																																																
2. Adoption of operational guidelines with respect to																																																																																																																																																
a. Accounting policies																																																																																																																																																
b. Human resources policies																																																																																																																																																
c. Board procedures																																																																																																																																																
d. Credit risk assessment and appraisal																																																																																																																																																
e. Loan pricing methodologies																																																																																																																																																
f. Legal procedures																																																																																																																																																
<b>C. IIPFF Review</b>																																																																																																																																																
1. Preparation of quarterly review of documents by PMU based on IPPMS																																																																																																																																																
2. Preparation of semiannual review of documents by IIFCL's Board																																																																																																																																																
3. Preparation of annual review of documents by ADB																																																																																																																																																
4. Preparation of midterm review by ADB																																																																																																																																																
<b>D. Tranche Releases</b>																																																																																																																																																
1. First tranche																																																																																																																																																
2. Second tranche																																																																																																																																																
3. Third tranche																																																																																																																																																

ADB = Asian Development Bank, E&S = environment and safeguard, ESSF = environment and social safeguards framework, IIFCL = India Infrastructure Finance Company Limited, IIPFF = India Infrastructure Project Financing Facility, IPPMS = investment program performance monitoring system, PMU = project management unit.  
Sources: India Infrastructure Finance Company Limited.

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country/Project Title: Second India Infrastructure Project Financing Facility (IIPFF II)
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Lending/Financing Modality:	Multitranche Financing Facility	Department/ Division:	South Asia Department/Financial Sector, Public Management and Trade Division
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### I. POVERTY ANALYSIS AND STRATEGY

#### A. Link to the National Poverty Reduction Strategy and Country Partnership Strategy

The investment supports poverty reduction development goals of the Government of India (the Government) and Asian Development Bank (ADB) for India.

Poverty reduction and social development through faster and more inclusive growth is the goal of the 11th Five-Year-Plan (FYP) of the Government. The Planning Commission's approach paper<sup>a</sup> to the 11th FYP identifies infrastructure bottlenecks and lack of adequate long-term funds for infrastructure investments as key binding constraints to realizing more equitable and sustainable growth and bridging the divides between regions, sectors, and gender. In addition, the same approach paper states that "good quality infrastructure is the most critical physical requirement for attaining faster growth in a competitive world and also for ensuring investment in backward regions." The thrust of the 11th FYP is to scale up investment in infrastructure from 4.6% to around 9% of gross domestic product (GDP) in the FYP period and to ensure (i) electricity connection to all villages and below-poverty line households by 2009, and round-the-clock power by the end of the 11th FYP; and (ii) all-weather road connections to all habitations with populations of 1,000 or more (500 and above in hilly and tribal areas) by 2009.

ADB's country partnership strategy 2009–2012<sup>b</sup> recognizes that the adoption of ADB's Poverty Reduction Strategy in 1999 by India to support infrastructure-led poverty reduction in line with the 10th FYP priorities was valid and continues to be relevant for the 11th FYP. The assessment of the country assistance and program evaluation cites evidence that ADB assistance for infrastructure development had an impact on economic growth, which has in turn helped to mitigate income poverty. The key lessons that emerge is that ADB needs to continue its focus on infrastructure development but should try to increasingly mainstream innovative business and financing modalities such as support for public-private partnership (PPP) infrastructure projects. The intervention seeks to expand the availability of funding sources to the India Infrastructure Finance Company Limited (IIFCL) and simultaneously improve IIFCL's capacity to access market sources of finance. The availability of additional sources will significantly assist IIFCL in fulfilling its mandate of expanding the availability of high-quality infrastructure in India through PPPs. The assistance will also result in subprojects being priced on competitive terms, thereby reducing financing risk and rationalizing pricing of services to the end borrowers.

#### B. Poverty Analysis

**Targeting Classification:** General intervention

**Key Issues.** The poverty and social analysis identifies the socioeconomic profile of the population in the investment facility areas, expected benefits and constraints, and ability of the poor and vulnerable groups to benefit from the investment facility. The analysis also identifies ways to incorporate the needs of the poor and minimize and/or compensate for adverse impacts. This was done through a review of existing studies on poverty and social analysis, focus group discussions and information gathering interviews with primary and secondary stakeholders, and an additional socioeconomic survey. To assess whether benefits are reaching the most vulnerable groups, attention was given to profile beneficiaries with gender-disaggregated demographic, economic, and social analysis. This will be supported by analysis of the incidence of poverty, identification of vulnerable groups, ability and willingness of targeted beneficiaries to pay for cost recovery, and any anticipated adverse impacts.

**Design Features.** The key anticipated impact on poverty will be through greater affordability of high quality infrastructure. With more efficient and lower cost infrastructure, analysis would be necessary to establish if this translates into greater affordability and higher usage. This, in turn, is expected to lead to greater incidence of compliance with tariffs and reduction in leakages.

<b>II. SOCIAL ANALYSIS AND STRATEGY</b>			
<b>A. Findings of Social Analysis</b>			
<p><b>Key Issues.</b> Development of infrastructure contributes to economic growth, which in turn contributes to infrastructure development through increased demand for infrastructure services. Moreover, investments in human capital and infrastructure interact, thus increasing the returns to each investment. Investment in infrastructure services can contribute to sustainable growth by (i) reducing transaction costs and facilitating trade flows within and across borders; (ii) enabling economic agents—individuals, firms, and governments—to respond to new types of demand in different geographic areas; (iii) lowering input costs in the production of almost all goods and services; (iv) opening new opportunities for entrepreneurs or making existing businesses more profitable; and (v) creating employment in public works.</p> <p>The absence of local infrastructure is most critically felt by the poor who are acutely affected by the impact of inadequate infrastructure on their livelihoods. Shocks to the national economy, such as the rationing of electricity, are particularly evident to large numbers of people dependent on employment in small enterprises in the informal sector. While indirect benefits are more difficult for poor people to perceive, the development and maintenance of national infrastructure is essential if India will secure potential gains from globalization. Improving local availability is unlikely to transform the economy and development benefits will not be fully realized unless simultaneous local and national improvements are introduced and managed.</p>			
<b>B. Consultation and Participation</b>			
<p>a. <b>Consultation and Participation.</b> For subprojects funded by IIFCL, compliance requirements will necessarily include conduct of stakeholder consultations on environmental and social safeguards issues. The consultations will assist the subproject developer in establishing an environmental impact assessment or the subproject information memorandum. Based on these, an environmental action plan, a resettlement plan, and a tribal development plan will be prepared with mitigations, wherever necessary.</p> <p>b. What level of consultation and participation (C&amp;P) is envisaged during the project implementation and monitoring?  <input checked="" type="checkbox"/> Information-sharing    <input checked="" type="checkbox"/> Consultation    <input type="checkbox"/> Collaborative decision-making    <input type="checkbox"/> Empowerment</p> <p>c. Was a C&amp;P plan prepared? <input type="checkbox"/> Yes    <input checked="" type="checkbox"/> No  For subprojects funded by IIFCL, compliance requirements will include stakeholder consultations as per both the environmental and social safeguards framework (ESSF) of IIFCL and ADB requirements.</p>			
<b>C. Gender and Development</b>			
<p>1. <b>Key Issues.</b> Women will benefit from the investment facility through improved access to various infrastructure services and more affordable pricing. Women entrepreneurs have suffered due to the lack of quality infrastructure, such as regular power supply for production units, and roads for market access requiring them to walk through difficult terrain. Further, regular water supply and adequate drainage improves working conditions for women employees. Moreover, quality infrastructure will assist women and other vulnerable groups through better quality health care and education. Women will benefit from subprojects that conform to required environmental standards.</p> <p>2. <b>Key Actions.</b> Measures are included in the design to promote gender equality and women's empowerment: access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process:  <input type="checkbox"/> Gender plan    <input type="checkbox"/> Other actions/measures    <input checked="" type="checkbox"/> No action/measure</p>			
<b>III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS</b>			
Issue	Significant/ Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
<b>Involuntary Resettlement</b>	Limited impact	A social safeguards framework was formulated to assess and address social issues, particularly involuntary resettlement impacts of subprojects. Appropriate resettlement planning instruments will be prepared for each subproject.	<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input checked="" type="checkbox"/> Resettlement Framework <input type="checkbox"/> No Action

Issue	Significant/ Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
<b>Indigenous Peoples</b>	Limited impact	The social safeguards framework covers the basic requirement of screening and planning to address any tribal (indigenous) population issues arising from any subproject. An appropriate tribal peoples development plan will be prepared for each subproject that has an impact on tribal people.	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> Indigenous Peoples Framework <input type="checkbox"/> No Action
<b>Labor</b> <input type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards	Significant impact	The subprojects financed through the facility are expected to result in significant increases in employment opportunities especially in the road subsector. The National Highway Development Program alone has led to the creation of direct employment for up to 250,000 construction workers and 10,000 supervisors per day. The National Highway Development Program is estimated to have created employment of close to 180 million person-days up until December 2003.	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
<b>Affordability</b>	No impact	The costs of services provided by subprojects financed under the facility are expected to be competitive. This is due to the facility design as well as the Scheme for Financing Viable Infrastructure Projects through IIFCL (IIFCL's operating paradigm). Through the IIPFF II, a longer tenor loan will be provided, making the cost of services affordable. IIFCL's Scheme emphasizes public-private partnership subprojects, which are bid for on a competitive basis, further ensuring competitive pricing.	<input type="checkbox"/> Action <input checked="" type="checkbox"/> No Action
<b>Other Risks and/or Vulnerabilities</b> <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others(conflict, political instability, etc), please specify	No impact.	The subprojects will be fully compliant with ADB's environment and social safeguards policies, and policies of other development partners, as well as those of the Government. Further, subprojects will be required to provide adequate environmental protection and social safeguard plans. The subproject developers must ensure that civil works contractors do not employ children or discriminate against women, and disseminate information on sexually transmitted diseases. Paragraph 19 of the ESSF stipulates these requirements.	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> No Action
<b>IV. MONITORING AND EVALUATION</b>			
Are social indicators included in the design and monitoring framework to facilitate monitoring of social development activities and/or social impacts during project implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No			

<sup>a</sup> Planning Commission, Government of India. 2006. *Towards Faster and More Inclusive Growth*. New Delhi.

<sup>b</sup> Asian Development Bank. 2008. *Country Partnership Strategy: India 2009–2012*. Manila.