SECTOR PROGRAM ASSESSMENT: FINANCE

A. Introduction

1. This assessment evaluates the Asian Development Bank’s (ADB’s) finance sector program operations in India as part of the country assistance program evaluation (CAPE) for 2007–2015. The assessment provides an independent evaluation and rating of ADB’s finance sector program performance and draws out forward-looking lessons and suggestions, which will serve as inputs to the forthcoming country partnership strategy (CPS) for India.

2. The assessment used a mix of analytical methods: interviews at the resident mission and ADB headquarters, field visits, and a document review. The document review entailed an examination of reports and recommendations of the President (RRPs), project completion reports (PCRs), project completion report validation reports (PVRs), technical assistance (TA) reports and TA completion reports (TCR), back-to-office reports, and progress reports, as well as CPSs, country operations business plans, and sector assessments. Loans and TA projects were assessed on the basis of (i) relevance, (ii) effectiveness, (iii) efficiency, (iv) sustainability, and (v) development impacts. The contribution of ADB’s operations on the thematic goals of inclusion, environmentally sustainable growth, gender and development, and knowledge and capacity development were also reviewed.

3. As part of the CAPE exercise, a mission was fielded to India on 8–19 February 2016. The mission covered all loans and related TA projects, conducted interviews with officers and staff of the Ministry of Micro, Small, and Medium Enterprises, India Infrastructure Finance Company Limited (IFCL), Indian Renewable Energy Development Agency Limited (IREDA), the Export-Import Bank of India (EXIM Bank), and the Small Industries Development Bank of India (SIDBI). The team had consultations with concerned staff at the India resident mission. The team also visited an outlet of the khadi industry in Delhi and viewed first-hand a few of the infrastructure financing subprojects (Delhi and Mumbai international airports, and the expressway from Delhi to Agra). In addition, interviews were conducted with concerned projects officers at ADB headquarters.

B. Sector Context

4. The financial reforms launched in the 1990s have transformed the operating environment of India’s finance sector from an administered regime to a competitive, market-based system. During 2003–2008, the economy went through a phase of vigorous growth with strong economic fundamentals, with gross domestic product (GDP) growing at an average of 8.8% a year. In support of the government’s efforts to accelerate economic growth, measures were taken by the Reserve Bank of India (RBI) during 2006–2007 to strengthen the finance sector, which included ensuring asset quality, enforcing greater discipline by market players, and introducing the norms of Basel II into the banking system. The global

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1 Of the four MFFs, one project, and one program (supported by 10 loans) included in the evaluation, only one MFF (supported by two loans) has a PVR, i.e., Loan 2404/2509: India Infrastructure Project Financing Facility – Tranches 1 and 2.
2 These assessments include the sector road map, strategies, and results framework.
3 India Infrastructure Project Financing Facility – tranches 1 and 2; Second India Infrastructure Project Financing Facility – tranches 1, 2, and 3; Khadi Reform and Development Program; Accelerating Infrastructure Investment Facility in India – tranches 1 and 2; Clean Energy Finance Investment Program - tranche 1; Capacity Development for India Infrastructure Finance Company Limited; Capacity Building for Reforming the Khadi and Village Industry Subsector; Small and Medium Enterprise Trade Finance Development Facility; Enhancing Bond Guarantee Structuring Skills in India; and Capacity Building of the Indian Renewable Energy Development Agency.
4 Appendix 1 lists the officials met.
5 Khadi refers to handspun and handwoven cloth. Khadi and village industries were originally promoted by Mahatma Gandhi in 1920s for rural self-employment.
6 Basel II is an accord of the Basel Committee on Banking Supervision that focused on creating standards and regulations on how much capital institutions must put aside to reduce the risks associated with its investing and lending practices.
financial crisis that unfolded in 2007 affected the foreign exchange and equity markets but had limited direct effects on the banking sector, primarily because banks had limited exposure to complex derivatives and were, therefore, not significantly affected by the prudential regulations put in place by the regulators. The resilience of India’s finance sector also lay in the fact that most of the sector was domestically owned. To further strengthen regulation and risk management, Basel III regulatory requirements were introduced in 2013. Since 2008, the banking system has withstood the volatility of the global financial markets.

5. Basel III norms commenced in 2013 in a phase manner, with full compliance targeted to be achieved by 2019. It is not easy for banks to implement these norms as they require higher capital requirements, deployment of more sophisticated technology and investment in more liquid assets. Banks may have to look beyond regulatory compliance and take proactive actions to meet these challenges. These may include changes in business mix by lending to more profitable yet safe sectors, sourcing stable low-cost funds, and improving systems and procedures for greater efficiency. Public sector banks in particular have to rely mostly on government for the needed increase in capital, which will have an impact on the fiscal position of government. On the whole, the challenge to the banking system is complying with the stringent requirements of the Basel III framework, while at the same time maintaining growth and profitability.

6. Sector constraints and challenges. The main challenge facing India’s finance sector is the inadequate financial resources to fund the country’s economic and social infrastructure. The lack of funding for economic or physical infrastructure constrains rapid economic growth and delivery of services, while the lack of funding for social infrastructure limits access to finance by households and micro, small, and medium-sized enterprises (MSMEs), which in turn, restricts the creation of jobs and livelihoods.

7. The underlying cause of this shortage of funding is the lack of financial instruments and institutions to finance private investments for infrastructure. The key constraints on financing private investment for infrastructure are: (i) the absence of a vibrant corporate bond market and innovative financial instruments and modalities; (ii) the insufficient quality of projects, which makes it difficult for them to access long-term funds; and (iii) exposure limits and increasing asset liability mismatches across banks for infrastructure financing.

8. In recent years, the quality of banks’ assets has become a matter of concern. The ratio of nonperforming assets (NPAs) to total advances deteriorated from 3.4% in March 2013 to 4.5% in September 2014, and further to 5.1% in September 2015, a major part of which were with government-owned banks. Taken together with restructured loans, the ratio of stressed advances exceeded 11% raising concern about the quality of bank assets. The causes of the rise in NPAs were supply-side bottlenecks, a highly leveraged corporate sector, weak governance and project appraisal capacity within banks, and slowdown in global and domestic demand. The government has taken measures to address the rising NPAs, including transparency in governance, recapitalization, debt restructuring, and NPA recognition. The parliament approved the bankruptcy law to improve the quality and speed of debt restructuring. In February 2016, the Central Bank called for all banks to fully disclose and provide for all NPAs by March 2017. These measures will help unclog bank finance channels for private spending in infrastructure provided there is no further deterioration in the health of banks.

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7 During 2009–2010, 69% of the banking sector’s assets were held by public sector banks and 22% by private banks. Only 9% were held by foreign banks. Source: Reserve Bank of India. 2010. *Handbook of Statistics on the Indian Economy 2010*. Mumbai.

8 Basel III is a comprehensive set of reform measures to strengthen the regulation, supervision, and risk management of the banking sector.


9. The government needs to address these constraints if it is to close the infrastructure investment gap, estimated at $113 billion for 2012–2017. The high NPAs, coupled with an overleveraged corporate sector, could compress an important source of infrastructure finance. Thus, the infrastructure financing gap is likely to grow larger in the years ahead.

10. The lack of access to formal financial services by households and MSMEs has resulted not only in financial exclusion but also constrained growth in the rural sector and among MSMEs. The constraints include the high operating cost of opening and maintaining branches in unbanked areas, and the absence of adequate security and collateral to access formal finance. These need to be addressed and formal finance be made more accessible to the unbanked and MSMEs if more inclusive growth is to be achieved.

11. **Government strategies and plans.** Since 2006, the government’s five-year plans have recognized that the lack of infrastructure is a major constraint on rapid economic growth and have emphasized the need for a massive expansion of infrastructure. However, resources, particularly from long-term funds, have been inadequate to fund the infrastructure needed to help achieve the government’s goal of sustainable and more inclusive growth. In response to the lack of long-term funding for infrastructure, the IIFCL was set up in 2006 as a wholly owned government company to provide long-term debt financing at commercial rates for infrastructure subprojects.

12. The government has paid special attention to reforming the pension system, in particular the need to address ballooning unfunded pension liabilities under the defined benefit system for civil servants, which were not fiscally sustainable. In 2004, the government took the first steps toward establishing a self-sustaining and broad-based pension system when it moved away from an unfunded defined benefit system for civil servants in favor of a contributory system. Since then, the pension system has been confined to the organized sector, which employs one-tenth of the labor force. To widen its reach, the 10th Five-Year Plan, 2002–2007 proposed the establishment of a self-sustaining pension system for the unorganized or informal sector. The 11th Five-Year Plan, 2007–2012 emphasized that the minimum level of social security should include old age pensions to protect workers in the unorganized sector. The plan also highlighted the need to diversify pension investments to broaden the pension coverage and increase pensioners’ benefits.

13. Financial inclusion has also been a national priority since the 11th Five-Year Plan, 2007–2012. The government census in 2011 revealed that only 58.7\(^{12}\) of households had access to banking services. The lack of access to financial services has resulted not only in exclusion but also constrained growth in the rural and unorganized sectors,\(^{13}\) including MSMEs. In August 2014, the government launched a massive financial inclusion program that has already resulted in more than 200 million new bank accounts being opened. The Aadhaar,\(^{14}\) a unique identification system, will form the backbone for targeted delivery of financial and other benefits and services. In April 2015, the Micro Units Development and Refinance Agency (MUDRA) Bank was launched to provide credit access to micro and small businesses. The government has also initiated the Make-in India, Skill India, and Startup India programs to encourage innovations, entrepreneurship, and job creation.\(^{15}\)

14. The government’s 12th Five-Year Plan, 2012–2017 reiterated the importance of mobilizing savings, including from the private sector, to meet the financing requirements of infrastructure. This means that alternative sources of finance have to be developed, particularly the corporate bond market and other financial instruments to tap the resources needed for long-term infrastructure financing. On 30 November 2015, the RBI issued a revised external commercial borrowings framework that includes

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\(^{13}\) Includes unorganized manufacturing and services.

\(^{14}\) Aadhaar is a 12 digit individual identification number issued by the Unique Identification Authority of India on behalf of the Government of India.

\(^{15}\) Launched in September 2014, January 2016, and July 2015, respectively.
regulations for the issuance of rupee-denominated bonds overseas, otherwise known as “masala bonds.” This will help private companies to raise money from investors overseas, in addition to bank loans and the local debt market, to finance infrastructure projects. In December 2015, the Cabinet approved the National Infrastructure Investment Fund (NIIF) to stimulate investments in viable infrastructure projects. The NIIF will raise funds from investors and markets and invest them in companies, institutions, and infrastructure projects. The Union Budget 2016–2017 outlined several measures designed to revive and accelerate investments. India is considered to be one of the world’s most vibrant economies, with a robust finance sector, particularly banking and insurance. ADB’s strategy of supporting infrastructure finance, developing the capital market, particularly the bond market, and promoting financial inclusion is in line with the government’s development goals.

15. Other development partners’ programs. An estimated $5.1 billion was committed by India’s development partners to supporting its finance sector over 2007–2015. ADB ($2.6 billion) and the World Bank ($1.8 billion) made the largest commitments, mainly for infrastructure finance and particularly for IIFCL. The World Bank is also strengthening India’s rural cooperatives, and ADB is supporting clean energy finance and MSME financing and development. The main interventions of the United Kingdom’s Department for International Development are in infrastructure finance and financial inclusion. Agence Francaise de Developpement (AFD) has supported a credit line to India’s largest lenders to MSMEs, the State Bank of India, and SIDBI to improve energy efficiency in Indian MSMEs. Kreditanstalt fur Wiederaufbau (KFW) focused on the financing and development of MSMEs and investments in micro pensions. The United States Agency for International Development is supporting an expansion of access to financial services and fostering an inclusive digital economy. Recently, Japan International Cooperation Agency (JICA) and European Investment Bank support has been directed at clean and renewable energy finance through parallel cofinancing with ADB for the Clean Energy Finance Investment Program for IREDA.

C. ADB’s Finance Sector Program Strategies and Portfolio

16. ADB’s program strategy for India’s finance sector has been to support the government’s priorities for the sector as articulated in the five-year plans 2002–2007, 2007–2012, and 2012–2017.

17. Country Strategy and Program Update 2006–2008. ADB’s strategy for the finance sector was to increase private sector participation in infrastructure and to develop financial markets to help sustain India’s economic growth. Sovereign operations supported infrastructure financing to leverage private investments for infrastructure development. The strategy also included pension reforms to address the income security needs of pensioners, including through the informal sector. It also aimed to address the major policy and institutional constraints impeding the flow of sustainable rural finance.

18. Country Partnership Strategy, 2009–2012. The finance sector program strategy was aligned with the 11th Five-Year Plan, 2007–2012, which emphasized “financial inclusion and outreach-towards faster and more inclusive growth” for the sector. The sector results framework envisaged (i) expanded volume and outreach of capital markets, (ii) better financial intermediation for public-private partnership (PPP) infrastructure, (iii) access to a pension system that is responsive to needs, cost-effective, and fiscally

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16. The term is used to refer to rupee-denominated borrowings by Indian entities in overseas markets. It is called masala to reflect its Indian origin. The currency risk of the masala bond is with the investor, not the issuer.


19. The commitment for cofinancing is estimated at $290 million from JICA and $253 million from the European Investment Bank.

sustainable, (iv) small and medium-sized enterprise (SME) finance as an attractive business proposition for investors and financial institutions, and (v) long-term housing finance.

19. **Country Partnership Strategy, 2013–2017.** The finance sector program strategy was aligned with the government’s sector strategy of promoting PPPs in infrastructure finance and achieving greater financial inclusion.\(^{21}\) In support of this, ADB proposed focusing on the following areas of intervention: (i) infrastructure, and clean and renewable energy financing; (ii) capital market development with emphasis on the bond market; (iii) housing finance; (iv) financial inclusion; and (v) assisting banks to meet capital needs under the Basel III requirements. The outcome envisaged for the sector was increased economic and social infrastructure investment to sustain growth.

20. **Table 1** summarizes the government’s and ADB’s strategies to support India’s finance sector for the period 2006–2017. The key outcomes envisaged in the sector results frameworks were: (i) more infrastructure investment, better financial intermediation for PPP infrastructure, a fiscally sustainable pension system, and financial services delivered for financial inclusion as provided in CPS, 2009–2012; and (ii) increased infrastructure (economic and social) investment to sustain high growth and financial system soundness, efficiency, and access improved as targeted in CPS, 2013–2017. The key targets were: (i) growth of 30% in private sector investment in infrastructure during 2009–2012 and an increase in the private sector’s share of infrastructure investment to 48% during 2012–2017; (ii) infrastructure investment increased to 9.0% of GDP in 2016 from 6.5% in 2011; (iii) pension assets as a share of GDP to increase from 5% to 10%; and (iv) the MSME sector to increase its share of total credit from 40% to 60%.

<table>
<thead>
<tr>
<th>National Sector Strategy</th>
<th>ADB Sector Strategy/Area of Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encourage the finance sector to finance a range of activities that are crucial to growth and development (e.g., infrastructure, agriculture, unorganized manufacturing), and ensure the smooth flow of resources</td>
<td>Assist in the reform of rural financial institutions (e.g., cooperatives), improve credit delivery mechanisms, and develop innovative products that are relatively easy for the poor to get access</td>
</tr>
<tr>
<td>Widen and deepen the capital market, including equity and long-term debt</td>
<td>Assist in implementing pension reforms in selected states, and in developing commodity markets</td>
</tr>
<tr>
<td>Promote socially inclusive growth in agricultural development</td>
<td></td>
</tr>
</tbody>
</table>

| Assist states in undertaking fiscal consolidation under the framework of the Fiscal Responsibility and Budget Management Act | Expand the volume and outreach of capital markets |
| Mainstream the role of the private sector in tapping the capital markets for infrastructure investment via PPP in order to relieve fiscal pressure | Promote better financial intermediation for PPP infrastructure |
| Diversify pension investments to broaden the pension coverage and increase pensioners’ benefits | Support access to a pension system that is responsive to pensioner needs and cost-effective |
| Support micro-, small, and medium-sized enterprises through Export-Import Bank of India | Help achieve a fiscally sustainable pension system |
| Provide homestead sites to all by 2012 and accelerate house construction for rural poor to cover all the poor by fiscal year 2016 | Promote SME finance as an attractive business proposition |
| | Develop schemes for long-term housing finance |

\(^{21}\) The 12th Five-Year Plan defined financial inclusion as the delivery of banking and other financial services at affordable cost to disadvantaged and low-income groups.
21. ADB’s strategies have broadened over time from improving delivery of financial services to the poor and pension reforms to covering financing infrastructure and renewable energy, developing the bond market, and promoting greater financial inclusion. The strategies adopted were in line with the government’s strategies and priorities for the sector.

2. ADB Finance Sector Portfolio

22. ADB approved 10 loans and 9 TA projects to support India’s finance sector during 2007–2015 (Table 2). The total amount of the loans approved was $2.3 billion. Loans for infrastructure finance were $1.9 billion (83%). The total amount approved for clean energy finance was $200 million (9%) and support for MSME financing and development amounted to $200 million (9%). Multitranche financing facilities (MFFs) comprised 91% ($2.1 billion) of the total loan portfolio, and were particularly used for infrastructure and energy finance. Program loans (6% of total loans, $150 million) and project loans (2% of total loans, $50 million) were used for MSME.

<table>
<thead>
<tr>
<th>Item</th>
<th>No.</th>
<th>Amount Approved ($ million)</th>
<th>Share of Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure Finance</td>
<td>7</td>
<td>1,900.00</td>
<td>82.61</td>
</tr>
<tr>
<td>Clean and Renewable Energy Finance</td>
<td>1</td>
<td>200.00a</td>
<td>8.70</td>
</tr>
<tr>
<td>Micro, Small, and Medium-Sized Enterprise Financing and Development</td>
<td>2</td>
<td>200.00</td>
<td>8.70</td>
</tr>
<tr>
<td>Total Loans</td>
<td>10</td>
<td>2,300.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure Finance</td>
<td>4</td>
<td>1.75</td>
<td>19.34</td>
</tr>
<tr>
<td>Clean and Renewable Energy Finance</td>
<td>1</td>
<td>0.75</td>
<td>8.29</td>
</tr>
<tr>
<td>Micro, Small, and Medium-Sized Enterprise Financing and Development</td>
<td>2</td>
<td>3.55</td>
<td>39.23</td>
</tr>
<tr>
<td>Pension Reforms</td>
<td>1</td>
<td>1.00</td>
<td>11.05</td>
</tr>
<tr>
<td>Rural Finance</td>
<td>1</td>
<td>2.00</td>
<td>22.10</td>
</tr>
<tr>
<td>Total Technical Assistance</td>
<td>9</td>
<td>9.05</td>
<td>100.00</td>
</tr>
</tbody>
</table>

a Does not include the balance of $300 million for tranche 2 to the Indian Renewable Energy Development Agency Limited for the Clean Energy Finance Investment Program.

b Includes one project preparatory technical assistance.

Source: ADB databases and Independent Evaluation Department.

23. ADB’s interventions supporting the finance sector were financial intermediation loan projects except for the Khadi Reform and Development Program. In infrastructure finance, the MFFs approved

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22 ADB. 2008. Report and Recommendation of the President to the Board of Directors: Proposed Program Loan and Technical Assistance Grant to India for the Khadi Reform and Development Program. Manila.
were the India Infrastructure Project Financing Facility (IIPFF) I and II, and the Accelerating Infrastructure Investment Facility. In clean and renewable energy finance, the Clean Energy Finance Investment Program also used the MFF modality. In MSME financing and development, the projects approved were the Micro, Small, and Medium Enterprise Development Project, and the Khadi Reform and Development Program. IIPFF I and II have PCR, which rated IIPFF I highly successful and IIPFF II successful. The PVR for IIPFF I rated it a notch lower, i.e., successful, because of some limitations and missing details in project design and formulation.

24. TA projects amounted to $9.1 million, supporting infrastructure finance (20%), clean and renewable energy finance (8.3%), MSME financing and development (39.2%), pension reforms (11.1%), and rural finance (22.1%). Capacity development TA accounted for 59% ($5.33 million), advisory TA for 39% ($3.5 million), and project preparation TA for 2% ($0.22 million).

25. Four TA projects supporting infrastructure finance were approved. These were: (i) Capacity Development for IIFCL, which was attached to IIPFF I, with a TCR rating of successful, (ii) Preparing the Bond Guarantee Fund, (iii) Enhancing Bond Guarantee Structuring Skills, and (iv) the Enabling Monetization of Infrastructure Assets. Capacity Building for IREDA supported clean and renewable energy finance and was attached to the Clean Energy Finance Investment Program. For MSME financing and development, Capacity Development for Reforming Khadi and Village Industry was attached to Khadi Reform and Development Program, and the Small and Medium Enterprise Trade Development Facility was related to a nonsovereign loan to EXIM Bank. Pension reforms were supported by the TA on Implementing Pension Reforms, with a TCR rating of highly successful. Financial inclusion was supported by the TA on Strengthening Rural Financial Inclusion and Farmer Access to Markets, which was attached to the nonsovereign loan to Axis Bank Limited and Yes Bank Limited. Appendix 2 lists approved loans and TA projects during 2007–2015.

25 ADB. 2013. Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for the Accelerating Infrastructure Investment Facility in India. Manila.
26 ADB. 2010. Report and Recommendation of the President to the Board of Directors: Proposed Loan and Partial Credit Guarantee to India for the Micro, Small, and Medium Enterprise Development (Loan 2617). Manila. A grant, Supporting Microentrepreneurship for Women’s Empowerment, funded by the Japan Fund for Poverty Reduction was also approved in 2010.
29 The PVR noted that the failure of development finance institutions in the past had been due to directed credits, subsidized or below market interest rates, and political or external interference. Yet despite this experience, the IIPFF design did not appear to address these risk factors. IIFCL also lacked the capacity to implement safeguards, which was not addressed in the original project design even when this was known to the project team (as noted in the technical assistance completion report for the TA on capacity building the IIFCL). This was later taken up through change of scope in the TA. No background information on the expertise of IIFCL management and officers was provided during the preparation of the IIPFF.
31 ADB. 2012. Technical Assistance to India for the Preparing the Bond Guarantee Fund for India. Manila.
D. Evaluation of ADB’s Finance Sector Program in India

26. ADB support to India’s finance sector during the CAPE period was assessed according to the following evaluation criteria: (i) relevance, (ii) effectiveness, (iii) efficiency, (iv) sustainability, and (v) development impacts.

1. Relevance

27. ADB’s finance sector program in India is judged relevant. ADB’s operations were aligned with the government’s sector strategies and with the CPSs covering 2007–2015. ADB’s operations were also consistent with the Financial Sector Operational Plan,\(^\text{41}\) which included inclusive finance and infrastructure finance among the areas of focus through 2020. ADB’s sector strategy was responsive to the development priorities identified in the government’s five-year plans. These were: (i) promotion of greater private sector participation through PPPs in infrastructure finance for inclusive growth, and (ii) achieving greater financial inclusion by supporting MSMEs and pension reforms. ADB supported these priority areas using both lending and nonlending modalities. The projects carried out were generally well-designed, particularly those that supported infrastructure finance. However, there were shortcomings in projects that supported MSMEs. ADB coordinated well with multilateral and bilateral development partners.

28. The assessment of the sector program relevance is based on (i) program relevance, (ii) strategic positioning, (iii) project design, (iv) lending modalities, and (v) donor coordination.

29. **Program relevance.** The mix of projects was directed at operationalizing the sector strategies covering 2007–2015. The program was tilted towards infrastructure finance through MFF loans\(^\text{42}\) because of both the big demand for long-term funds for infrastructure and the difficulty banks have in providing such loans because of exposure limits and asset–liability mismatches. ADB’s support for infrastructure finance was in response to the large funding gap faced by the infrastructure sector (see box). However, the demand outlook for loans for PPPs is unclear given that the PPP market is experiencing challenges in recent years. So there is a need for ADB to reassess the demand for financing PPPs through financial intermediary loans.

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\(^{42}\) *India Infrastructure Project Financing Facility*—tranches 1 and 2; *Second India Infrastructure Project Financing Facility*—tranches 1, 2, and 3; *Accelerating Infrastructure Investment Facility in India*—tranches 1 and 2; and *Clean Energy Finance Investment Program*—tranche 1.
ADB Support for Infrastructure Financing in India

Since 2006, the government’s five-year plans have recognized that the lack of robust infrastructure is a major constraint on rapid economic growth and they have emphasized the need for a massive infrastructure expansion. The 11th Plan, 2007–2012 required an investment of $475 billion to support the growth targets. The 12th Plan, 2012–2017 stated that about $1 trillion of infrastructure investment would be required for the five-year period. Given the limited fiscal space and capacity, the government’s strategy relied heavily on promoting investments through private sector participation and public–private partnerships (PPPs) in infrastructure projects. In 2006, the Infrastructure Finance Company Limited (IIFCL) was established as a special purpose vehicle to provide long-term finance to viable infrastructure projects. IIFCL functions as part of a lending consortium and all its subprojects are structured by professional developers and appraised by lead banks in the consortium.

As part of its finance sector program strategy, the Asian Development Bank (ADB) financed the Infrastructure Project Financing Facility (IIPFF) for infrastructure development, complementing government’s parallel initiatives in contractual savings, corporate bonds, and PPPs. IIFCL, through the IIPFF, provided funds at commercial terms with over 20-year maturity for commercially viable infrastructure projects developed through the PPP model. ADB provided two multitranche financing facilities (MFFs) for the financing facility—IIPFF I and II, amounting to a total of $1.2 billion.

After the successful implementation of IIPFF I and II, ADB approved a third MFF of $700 million to IIFCL for the Accelerating Infrastructure Investment Facility to support the government’s renewed efforts in accelerating infrastructure growth through increased private sector investment. In addition, ADB approved an MFF of $500 million to the Indian Renewable Energy Development Authority (IREDA) to catalyze infrastructure investments in renewable energy. Aside from the MFFs, ADB also provided capacity building assistance to IIFCL on the environment and social safeguards, subproject risk assessment, and development of legal templates for the issuance of credit-enhanced project bonds. Further, ADB has continued to support the development of good practices and solutions to infrastructure finance through ongoing technical assistance on the Bond Guarantee Fund for India and the project preparatory technical assistance on the Monetization of Infrastructure Assets.

In future, India’s requirements for infrastructure and clean and renewable energy will remain significant. The infrastructure investment funding gap during 2012–2017 has been estimated at $113 billion. Demand for renewable energy investment is expected to be robust as the government targets an increase of 30 gigawatt (GW) renewable energy capacity by 2017 and a further increase of 175 GW by 2022.

Sources: Reports and Recommendations of the President of the first and second IIPFF, Accelerating Infrastructure Investment Facility and Clean Energy Finance Program; India–ADB Development Partnership 2013.

30. Support for pension reforms was a focus area in CPSU, 2006–2008 and CPS, 2009–2012 through the TA on Implementing Pension Reforms. The TA was part of ADB’s continuing efforts since 2000 to assist in the development of a robust capital market. Its objective was not only to achieve an inclusive sustainable pension system, but also to bring in a large pool of domestic savings that could be mobilized in the capital market and infrastructure financing. ADB also provided other TA projects to support the development of the capital market, particularly the bond market. Specifically, the Enhancing Bond GuaranteeStructuring Skills in India and the Preparing the Bond Guarantee Fund for India supported the development of new method of financing infrastructure through the bond market and helped in finding an alternative funding source.

31. In line with CPS, 2007–2012 and the government’s Five-Year Plan, 2012–2017, ADB provided financial intermediation support for catalyzing private infrastructure investments in clean and renewable energy (footnote 18). Support for MSMEs is also aligned with CPS, 2007–2012. MSMEs were supported with a program loan to develop the khadi and village industry and a project loan to increase access of MSMEs to formal financing.43 A TA project, Small and Medium Enterprise Development Trade Finance

43 ADB. 2010. Report and Recommendation of the President to the Board of Directors: Proposed Loan to India for the Micro, Small, and Medium Enterprise Development Project. Manila. This loan was originally classified under industry and trade sector.
Development Facility, was also attached to a nonsovereign loan to EXIM Bank to assist the bank in developing a strategy to strengthen its role as the lead trade development agency in the region but the original design was completely revised. ADB support to MSMEs is relevant to government’s priorities. As of 2014, the sector had 48.4 million businesses employing 111.3 million people and contributing 37.5% of GDP. The sector is the second largest source of employment, next to agriculture.

32. To promote financial inclusion, aside from projects for MSMEs, the TA on Strengthening Rural Financial Inclusion and Farmer Access to Markets Project is expected to provide capacity development assistance to Axis Bank and Yes Bank for the expansion of outreach and more inclusive delivery of rural financial services.

33. There were areas of focus in the CPSs that were not covered by sovereign operations. Housing finance was emphasized in CPS, 2009–2012 and CPS, 2013–2017 and is supported by nonsovereign operations. Support to meet capital needs under the Basel III, which was identified as an area for intervention in CPS, 2013–2017, is mainly covered by nonsovereign operations.

34. Strategic positioning. ADB is strategically well-positioned to finance infrastructure PPPs. The earlier TA projects provided by ADB for the mainstreaming of PPPs helped create an enabling environment that allowed IIFCL to play a catalytic role in infrastructure finance. ADB financial intermediation support for the infrastructure sector during 2007–2015 is substantial and amounts to $1.9 billion ($2.3 billion if support for clean and renewable energy is included) in MFF loans and $1.8 million in TA. This has added value to the sector and in particular to IIFCL because of the availability of long-term funds for infrastructure, competitive pricing of the loan, and the large loan size. ADB’s focus on developing the capital market, particularly the bond market through TA, further strengthens its position as there is much need for alternative commercially viable sources of long-term funds. Further, ADB’s MFF loans for clean and renewable energy represent a strategic step toward environmentally sustainable growth, a long-term development goal.

35. Support for MSME financing and development as well as for pension reforms was aimed at financial inclusion. The Micro, Small, and Medium Enterprise Development Project supported the financing needs of the “missing middle” segment of the MSME sector in targeted states, including the “lagging states” through indirect lending, and in line with the CPS emphasis on financial inclusion. The plan to support MSMEs through retail or direct lending did not materialize (para. 35). The TA on Implementing Pension Reforms promoted financial inclusion as it sought to make the pension system available not only to central and state civil servants, but also to informal sector workers. The government initiated a “Finance Plus” approach, where projects are made more effective by bringing in new knowledge solutions, practices, processes, and expertise. On the whole, therefore, the ADB finance

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44 The TA was attached to a nonsovereign loan to EXIM Bank. A separate assessment of nonsovereign loans has been carried out for CAPE India.
45 Data as of March 2014 as reported in the ADB. 2014. Asia SME Finance Monitor. Manila.
46 The TA is attached to nonsovereign loans to Axis Bank Limited and Yes Bank Limited (footnote 40).
48 Based on an interview with a key informant from IIFCL management.
49 These TA projects were: Preparing the Bond Guarantee Fund, Enhancing Bond Guarantee Structural Skills, Enabling Monetization of Infrastructure Assets, and Implementing Pension Reforms.
50 The “missing middle” refers to small borrowers who have potential and have performed well, but have grown too large for traditional microfinance support yet remain unable to access more conventional bank financing either because they are still not creditworthy, or because they lack the necessary skills, capacity and experience.
51 These targeted states were Andhra Pradesh, Assam, Bihar, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh, and West Bengal.
52 ADB’s official definition of lagging states includes: (i) low-income states, i.e., those with per capita incomes lower than the national average and poverty rates of 25% or more as per the 2009–2010 estimates by the Planning Commission; and (ii) “special category states,” defined by government as states with adverse physical geography, sparse terrain, and distinctly different socio-economic development parameters.
sector program in India is strategically responsive to and supportive of the government’s “Finance Plus” approach.

36. **Project design.** The projects were generally well-designed, particularly those that supported infrastructure finance. For IIPFF I though, the PVR noted some limitations on project design and formulation (footnote 29). In general, the projects took into account the lack of funding and limitations of bank lending. The implementation arrangements were appropriate, particularly with IIFCL as the executing agency and provider of long-term funds. Schemes were introduced to address the big infrastructure financing gap and sources of long-term funds other than conventional bank loans were developed. These included assistance for the provision of funds at commercial terms with maturities over 20 years, take-out finance to address the asset–liability mismatch of banks, subordinate debt to enable overleveraged subproject developers to raise additional debt without having to raise additional equity, creation of legal templates for issuance of credit enhanced project bonds, and preparation of a bond guarantee fund. Further, the financing facilities for infrastructure through IIFCL supported inclusive growth as the subprojects financed included lagging or low-income states.

37. Projects that supported MSMEs had design shortcomings. The appropriateness of the tranche 2 conditions of the Khadi Reform and Development Program should have been adequately assessed at appraisal (the program has not progressed since 2010 because of difficulties in complying with the conditions). Specifically, there was difficulty in meeting the conditions on setting up a marketing organization through joint ventures and effective marketing through private sector participation.

38. In the same vein, the Micro, Small, and Medium Enterprise Development Project was not able to realize the envisaged direct lending to microentrepreneurs due to limitations in the institutional and human resource capacity of SIDBI. These limitations also affected the delivery of at least 30% of the loan proceeds earmarked for direct lending to qualified women entrepreneurs. Further, there were challenges in implementing the project because of the global financial crisis in 2008 and the overindebtedness of microfinance borrowers, which affected the quality of the portfolios of microfinance institutions and their lending to MSMEs. However, the envisaged indirect lending through participating financial institutions (PFIs) was fully realized. In the case of the TA project on EXIM Bank, it was relevant at appraisal. The TA aimed to support the bank’s role as the lead trade development agency in the region. But the design of the TA was completely revised at EXIM Bank’s request. It was restructured to provide assistance in developing EXIM Bank’s capacity to undertake environmental and social assessments of subprojects and in identifying bankable deals in the SME cluster sector.

39. The designs of financial intermediary loans included appropriate safeguards. In the first MFF to IIFCL, ADB provided TA support for an environment and social safeguards framework (ESSF), which resulted in IIFCL employing specialized safeguard staff; but this was added at a later stage. In the Clean Energy Finance Investment Program MFF, capacity building assistance to IREDA to strengthen environmental and social safeguard (ESS) compliance was included in the design, which will help IREDA finance more ESS-compliant projects. In the Micro, Small, and Medium Enterprise Development Project, ADB helped SIDBI develop and adopt an ESSF and amended the loan agreement to allow the financing of category C subprojects financed by PFIs without the ESS system. The simplified screening modality for environmental safeguards that was developed, together with SIDBI’s recruitment of a safeguard consultant, reduced the due diligence requirements for SIDBI.

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53 At the time of the evaluation mission, the program had been extended until 30 June 2016 and the government had requested ADB to restructure the loan. The mission was informed that an ADB team was underway to study the proposed loan restructuring. The program had been further extended until 31 December 2016 to allow for the processing of the proposed restructuring. And as of January 2017, the closing date was extended until 31 December 2017.

54 This is a hybrid project comprising a $50 million sovereign loan to MSMEs and a nonsovereign partial guarantee of $250 million to medium-size enterprises.

55 SIDBI did not have capacity for direct lending at the time of project processing. It wanted to use the ADB loan proceeds allocated for direct lending to enter into this market segment.
40. **Financing modalities.** On the whole, the financing modalities were appropriate. The lending operations were complemented by TA projects, which were either related to loans or stand-alone. The financial intermediary MFFs had related TA projects supporting the capacity building of executing agencies; while the stand-alone TA projects focused on supporting the development of India’s capital market. The financial intermediation MFF used in IIPFF I and II was suitable for PPP infrastructure subprojects. It provided IIFCL with the much needed flexibility to plan disbursements properly and cost-effectively in multiple tranches through time slicing. The ongoing Accelerating Infrastructure Investment Facility and the Clean Energy Finance Investment Program also used MFF modalities. India has the biggest MFF portfolio in ADB as the government appreciates the framework financing agreement of the MFF as a long-term ADB commitment that does not require it to pay commitment fees on the entire MFF envelope. The government also appreciates that the signing of specific tranches can be timed for the moment when project readiness is achieved.

41. The program or policy-based loan used for the Khadi Reform and Development Program was appropriate in view of the need to support the policy and institutional reforms in the khadi and village industry subsector. Costs are triggered by policy and institutional reforms, particularly in revitalizing khadi institutions. However, the flexibility that was needed for the two conditions on the proposed industry’s marketing strategy in view of evolving business environment was not foreseen at the project design stage. Hence, the program could not proceed any further. The project loan to SIDBI was also appropriate based on the need to increase access to financing for MSMEs across the targeted states, but it was limited to indirect lending, as the planned direct lending component was eventually cancelled because of institutional capacity limitations. In general, the financial intermediation loan projects helped to expand the resources to help meet the huge financial requirements of the infrastructure and the MSME sectors.

42. **Donor coordination.** ADB was a major donor supporting India’s finance sector over 2007–2015, particularly in infrastructure finance. ADB collaborated with multilateral and bilateral development partners including AFD, JICA and Japan Bank for International Cooperation, KfW, and World Bank through programming-related meetings, sector consultations, and knowledge sharing. ADB took the lead in coordinating development partners’ support to IIFCL for financing the infrastructure sector, particularly on the processing of the MFFs for IIPFF I and II, the Accelerating Infrastructure Investment Facility, and the Clean Energy Finance Investment Program to avoid duplication of resources and explore possible cofinancing. The IIPFF benefited from dialogues with other development partners in the formulation of an ESSF. ADB also coordinated with the World Bank on TA support to IIFCL for capacity building. For financial intermediation to MSMEs, ADB coordinated with other development partners through the Micro, Small, and Medium Enterprise Development Project to avoid duplication of their respective initiatives. These partners included AFD, Department for International Development, German Technical Cooperation, International Finance Corporation, JICA, KfW, World Bank, and the United Nations Industrial Organization.

2. **Effectiveness**

43. The evaluation finds ADB’s sovereign operations supporting India’s finance sector effective. The envisaged outcomes in the sector results framework were largely achieved particularly the infrastructure financing program. Overall, the problems encountered by MSME projects did not outweigh the positive performance of the large IIFCL intervention. Investment in infrastructure increased, financial

58 For example, the Khadi and Village Industries Commission estimated the cost of strengthening all 1,952 khadi institutions at nearly $800 million over 4 years.
59 The two conditions are the setting up a marketing organization through joint venture and effective marketing through PPP. There was very little response from the private sector.
60 World Bank provided a TA to IIFCL to support development of an operations manual, project implementation plan, and in identifying capacity gaps.
intermediation for PPP infrastructure was improved, a fiscally sustainable pension system was set up, and delivery of financial services for financial inclusion was realized.

44. The effectiveness of ADB’s finance sector program during 2007–2015 is examined under four broad categories: (i) infrastructure finance, including clean and renewable energy, (ii) MSME financing and development, (iii) pension reforms, and (iv) rural finance.

45. **Infrastructure finance.** ADB’s lending operations in support of infrastructure finance contributed to an increase in infrastructure investments. The two completed IIPFF MFFs helped to increase private sector participation in infrastructure through PPPs. IIPFF I financed 30 subprojects and IIPFF II financed 20. The two facilities helped to leverage about $14.6 billion of additional investments. ADB support for IIFCL mobilized private sector investment and improved project financing, mainstreaming the PPP modality in the financial system. The CPS, 2009–2012 target for private sector participation was achieved with private investments in infrastructure reaching 38% of total infrastructure investment in the 11th Plan, 2007–2012 period. Further, the increasing emphasis on infrastructure development through the PPPs meant that the CPS, 2012–2017 targets of 48% share of private sector in infrastructure investment and infrastructure investment to reach 9% of GDP are likely to be achieved. The Accelerating Infrastructure Investment Facility is also likely to be effective as it basically follows the same business model as the previous MFFs and has added new products to meet the demand for long-term financing of infrastructure projects.

46. Technical assistance for infrastructure finance helped develop new financing schemes, helping to improve financial intermediation structures for PPPs. The TA on Bond Guarantee Structuring Skills for India removed the high legal costs associated with credit enhanced bonds, enabling them to be successfully issued. So far, there were two bond issuances amounting to a total of $110 million contributing to more infrastructure investments. The consultant’s final report on the TA on Preparing the Bond Guarantee Fund for India has been completed and presented to stakeholders. It is likely that the TA will provide another solution to the large financing gap in infrastructure.

47. **Micro, small, and medium enterprise financing and development.** The support provided to MSMEs involved financial intermediation through indirect lending and was effective in increasing access to financing, thus promoting financial inclusion. However, the envisioned direct lending was not realized due to problems with the institutional capacity of the executing agency. Projects that did not involve financial intermediation had less than effective results. In particular, the Khadi Reform and Development Program had difficulty in meeting tranche conditions.

48. The CPS, 2009–2012 target was for MSMEs to account for 40%–60% of total credit. There is no clear data yet to show that this increase was achieved. In line with the CPS, ADB supported access by MSMEs to credit through the Micro, Small, and Medium Enterprise Development Project. The project provided 9,007 MSMEs with financial services, of which 5,371 or 60% were women sub-borrowers. The project covered 12 states, including the lagging states. The envisaged indirect lending through the

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61 The assessment of financial intermediary loans (MFFs to IIFCL) did not assess individual subprojects directly, but assessed the overall program more broadly.

62 IIPFF was estimated to have catalyzed investments of about $5.5 billion and IIPFF II about $9.1 billion.


64 In the 11th Plan 2007–2012, the share of infrastructure investment to GDP already rose to 7%.

65 These new products are (i) take-out finance and (ii) subordinate debt.


68 The evaluation was able to glean from ADB eOps data accessed in May 2016 positive trends on achieving Micro, Small, and Medium Enterprise Development Project’s (MSMEDP) major outcome targets, e.g., growth in number of MSMEs receiving financing starting in 2009 and an increase in the number of successful applications by low-income female entrepreneurs at SIDBI branches in selected states.

PFI's was achieved,\textsuperscript{70} with four financial institutions participating. However, the expected increase in direct lending to the “missing middle” MSME segment by SIDBI, including women entrepreneurs, was not realized due to capacity limitations and insufficient branch networks. As a result, the balance of the $14.29 million allocation under the direct lending component was cancelled.\textsuperscript{71} The Khadi Reform and Development Program and its related TA are facing difficulties in complying with the second tranche conditions.

49. **Pension reforms.** The envisaged outcome of the pension reforms was a pensioner-responsive and fiscally sustainable pension system and this was achieved. The TA on Implementing Pension Reforms enabled the government and the Pension Fund Regulatory Development Authority to formulate a strategy to roll out the national pension system in both formal and informal sectors, and to establish institutions and networks for service delivery and monitoring. The roll-out resulted in a subscriber base of 5 million\textsuperscript{72} with employees from the central and state governments as well as from the private and informal sectors joining the system. Through this pension reform, ADB helped achieve the objectives of the government’s 10th Five-year Plan 2002–2007 of improving public resource management and developing a domestic capital market by bringing domestic savings that could be mobilized in the capital market, therefore helping move the infrastructure agenda forward. There is no evidence to show whether the target of the CPS, 2009–2012 (that the share of pension assets to GDP would rise from 5% to 10%) was achieved. However, it is likely that this target was achieved thanks to the roll out of a sustainable national pension system. The TA was of good quality and was well received by the executing agency.

50. **Rural finance.** In the TA on Strengthening Rural Financial Inclusion and Farmer Access to Markets Project, both Axis Bank and Yes Bank have a strong footprint in rural India and have integrated financial inclusion in their retail finance operations.\textsuperscript{73} Both have adequate management capabilities and processes in place to execute the TA component. But in February 2016, an extension of the TA validity approval was issued as Axis Bank has yet to sign the agreement.\textsuperscript{74}

3. **Efficiency**

51. The ADB’s finance sector program is viewed less than efficient. From a standpoint of process efficiency and leveraging additional resources for infrastructure development, the support to IIFCL was efficient but the interventions for MSME development and financing, a strategic focus of the finance sector program, were less than efficient, together with TA operations.

52. **Program implementation and disbursements.** The finance sector lending operations had an overall start-up performance (approval to effectiveness) of 5.9 months on the average, which is better than the India program at 8.4 months. But implementation delays were experienced. The total utilization of funds was 81%, indicating efficient use of funds but largely on account of financial intermediary loans for infrastructure development. (Table 3). Utilization of funds for TA projects was 50%, with some still ongoing. One, though was approved in November 2014, was not yet effective at the time of evaluation.

\textsuperscript{70} Based on the back-to-office report, the mission’s visit to SIDBI, and interview with the ADB concerned officer. The project completion report on MSMEDP will follow in 2017.

\textsuperscript{71} Only $0.71 million or 4% of the $15 million allocation for direct lending was utilized.

\textsuperscript{72} ADB. 2013. *Technical Assistance Completion Report: Implementing Pension Reforms in India.* Manila, as of May 2013.

\textsuperscript{73} Axis Bank has 10 regional hubs and more than 1,000 branches across the country. Yes Bank has 588 branches and 35 affiliated business correspondents.

\textsuperscript{74} Yes Bank Limited signed the TA implementation agreement on 2 November 2015. However, Axis Bank Limited has not yet signed the agreement. As provided in the extension, the Private Sector Operations Department (PSOD) expects this agreement to be signed by the third quarter of 2016. If the agreement is not signed by this time, PSOD will prepare a minor change in scope to reduce the scope of the TA to remove Axis Bank as a beneficiary of the TA.
53. The two IIPFF MFFs were fully disbursed ahead of the original project completion date. However, during the initial stages of IIPFF I implementation, there were delays in the approvals and disbursements at the subproject level due to a lack of staff and capacity within IIFCL on safeguard assessments. The TA on Capacity Building for IIFCL experienced delays in the delivery of inputs and activities and it was not until 1 year after the signing of the TA that the consultants were mobilized. The change in scope to address the lack of capacity for safeguards added to the delay. As a result, the TA was extended twice, for a total of more than 2 years.

54. Total disbursement for the Micro, Small, and Medium Enterprise Development Project was 71% as of January 2016. The allocation for indirect lending to PFIs ($35 million) was fully disbursed, while for direct lending to micro and small enterprises only $0.71 million or 4% of the $14.29 million had been disbursed. Disbursement of the Khadi Reform and Development Program was only 13% because of difficulty in meeting the tranche conditions. While no problems were encountered with fiduciary management of funds, the program is less than efficient due to the slow progress in meeting the second tranche conditions. As of end-December 2015, disbursement of its related capacity development TA was at 65%, 6 years after signing of the TA agreement.

55. The intended outputs of the TA on Implementing Pension Reforms were delivered and the outcome of a field-tested implementing strategy of the national pension system was achieved with 93% of the TA amount disbursed. But the TA was extended several times during implementation.

56. **Leveraging resources through infrastructure projects.** Support for infrastructure financing was efficient in achieving the envisaged outcome of increased infrastructure investment. IIPFF I and II (totaling $1.2 billion) helped to catalyze about $14.6 billion of additional investments, achieving an estimated average fund mobilization ratio of 12 times, indicating financial efficiency in leveraging resources (footnote 62). No financial and economic analyses were carried out on the subprojects of IIPFF I and II at appraisal and at completion. The justification provided was that the facility was a financial intermediary loan in nature using an MFF modality and was, therefore, conceptually different from the infrastructure projects directly financed by ADB. Nonetheless, IIFCL has a credit policy in place to carry out its own due diligence appraisal to assess the viability of infrastructure projects by undertaking technical feasibility, bankability, and risk identification and mitigation measures. Also, IIFCL validates the appraisal, due diligence, and credit reports of lead bank(s) and financial institutions in the consortium. On nonlending operations, the small TA on Bond Guarantee Structuring Skills was efficient in removing the bottleneck of high legal costs associated with issuing credit enhanced infrastructure bonds. The TA was also able to finance two knowledge dissemination seminars instead of the one planned within the stipulated budget.

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Table 3: Summary of Disbursements

<table>
<thead>
<tr>
<th>Type</th>
<th>Approved Amount ($ million)</th>
<th>Disbursements ($ million)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2,000.00</td>
<td>1,620.61</td>
<td>81.03</td>
</tr>
<tr>
<td>Technical assistance&lt;sup&gt;c&lt;/sup&gt;</td>
<td>9.05</td>
<td>4.52</td>
<td>49.95</td>
</tr>
<tr>
<td>Total</td>
<td>2,009.05</td>
<td>1,625.13</td>
<td>80.89</td>
</tr>
</tbody>
</table>

<sup>a</sup> Disbursement of loans data are as of January 2016. Disbursement of technical assistance data are as of December 2015.

<sup>b</sup> Excludes the balance of $300 million for tranche 2 to India Infrastructure Finance Company Limited for the Accelerating Infrastructure Investment Facility as this loan is not yet effective at the time of evaluation and the expected $300 million for tranche 2 to the Indian Renewable Energy Development Agency Limited for the Clean Energy Finance Investment Program.

<sup>c</sup> Including TA projects which were approved in 2014 and 2015 and are ongoing.


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<sup>75</sup> ADB Operations Manual on MFFs issued on 6 August 2008, updated on 1 February 2014, and 17 February 2015, states that MFF loans may include a financial intermediation loan. MFFs to IIFCL and IREDA are therefore also governed by the Operations Manual on financial intermediation loans. Under the financial intermediation modality, ADB provides funds to eligible participating financial intermediaries for onlending, at the financial intermediary’s credit risk, to final borrowers (sub-borrowers) for eligible subprojects. Sub-borrowers must have acceptable debt/equity ratios (in the case of larger small- and medium-sized enterprises or other companies) and the capacity to repay the subloan, and to provide their own funds in cash or other assets acceptable to ADB to cover part of the total subproject cost.
57. **Economic efficiency of indicative subprojects of two MFFs, only at appraisal.** Only the ongoing Accelerating Infrastructure Investment Facility and the Clean Energy Finance Investment Program provided estimates of the economic efficiency of indicative subprojects, but at appraisal. Road projects were estimated to have economic internal rate of return (EIRR) of 25%–30% and financial internal rate of return (FIRR) of 10%–15%. Renewable energy projects were estimated to have economic internal rate of return of 20%–22% and financial internal rate of return of 11%–16%. These estimates are at-entry for indicative subprojects, but the evaluation did not find sufficient documentation on economic efficiency of all subprojects supported by completed MFFs.

58. Based on the above discussion, ADB support was efficient in infrastructure finance, but support for MSMEs, together with TA operations, was less than efficient, which tilted the balance toward a less than efficient overall rating.

4. **Sustainability**

59. The outcome and outputs of ADB support to India’s finance sector are likely sustainable because of the supportive policy and enabling environment, the institutional and human resource capacities that have been set in place, the financial sustainability of supported financial institutions, and strong government ownership and commitment.

60. **Policy support.** There is a supportive policy environment to sustain the outcomes of ADB support to India’s finance sector. Since 2006, there has been strong policy and political support for greater availability and quality of infrastructure, as reflected in the five-year plans and the enabling environment that has been established for PPPs. Key measures undertaken by government to support PPP included the creation of a dedicated PPP cell in the Department of Economic Affairs within the Ministry of Finance, a policy framework for PPPs, and the establishment of IIFCL. In 2015, the Cabinet approved the establishment of the NIIF to stimulate further investments in infrastructure projects. The government has shown strong political will to implement pension reforms in the central and state governments and to create a supportive environment for a fiscally sustainable national pension system. The implementation of the reforms provided a long-term solution to the lack of an old age income security mechanism, which will benefit India’s old-age working classes for years to come. The 12th Plan, 2012–2017 emphasizes the growth of the MSME sector as the foundation of a strong manufacturing sector and a means of providing more employment by employing less capital. Growth of MSMEs will continue to be a priority of government beyond the 12th Plan as they are second largest employer, next to agriculture. Recent initiatives, such as the creation of the Micro Units Development and Refinance Agency, Make-in India, Skill India, and Startup India will help to develop further the MSMEs and to generate employment.

61. **Institutional and human resource capacity.** Infrastructure financing requirements remain huge and additional resources to meet the large volume of longer-tenor financing requirements are in large demand. The 12th Five-Year Plan estimated the infrastructure funding gap for 2012–2017 to be about $113 billion. ADB support to IIFCL through the three MFFs, which had a catalytic effect on private infrastructure investments, was $1.9 billion. IIFCL has established a niche in the domestic financial market and has strong support from the government, well-developed relationships with banks and financial institutions, sound financials, and it has developed its human resource capacity in risk assessment and mitigation. Nonetheless, there are risks that could derail its operations. These include the risk of a slowdown in the economy as infrastructure development is linked to growth, sector-specific problems such as implementation delays resulting in cost overruns and loss of revenues, political interference, and project and market risks. It is important for IIFCL to be vigilant and to sustain the capacity it has developed for assessing and mitigating risks. IIFCL is taking on a larger role as the catalyst for mobilizing resources.

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76 Estimates were provided in the linked documents of the RRP of Accelerating Infrastructure Investment Facility and Clean Energy Finance Investment Program.
which means that it has to keep developing new products and services that will provide financing solutions to the infrastructure sector. In the long term, the domestic long-term debt market and long-term sources of funds have to be developed to meet the large financing needs of the infrastructure sector.

62. In the case of TA projects, the capacity building for IIFCL enabled IIFCL to develop a safeguards framework although this major component was added only during the execution of the IIPFF I. The environment and social safeguards will extend beyond the project life of the TA and is expected for IIFCL to effectively apply safeguard due diligence to subprojects. The IIFCL website published some, and not all, due diligence reports of subprojects supported by ADB. The achievements of the Enhancing Bond Guarantee Structuring Skills TA project will also last beyond the project life, as the legal templates developed through the TA can be used to support further issuances of credit enhanced bonds. The knowledge dissemination efforts will continue to create awareness of credit enhanced bonds.

63. Financial intermediation for the MSME sector, in general, is also likely to be sustained. SIDBI has carried out indirect lending to PFIs, which comprised the bulk of ADB support (70% of total project cost). However, it has limited capacity to carry out retail or direct lending. SIDBI has continued to provide indirect lending to PFIs for the “missing middle” segment even after the ADB credit facility. It is therefore likely that indirect lending to that segment, including women through the PFIs, will be sustained.

64. **Financial sustainability of executing agencies supported by ADB.** The executing agencies for the ADB projects—IIFCL, IREDA, and SIDBI—have demonstrated that they can maintain sustainable financial operations. Historically, the returns on assets of these institutions have been positive, and their capital adequacy ratios have also been high, ranging from 19% to 30%. The portfolio quality has been good, with gross NPA ratios of less than 5%.\(^{77}\) Table 4 shows their returns on assets, capital adequacy, and gross NPA during 2013–2015. IIFCL, IREDA, and SIDBI also received positive credit ratings. CRISIL, a Standard and Poor’s Company, rated the financial instruments of IFFCL and SIDBI AAA.\(^{78}\) IREDA’s long-term bonds were rated AAA by CARE Ratings.\(^{79}\)

<table>
<thead>
<tr>
<th>Financial Institution</th>
<th>2013 (%)</th>
<th>2014 (%)</th>
<th>2015 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure Finance Company Ltd.</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Adequacy</td>
<td>19.04</td>
<td>24.82</td>
<td>27.11</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>3.32</td>
<td>1.41</td>
<td>1.97</td>
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<tr>
<td>Gross Non-Performing Asset Ratio</td>
<td>...</td>
<td>3.79</td>
<td>2.45</td>
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<tr>
<td><strong>Indian Renewable Energy Development Agency</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Capital Adequacy</td>
<td>24.75</td>
<td>23.79</td>
<td>23.27</td>
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<tr>
<td>Return on Assets</td>
<td>2.82</td>
<td>2.57</td>
<td>3.15</td>
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<tr>
<td>Gross Non-Performing Asset Ratio</td>
<td>...</td>
<td>4.18</td>
<td>4.55</td>
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<tr>
<td><strong>Small Industries Development Bank of India</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Capital Adequacy</td>
<td>29.87</td>
<td>38.03</td>
<td>28.76</td>
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<tr>
<td>Return on Assets</td>
<td>0.99</td>
<td>1.69</td>
<td>1.42</td>
</tr>
<tr>
<td>Gross Non-Performing Asset ratio</td>
<td>...</td>
<td>1.74</td>
<td>1.64</td>
</tr>
</tbody>
</table>

... = data not available.

Source: Annual financial reports as reported in the institutions’ websites.

65. **Commitment and ownership.** The government has shown commitment to and ownership of projects supported by ADB. The strong support of the government for PPPs and IIFCL’s ownership of the IIPFFs contributed significantly to the success of these facilities. IIFCL satisfactorily complied with loan

\(^{77}\) The mission sought to gather data on repayment particularly of subloans financed by the ADB loans but these were either not available or were not provided by the institutions. Data on NPAs are therefore provided to show the overall picture of the institution’s portfolio quality.


and TA agreements. The government was strongly committed to pension reforms in central and state governments, resulting in a long-term solution to the lack of an old-age income security mechanism. The government is continuing with the achievements achieved thus far in the MSME sector. Although SIDBI has shifted away from direct lending to microentrepreneurs due to capacity constraints, it continued to provide indirect lending to PFIs for the “missing middle” segment even after the ADB credit facility closed. Further ADB support may be considered for indirect lending, incorporating the lessons learned from the Micro, Small, and Medium Enterprise Development Project, which showed that this type of lending is the most feasible approach. The government has indicated a desire to continue with the khadi reforms and has asked ADB to restructure the loan. The Khadi and Village Industries Commission (KVIC) and Ministry of Micro, Small, and Medium Enterprises have recently made efforts to address the difficulties in meeting the tranche conditions but it is still unclear whether they will be able to satisfy the agreed conditions.

66. **Risk assessment and mitigation.** Risk mitigation measures were put in place where feasible and appropriate, particularly for the ADB support for infrastructure financing. The exposure risk of ADB’s portfolio in IIFCL was assessed to be low, as IIFCL is the consortium lender and the ADB risk depends largely on the risk appraisal of the lead banks. These banks have well-developed monitoring and risk assessment capacities, which IIFCL leverages. IIFCL also uses risk assessment software to assess the credit risks of all infrastructure project proposals, which is upgraded periodically to account for developments in the sector, policies, and regulations. Under the Micro, Small, and Medium Enterprise Development Project, SIDBI required PFIs to meet the operational and financial eligibility criteria for accreditation, to comply with corporate governance measures of the RBI, and to demonstrate proper risk management. IREDA already has strong renewable energy project credit review and technical evaluation capacities and ADB’s TA will boost its operational capacity, including financial risk management and credit risk. Regarding safeguards, ESS units have been established in IIFCL and IREDA. ADB helped SIDBI develop and adopt an ESSF and SIDBI recruited a safeguard consultant to ensure it complied with safeguards.

67. **Ongoing projects.** IIFCL successfully implemented IIPF I and II, and it is likely that the expected outcome and outputs of the Accelerating Infrastructure Investment Facility will also be sustainable as the project follows the same model with new products added to meet the demands of the market. The Clean Energy Finance Investment Program is likely to be sustainable because of IREDA’s deep knowledge and exclusive focus on renewable energy since 1987, and the benefits of following the lessons from the successful financial intermediation MFFs to IIFCL. Historically, both IIFCL and IREDA have been profitable (Table 4). The key outputs of the TA on Preparing the Bond Guarantee Fund were completed and the pressing demand and government support for alternative commercially viable sources for infrastructure financing means that its achievements will probably be sustained.

5. **Development Impacts**

68. ADB’s finance sector program is judged satisfactory for development impacts. ADB support to India’s finance sector helped to achieve the CPSs’ objectives of infrastructure development, inclusive growth, and financial inclusion.

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80 Based on the back-to-office report (undated) shared by SARD staff with the IED CAPE team.
81 Based on the 20 July 2015 progress report submitted by KVIC to ADB, efforts were undertaken to make the PPP framework for the marketing organization and joint ventures more flexible and attractive.
82 Based on World Bank experience in its financial intermediary loan to IIFCL, the Independent Evaluation Group’s Implementation Completion Report Review reported that, as in the case of safeguards, issues of compliance stemmed from the IIFCL’s role as a financial consortium member and as a “last mile financier” in PPP project finance. As a minor member in a financial consortium, the IIFCL had little leverage to force World Bank procurement requirements on PPP project developers when other members in the consortium, including the lead bank, often had little interest in the standards.
83 Consultations conducted by ADB with development partners during project design formulation stage indicated that their portfolios with IREDA were performing well. Further, IREDA has participated in a large number of development assistance programs and is experienced with their administration. Source: see footnote 18.
69. **Increased private sector investments contributed significantly to infrastructure development.** The infrastructure financing facility supported by two MFFs increased the availability of physical infrastructure in India (highways, airports, and energy generation and transmission). The facility leveraged private investments to such an extent that their share of the total investment in infrastructure rose from 22% in the 10th Five-Year Plan, 2002–2007 period to 38% in the 11th Five-Year Plan, 2007–2012 period. In the 12th Five-Year Plan, 2012–2017, the targeted share of private investment to total investment in infrastructure is 48%. The financing facility leveraged private investments to finance the construction and expansion of roads and highways spanning over 3,750 kilometers, rehabilitate Delhi and Mumbai international airports which cater to millions of passengers per year, carry out a 4,000 MW power generation project, and build two power transmission lines. The increase in private investments helped reduce the fiscal pressure on infrastructure financing and contributed directly toward India’s infrastructure development. While macroeconomic indicators such as mobilization of private sector funds show positive results of private investments in the infrastructure sector, monitoring and reporting on compliance with environment, social, and safety standards, and results of subprojects supported by ADB financing requires continued strengthening.

70. **Increased infrastructure across states promoted inclusive growth.** The increase in infrastructure contributed to economic growth as indicated by the share of infrastructure investment in GDP, which rose from 5% in the 10th Plan, 2002–2007 period to 7% in the 11th Plan, 2007–2012 period. This share is projected to increase to 9% by the end of 12th Plan in 2017. The socioeconomic impact of the increased availability of infrastructure is likely to spread across the country, with subprojects financed both in lagging states with low per capita incomes and in more wealthy states. The increased availability of infrastructure will strengthen service delivery and private sector development, which in turn will improve livelihood and employment opportunities. However, in the absence of a rigorous impact assessment, the extent to which the greater availability of infrastructure has reduced poverty cannot be ascertained.

71. **ADB support contributed to financial inclusion.** ADB support for pension reforms and MSME financing contributed to greater financial inclusion. The TA on Implementing Pension Reforms successfully field-tested an implementation strategy for the national pension system that included the informal sector. The roll out of the system provided social protection for the elderly and financial inclusion of the poor. Further, the pension fund may be a source of financing, particularly for infrastructure development, which requires long-term funds. The Micro, Small, and Medium Enterprise Development Project promoted financial inclusion by targeting the “missing middle” enterprises, and including women and lagging states through indirect lending operations as direct lending did not materialize.

72. **Support for new financial solutions yielded positive results.** The TA on Enhancing Bond Guarantee Structuring Skills was successful in reducing the legal costs associated with issuing credit-enhanced infrastructure bonds. This was achieved through the development of legal templates. The TA also carried out information dissemination seminars on credit-enhanced infrastructure bonds. The TA facilitated the issuance of commercially viable infrastructure bonds, an alternative to conventional bank loans. The ongoing Preparing the Bond Guarantee Fund TA intends to develop a blueprint on the operationalization of a bond guarantee fund. Once established, the fund will provide greater access by corporations to the local currency bond markets to meet their long-term infrastructure needs. This will help in filling the huge infrastructure financing gap, thereby contributing to infrastructure development for inclusive growth.

73. **ADB support strengthened institutional capacity.** ADB-supported projects helped in the institutional development of IIFCL, particularly in promoting PPPs and institutionalizing the ESSF. The experience of implementing IIPFF I and II contributed to IIFCL’s capacity to raise funds from international and domestic financiers, attract private investments for infrastructure financing requirements, promote transparency in the sector, and set the direction for infrastructure finance in India.

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84 Delhi international airport alone serves 25–40 million passengers per year.
85 As reported in the project completion reports of India Infrastructure Project Financing Facility I and II.
The TA attached to IIPFF I contributed to India’s goal of rapid infrastructure development as IIFCL’s capacity for safeguard compliance and risk assessment was improved, enabling it to increase its funding for infrastructure. Similar support is being provided to IREDA through a capacity building TA and the same results are expected.

74. **Impacts of ongoing projects have yet to be determined.** The impact of financing to MSMEs under the Micro, Small, and Medium Enterprise Development Project on employment and growth is not yet known. Nonetheless, the project is likely to have a positive bearing on promoting financial inclusion on the account of the coverage in lagging states, through effective indirect lending, including to women, supported by the associated grant for women empowerment in entrepreneurship. The TA on Strengthening Rural Financial Inclusion and Farmer Access to Markets Project will help Axis Bank and Yes Bank to expand their rural outreach, and if this realized, it will promote financial inclusion.

75. The development impacts of ADB’s finance sector operations were most visible in infrastructure development; financial inclusion, particularly in pension reforms; and financial solutions for infrastructure financing. It was not clear, however, to what extent operations in the MSME sector have contributed to employment generation and the growth of the sector.

6. **Overall Assessment**

76. The performance of the ADB finance sector program in India is considered *successful*. ADB’s operations were relevant in meeting the objectives of the CPSs covering the 2007–2015 and were responsive to the development priorities of the government in the finance sector. These priorities included the promotion of greater private sector participation through PPPs in supporting infrastructure finance, and achieving financial inclusion by carrying out pension reforms and providing support for MSMEs. The envisaged outcomes in the sector results framework were largely achieved (particularly the infrastructure financing program). Investment in infrastructure increased, financial intermediation for PPP infrastructure was improved, a fiscally sustainable pension system was rolled out, and financial services for financial inclusion were made available. ADB’s operations were less than efficient on account of efficiency issues on projects supporting MSMEs and TA operations.

77. The achieved outcomes and outputs are likely to be sustainable because of the supportive policy environment, the institutional and human resource capacities that have been put in place, the financial sustainability of the supported financial institutions, and strong government ownership and commitment. The development impacts are satisfactory and can be seen in the increase in private sector investments; these have contributed to infrastructure development, increased infrastructure across states, and contributed to financial inclusion. The program has also demonstrated the positive results of financial solutions.

78. Table 5 shows the overall rating of ADB’s operations supporting India’s finance sector.

### Table 5: Finance Sector Program Overall Rating

<table>
<thead>
<tr>
<th>Rating Criteria</th>
<th>Weight</th>
<th>Rating</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance</td>
<td>0.20</td>
<td>2.0</td>
<td>Relevant</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>0.20</td>
<td>2.0</td>
<td>Effective</td>
</tr>
<tr>
<td>Efficiency</td>
<td>0.20</td>
<td>1.0</td>
<td>Less than efficient</td>
</tr>
<tr>
<td>Sustainability</td>
<td>0.20</td>
<td>2.0</td>
<td>Likely sustainable</td>
</tr>
<tr>
<td>Development Impacts</td>
<td>0.20</td>
<td>2.0</td>
<td>Satisfactory</td>
</tr>
<tr>
<td><strong>Overall assessment</strong></td>
<td>1.00</td>
<td>1.8</td>
<td><strong>Successful</strong></td>
</tr>
</tbody>
</table>


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87 The project completion report is scheduled to be prepared in 2017.
88 ADB. 2010. *Supporting Microentrepreneurship for Women’s Empowerment*. Manila. The grant is classified under the industry and trade sector.
E. Thematic Issues

79. ADB’s finance sector program in India supported crosscutting thematic goals to address such development challenges as inclusion, environmentally sustainable growth, knowledge solutions and innovation, and gender equality and women empowerment. These themes have been prominent in recent ADB CPSs for India and in ADB’s Strategy 2020. ADB’s finance sector program has also addressed such key issues as the suitability of financing modality, particularly for infrastructure finance, and synergy between its sovereign and nonsovereign operations.

80. Supporting inclusive growth and lagging states. ADB support for infrastructure finance, MSME financing and development, rural finance, and pension reforms promoted inclusive growth, especially in lagging states such as Madhya Pradesh, Orissa, Chattisgarh, Uttar Pradesh, and West Bengal, where IIPFF I and II financed infrastructure subprojects (Table 6). The facility increased the availability of infrastructure in these states, improved economic activity, and strengthened service delivery. The Accelerating Infrastructure Investment Facility, an ongoing project which follows on the success of IIPFF I and II, will facilitate further funding for PPP infrastructure projects and improve the availability of infrastructure across states.

<table>
<thead>
<tr>
<th>Sub-borrower</th>
<th>State</th>
<th>Categorya</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oriental Pathways (Indore) Pvt Ltd</td>
<td>Madhya Pradesh</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Raipur Expressways Ltd</td>
<td>Chattisgarh</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Lucknow Sitapur Expressway</td>
<td>Uttar Pradesh</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Oriental Pathways (Agra) Pvt Ltd</td>
<td>Uttar Pradesh</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Ashoka Highways (Durg) Ltd</td>
<td>Chattisgarh</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Jaora - Nayagaon Toll Road Co Pvt Ltd</td>
<td>Madhya Pradesh</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Western MP Infrastructure &amp; Toll Road Pvt</td>
<td>Madhya Pradesh</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Gwalior Bypass Project Pvt Ltd</td>
<td>Madhya Pradesh</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Sew Navayuga Barwani Tollways</td>
<td>Madhya Pradesh</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Himalayan Expressways Ltd</td>
<td>Uttar Pradesh</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Jal Yamuna Expressway</td>
<td>Uttar Pradesh</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Soma Isilux Kishangarh</td>
<td>Rajasthan</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Beawar Tollway</td>
<td>Rajasthan</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Ashoka Sambalpur Baragarh Tollway Pvt. Ltd.</td>
<td>Orissa</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Farakka Raiganj Highways Ltd.</td>
<td>West Bengal</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Baharampore Farakka Highways Ltd.</td>
<td>West Bengal</td>
<td>Low-Income</td>
</tr>
<tr>
<td>GVK Deoli Kota Expressway Pvt. Ltd.</td>
<td>Rajasthan</td>
<td>Low-Income</td>
</tr>
<tr>
<td>Jalapuru Transmission Co. Ltd.</td>
<td>Madhya Pradesh</td>
<td>Low-Income</td>
</tr>
</tbody>
</table>

Co = company, Pvt = private, Ltd = limited.
a Based on ADB’s list of lagging states.

Note: ADB’s definition of lagging states includes (i) low-income states, i.e., those with per capita incomes lower than the national average and poverty rates of 25% or more as per 2009/2010 estimates by the Planning Commission; and (ii) “special category states,” defined by the government as those with adverse physical geography, sparse terrain, and distinctly different socio-economic development parameters.

Source: Project completion reports of the first and second India Infrastructure Project Financing Facility.

81. The Micro, Small, and Medium Enterprise Development Project promoted financial inclusion and also covered the lagging states. The project was designed to provide access to financing to the “missing middle” microenterprises in the targeted states (footnote 51), both through direct lending to microentrepreneurs and through indirect lending through the PFIs. The envisaged indirect lending to PFIs was achieved. However, direct lending to the missing middle segment was not realized because of SIDBI’s

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89 Financial inclusion is broadly defined as access by enterprises and households to reasonably priced and appropriate financial services that meet the needs of enterprises and households. (ADB. 2015. Financial Inclusion in Asia: An Overview. Economics Working Paper Series No. 449. Manila). The Consultative Group to Assist the Poor defines financial inclusion as ensuring that all households and businesses, regardless of income level, have access to and can effectively use the appropriate financial services they need to improve their lives (http://www.cgap.org/about/faq). The India 12th Five-Year Plan defines financial inclusion as the delivery of banking and other financial services at affordable cost to disadvantaged and low-income groups.
limited branch network and human resource capacity, which made direct lending over a wide geographic area difficult, hence, did not contribute well to inclusive economic growth in India. SIDBI shifted its business strategy away from direct lending and focused entirely on indirect lending. The capacity of SIDBI to carry out direct or retail lending should have been assessed more rigorously very early and SIDBI should have been forthright about its limitations, thus, project cost allocation by component should have been done realistically. SIDBI’s move away from direct lending diminished the project’s impact.

82. The Khadi Reform and Development Program was expected to promote inclusive growth through the creation of a conducive enabling environment for khadi entrepreneurs. The program envisaged a framework for drawing seasonally affected agrarian poor into the rural nonfarm sector for income enhancement, directly increasing the employment and incomes of rural artisans through the reforms, and reducing distress migration from rural areas by providing work opportunities. However, the expected results of the program have yet to be realized as there are difficulties meeting the tranche conditions (footnote 53). Thus, the program’s contribution to inclusive economic growth is yet to be realized.

83. The TA on Strengthening Rural Financial Inclusion and Farmer Access to Markets Project attached to the nonsovereign loans to Axis Bank and Yes Bank is expected to expand outreach and more inclusive delivery of rural financial services. The assistance to Axis Bank includes support for customizing small farmer products, developing an agriculture value chain and inclusive finance, training of staff and beneficiaries, and developing information technology systems and controls. Similarly, the support to Yes Bank includes capacity building on inclusive and social banking, improving internal controls and monitoring, credit risk management, women’s financial literacy, leveraging corporate relationships for the agriculture value chain, and developing products that respond to farmers’ needs. The TA is also expected to increase the capacity of Axis Bank and Yes Bank to carry out inclusive rural finance operations. At the time of this evaluation, it was not known whether Axis Bank would sign the agreement (footnote 74).

84. ADB support for pension reforms promoted financial inclusion. The TA on Implementing Pension Reforms enabled the government to formulate a strategy to roll out the national pension system to civil servants of both central and state governments, as well as the public, including informal sector workers.

85. Promoting environmentally sustainable growth. ADB approved two ongoing MFFs to support environmentally sustainable growth: (i) the Accelerating Infrastructure Investment Facility to IIFCL to provide intermediary loans for infrastructure projects, including clean and renewable energy; and (ii) the Clean Energy Finance Investment Program to IREDA to support lending for renewable energy subprojects, including wind, biomass, hydropower, solar, and cogeneration technologies. These facilities will leverage private capital to expand sector lending and thus add to India’s renewable energy capacity. In the 12th Five-Year Plan, renewable energy is targeted to double by 2017 from around 30 gigawatt (GW) in 2013. Further, the government has set a target of 100 GW of solar power by 2022 from 3 GW in 2015, and 60 GW of wind power by 2022 from 22 GW in 2015. To support IREDA’s lending in support of clean and renewable energy, ADB has provided capacity building TA to strengthen IREDA’s safeguard compliance.

86. ADB also assisted IIFCL and SIDBI to adopt a framework for environmental safeguards, which enabled the financing of environmentally compliant subprojects. The 2014 independent review of safeguards reported that, overall, ADB had made progress under its Safeguard Policy Statement, 2009 in supporting the implementation of safeguards by financial institutions, while indicating several areas where improvement was needed. Two field visits to public sector financial institutions operating MFFs (four tranches) in India found that ADB supervised them well. However, the review also noted reports

90. IREDA also lends, on limited basis, to energy-efficient subprojects, which are allowed under the MFF.
91. Taken from the presentation material on Asian Development Bank Energy Sector Operations in India, 19 May 2015. This material was sourced from k-Nexus, ADB’s repository of knowledge products and services.
that some prospective subprojects had been directed away from ADB resources to avoid the burden of environmental and social management system requirements. In general, ADB had adhered to safeguard requirements in its financial intermediary lending operations, but there remained concerns about compliance at the subproject level and on non-ADB projects. Similar issues were noted with regard to the World Bank’s financial intermediary loan to IIFCL (footnote 82).

87. ADB’s MFF and related capacity building TA to IREDA are expected to contribute to climate change mitigation and to lead to an estimated reduction of 3,200,000 tons of CO₂ per annum. The climate change impact of the capacity building component of the lending program is assessed by ADB to be medium⁹³ and high.⁹⁴ These initiatives are relevant to the government’s efforts to promote clean technologies and to increase the share of renewables to power generation. They are also consistent with the CPS, 2013–2017, which emphasizes clean and renewable energy expansion.

88. Fostering knowledge solutions and good practices ADB support to IIFCL was a significant intervention designed to provide much needed long-term funds for infrastructure financing. With ADB support through the IIPPF, IIFCL was able to provide funds at commercial terms with a 20-year maturity for infrastructure subprojects, which was not being offered by the market when the facility was introduced. Further, the facility helped mainstream the PPP infrastructure financing modality and to leverage private investments in infrastructure.

89. Under the Accelerating Infrastructure Investment Facility, ADB supported IIFCL’s initiative to include take-out financing in its portfolio of products. Take-out financing addresses the exposure and asset–liability mismatch that some banks face and provides space for new bank lending. Infrastructure projects require long-term funding of 20–25 years, which traditional bank funding cannot match. Thus, the value addition of the Accelerating Infrastructure Investment Facility was that it provided IIFCL with long-term resources to sustain the long-term take-out option. Under the facility, ADB also supported the market’s need for subordinate debt, which enables overleveraged subproject developers to raise additional debt without having to raise additional equity and thus achieve financial closure of subprojects. The new financing modalities under the facility were limited to these two products, i.e., take-out financing and subordinate debt. The envisaged securitization of the receivables in road and urban sector projects mentioned in the knowledge management action plan 2013–2017 was not included in the facility design. However, an ongoing project preparatory TA, Enabling Monetization of Infrastructure Assets, aims to develop a framework for securitization of infrastructure loans (para. 89).

90. In supporting the energy sector, CPS, 2013–2017 proposed new financial mechanisms and promotion of PPPs. In line with this, the Clean Energy Finance Investment Program was envisaged under the knowledge management action plan. Products such as credit enhancement support would be used by IREDA to enable it to obtain international credit ratings and thus to diversify its financing mix by borrowing internationally. The plan to promote PPPs was included in the project design and the take-out financing option was introduced. The plan to use credit enhancement and to assist IREDA in obtaining international credit ratings was not reflected in the project design but, as reported in the Clean Energy Finance Investment Program RRP, IREDA is implementing a comprehensive institutional capacity development program with the support of its development partners.⁹⁵

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⁹³ The project is tagged as having climate change impact, meaning that the project performance can be adversely affected by one or more impacts of climate change: an increase in temperature, a change in rainfall patterns, intense, frequent flooding and/or drought, changing frequency or severity of tropical storms, glacial retreat or glacial lake outburst floods and sea-level rise. The loan has likely climate impact. A detailed risk and vulnerability assessment is required and risk reduction measures should be included in the project design. Source: ADB eOps database.

⁹⁴ The TA has a very likely climate change impact. A detailed risk and vulnerability assessment is required and risk reduction measures should be incorporated in the project design.

⁹⁵ The development partners are: ADB, the French Development Agency (AFD), JICA, and German development cooperation through KfW. ADB is supporting the operationalization of an environment and social safeguard unit. AFD has an ongoing TA totaling €300,000 that focuses on the development of new renewable energy technologies. JICA is preparing TA covering new renewable energy technologies, financial mechanisms for commercialization, and a computerized database for project monitoring and
91. Aside from lending, ADB contributed to knowledge solutions and good practices through capacity development TA projects. The TA on Bond Guarantee Structuring Skills, which was a small TA, supported the creation of legal templates for the development of a bond market for infrastructure projects. The TA enabled credit-enhanced bonds to be issued, which was a response to the lack of resources for infrastructure financing. The bonds provided an alternative commercially viable source of financing to bank loans. The TA also disseminated information about credit-enhanced bonds through two seminars in Delhi and Mumbai.

92. Enabling Monetization of Infrastructure Assets, a small project preparatory TA, aims to develop an enabling framework for securitization, engage with regulators and market participants, and develop a structure and road map that will lead to piloting a project to monetize infrastructure loans of select public sector undertaking banks in India. This ongoing TA is expected to develop potential securitization structures for the pilot project and to provide a viable framework allowing the sale of infrastructure loans, which will further offer solutions to the infrastructure financing gap.

93. The ongoing TA on Preparing the Bond Guarantee Fund reflects ADB’s continuing efforts to assist the government to develop the bond market and provide solutions to meet the financing gap in infrastructure. The TA will develop a framework and a blueprint to operationalize the bond guarantee fund. It will enhance knowledge on the establishment of the fund, including structuring and pricing, which is critical for wider acceptance among stakeholders in the Indian market. ADB’s loans and capacity development assistance are significant interventions that will support efforts to address the lack of long-term funds for infrastructure financing. The longer tenor of loans accessed through IIPFF I and II and Accelerating Infrastructure Investment Facility met the need of the market for long-term funding, which banks were not able to do because of their exposure limits and asset liability mismatches.

94. In conclusion, the lending and nonlending modalities, particularly those in infrastructure and clean and renewable energy finance, supported knowledge solutions and capacity development in a way that was consistent with CPS, 2009–2012 and 2013–2017.

95. Empowering women. ADB’s finance sector program promoted gender development, primarily by supporting MSMEs. Of the 9,007 sub-borrowers of the Micro, Small, and Medium Enterprise Development Project’s indirect lending, 60% were women. The loan was complemented by a capacity-development grant that targeted female micro and small entrepreneurs (footnote 88). The grant sought to enhance the capacity of female entrepreneurs and women’s associations by providing them with more systematic access to financial resources, services, and market opportunities. Specifically, the grant supported stocktaking of gender-related practices, promotion of direct interventions for female microentrepreneurs, training of state-level women’s associations and networks, and monitoring and evaluation of results. Through this support, 1,384 low-income women entrepreneurs were trained, exceeding the target of 1,200. The retail lending component earmarked at least 30% of the loan proceeds for direct lending to be lent to qualified women micro and small entrepreneurs, but this target was not achieved.

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Footnotes:
- performance evaluation. KfW has ongoing TA projects totaling over $2 million that cover risk management, treasury operations, a credit risk-rating system, and international financial reporting standards.
- The approved amount was $225,000.
- The first issuance was in September 2015 generating $80 million, and the second was in December 2015 amounting to $30 million.
- Based on an interview with IIFCL officials, without the TA the credit enhancement for project bonds would have been on a standstill.
- Approved amount is $225,000.
- One of the four pillars of the CPS 2009–2012 is strengthening results orientation and emphasizing knowledge solutions; while the CPS 2013–2017 included an action plan for knowledge management, which proposed to support knowledge solutions in energy and infrastructure financing.
- There was no specific target for the number of women entrepreneurs. The design and monitoring framework merely states that the increase in the number of MSMEs established will be disaggregated by gender.
96. The envisaged khadi industry reforms also sought to address gender equality by introducing measures to enhance income and empower artisans, most of whom are rural poor women. By altering the norms of governance and operations of khadi institutions, enabling new khadi ventures, ensuring fair wages, the program aimed to support artisans, particularly rural women. These outcomes have yet to be fully realized, given the unmet tranche conditions under the program. The likelihood that the program objectives will be achieved cannot be established until the program proceeds as planned.

97. **Financing infrastructure projects through MFFs.** The IIPFF I and II provided IIFCL with the flexibility to pace and plan the financing of projects according to progress and local context. It was able to time-slice its operations as disbursements could take place through several tranches. IIPFF I and II demonstrated the suitability of the MFF for the long-term requirements of the infrastructure sector and particularly for PPPs, which are typically developed in a phased manner based on project implementation requirements. The two MFFs also leveraged private sector investments effectively.

98. The first tranche of the third MFF (Accelerating Infrastructure Investment Facility) to IIFCL will help finance part of IIFCL’s investment program and support the government’s 12th Five-Year Plan target of investment to be over 9% of GDP. It will do this by increasing private sector investment. The ongoing first tranche of the Clean Energy Finance Investment Program MFF will help fund a portion of the long-term credit IREDA needs to finance its renewable energy program and achieve its target of increasing the share of power generation by renewables to 15% by 2022. Both MFFs will leverage private capital to expand sector lending in renewable energy.

99. **Creating synergy between sovereign and nonsovereign operations.** ADB attempted to forge synergy between its public and private sector operations through projects supporting MSMEs and rural finance. The Micro, Small, and Medium Enterprise Development Project is an innovative, hybrid program that combines ADB’s sovereign and nonsovereign lending modalities. The smaller and less established micro and small enterprises, which primarily operate in the informal sector, were targeted through the sovereign loan to SIDBI. Larger medium-sized enterprises which have limited access to bank finance were targeted under the partial credit guarantee facility, without a counter-guarantee from the government. Conceptually, the two financing modalities were designed to complement each other. However, the nonsovereign component did not work out as planned as the partial credit guarantee was cancelled and therefore the envisaged combined impact of sovereign and nonsovereign modalities was not achieved. The partial credit guarantee facility was expected to have a catalytic effect as PFIIs took it up to service medium-sized enterprises and meet their financing requirements. This did not happen.

100. Aside from the Micro, Small, and Medium Enterprise Development Project, there were also TA projects related to nonsovereign loans: the Small and Medium Enterprise Trade Finance Development Facility attached to the nonsovereign loan to EXIM Bank and Strengthening Rural Financial Inclusion and Farmer Access to Markets attached to the nonsovereign loans to Axis Bank and Yes Bank. The design of the TA to EXIM Bank to strengthen its role as the lead trade development agency in the region was completely revised (para. 38). The TA to Axis Bank and Yes Bank is yet to become effective so there are no results yet.

101. ADB’s nonsovereign operations supporting MSMEs have been directed towards institutions such as banks. The complementarity with sovereign operations may have to be more clearly defined. Sovereign operations may also have to deal with the need to improve the policy and operating environment to improve complementarity with nonsovereign operations.

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102 Khadi institutions will be restructured based on new norms that emphasize the role of artisans, governance structure, human resource, financial health, and diversified networks and market linkages.

103 An assessment of nonsovereign operations was undertaken separately for the CAPE.
F. Other Evaluations

1. ADB Performance

102. Overall, ADB’s performance is rated *satisfactory*. In supporting the finance sector, particularly infrastructure finance, ADB engaged with the government extensively in policy dialogue at various levels. This led to support for the mainstreaming of PPPs in the financial system and the development of a pipeline of bankable subprojects. More specifically, the dialogue resulted in the design of the IIPFF, which provided a business model for financing PPP that leveraged partnerships and synergies between institutions and their products and services.104 The policy dialogue also facilitated the introduction of risk-based pricing and in-house risk assessment capacity and the adoption of international best practices in IIFCL with regard to financial management. ADB also helped to develop alternative sources of long-term funds, particularly through legal templates for project bonds and the bond guarantee fund. ADB took the lead in developing an ESSF in consultation with the World Bank, German Development Cooperation through KfW, and the Japan Bank for International Cooperation.

103. IIPFF I was the first MFF loan to a financial institution that was designed to leverage ADB’s resources to benefit a wide range of projects across several sectors. As opposed to the conventional approach of financing individual projects with the government bearing all the risk, the MFF introduced a new business model based on private sector participation using the PPP framework. With IIFCL’s participation in the consortium, financial institutions were more willing to accept exposure to projects in line with their risk return and capital allocation frameworks.

104. Because of the lack of staff in IIFCL to carry out safeguard assessments, there were delays in the approvals and disbursements of subprojects under IIPFF I. To address this, ADB provided support through a capacity building TA (footnote 30) that included the provision of a safeguard consultant and a separate training to build staff capacity to handle the ESSF review, adoption, and monitoring of subprojects. The TA resulted in IIFCL employing specialized staff and improving its safeguard capacity. ADB fielded loan, midterm, environmental and social safeguards, audit, and completion review missions. ADB worked closely with IIFCL’s project management unit, which enhanced the project’s performance. The MFFs were fully disbursed ahead of schedule.

105. ADBs performance in supporting MSMEs should have been better. There were shortcomings in project designs that affected their implementation. The allocation for direct lending under the Micro, Small, and Medium Enterprise Development Project was underutilized and only 4% of the approved amount was disbursed. At appraisal, ADB should have assessed SIDBI’s capacity carefully to carry out direct or retail lending and designed the allocations more realistically. The khadi industry reforms have not progressed since the release of the first tranche in 2010. The appropriateness of the design involving 91 conditions in the khadi context should have been given more careful attention and extensive consultation at the program formulation and design stage. So far, no flexibility has been shown to allow the program to proceed to the next phase.

106. On a positive note, during the CAPE mission the executing and implementing agencies expressed satisfaction about working with ADB. They appreciated ADB’s training programs in procurement, disbursement, and contract management. The executing and implementing agencies were satisfied with the courses they attended annually.

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104 For example, institutions offering specialized financing partnering with larger banks, project development agencies, and equity funds, enable a syndication approach to provide a range of financial services needed for achieving financial closure of PPP projects. This facilitates exchange of sector expertise, underwriting skills, and risk management.
2. Executing and Implementing Agencies’ Performance

107. The performance of executing and implementing agencies is rated *satisfactory*. In general, projects were successfully implemented. Expected outputs were delivered and the envisaged outcomes were achieved, particularly for infrastructure finance and pension reforms (but not for MSME financing and development).

108. The executing and implementing agencies supporting pension reforms and financing of infrastructure showed strong ownership of and commitment to the projects, especially in the case of IIPF I and II. These facilities were successfully implemented with full disbursement of the tranches ahead of schedule. They also leveraged private investments, thus achieving a strategic objective. IIFCL has improved its credit appraisal and risk management systems, developed an ESSF with a separate ESS management unit, and satisfactorily complied with the loan and project agreements. IIFCL also worked effectively with ADB in developing the legal templates for the issuance of credit-enhanced bonds.

109. On pension reforms, the Department of Economic Affairs at the Ministry of Finance was initially the executing agency. In 2009, responsibility for the project was moved to the Department of Financial Services, which was made responsible for pension reform. Both departments collaborated effectively with ADB, delivering the planned outputs and key outcomes by developing a field-tested implementation strategy for the national pension system.

110. In the case of the Micro, Small, and Medium Enterprise Development Project, SIDBI initially tried to lend directly to the “missing middle” MSMEs. However, it later changed its business strategy and concentrated entirely on indirect lending. It found retail lending too difficult because of a lack of human resources, limited branch networks, and the high transaction costs associated with direct lending. This resulted in a low utilization of the allocation for direct lending. Utilization of the attached grant (footnote 88) was also low (about 13%) but this was due to significant currency depreciation, substantial savings on training for low-income women entrepreneurs, and limited expenditures under the administration component. In hindsight, SIDBI should have been more forthright to ADB early on about its capacity for retail lending. Nonetheless, SIDBI continued to provide indirect lending to PFIs for the “missing middle” segment after completion of the project.

111. On the Khadi Reform and Development Program, the tranche 2 conditions of the program loan have yet to be met after 6 years. The Ministry of Micro, Small, and Medium Enterprises and ADB should have explored earlier whether problems with the two tranche conditions on promotion and marketing strategies could have been resolved. For the same reason, the attached capacity building grant for khadi reforms could not progress any further.

112. The efforts of executing and implementing agencies in monitoring and evaluating projects have been satisfactory. IIFCL has complied with the covenants on performance monitoring and evaluation for IIPF I and II. SIDBI provided ADB with satisfactory quarterly reports on the performance and progress of Micro, Small, and Medium Enterprise Development Project. As explained during the CAPE mission, the Ministry of Micro, Small, and Medium Enterprises has now monitored the progress of the Khadi Reform and Development Program and KVIC has provided ADB with progress reports identifying the issues and actions that need to be taken.

G. Conclusion: Key Findings, Lessons, and Suggestions

1. Key Findings

113. The key findings are as follows.
114. ADB's operations have successfully achieved the CPS objectives for the finance sector. ADB support addressed two key development issues. First, the inadequacy of resources, particularly long-term funding sources for infrastructure, to help the government achieve its goal of sustainable and more inclusive growth. Second, the limited access of households and MSMEs to formal finance. ADB provided loans and TA to help the government address these constraints.

115. ADB's finance sector program was relevant to environmentally sustainable growth, particularly climate change mitigation. Both the Accelerating Infrastructure Investment Facility to IIFCL and the Clean Energy Finance Investment Program to IREDA, which are ongoing projects, are relevant to the government's efforts to promote clean technologies and increase the share of renewable energy to power generation. They are also aligned with the CPS, 2013–2017, which emphasized clean and renewable energy expansion.

116. ADB contributed to knowledge solutions and good practices in infrastructure finance. Its support to IIFCL was a significant intervention, which was not offered by the market when the IIPFF was introduced. The small TA on Bond Guarantee Structuring Skills resulted in issuances of credit-enhanced bonds, which provided an alternative commercially viable source of financing to conventional bank loans. Ongoing efforts to provide solutions to close the infrastructure financing gap can be found in the TA projects on Preparing the Bond Guarantee Fund and Enabling Monetization of Infrastructure Assets. The TA on pension reforms developed a strategy for a national pension system that may be a source of financing for infrastructure development that requires long-term funds. ADB lending and nonlending operations supporting India's finance sector during the CAPE period were responsive to and supportive of the government's “Finance Plus” approach to working with multilateral financial institutions to address the country's challenges. ADB projects introduced new financing instruments, leveraged resources, and provided value added that went beyond financing.

117. Initiatives were undertaken to promote synergy between sovereign operations and nonsovereign operations, but expected results were not fully realized. The envisaged synergy of sovereign and nonsovereign lending modalities was not realized for the Micro, Small, and Medium Enterprise Development Project. The partial credit guarantee, the nonsovereign component, was cancelled due to ADB's proposed pricing that was unacceptable to the financial institution (Industrial Development of Bank of India Limited). ADB also provided TA that was attached to nonsovereign loans. The design of the TA to EXIM Bank was completely revised, thus original purpose was not realized. The TA to Axis Bank and Yes Bank is yet to become effective so there are no results yet. The complementarity of nonsovereign and sovereign operations may have to be defined more clearly and sovereign operations will have to support improvements to the policy and operating environment.

118. ADB support for infrastructure finance yielded significant results. ADB support for infrastructure finance to help address the huge financing gap comprised 73% of its total loan portfolio. The financing facilities (IIPFF I and II) facilitated greater private sector participation through PPPs and helped to catalyze and leverage investments in infrastructure, including in the lagging states. The financial intermediation MFF modality was suitable for infrastructure financing. It provided IIFCL with the flexibility to pace and plan financing of subprojects according to progress and the time slice of operations as disbursements could take place through multiple tranches. ADB's capacity building assistance, which was added later, supported IIFCL's capacity for safeguards requirements and risk assessment. Lessons from the first MFF were learned and applied to succeeding projects, where appropriate.

119. ADB support for the MSME sector had limited results. Support for MSME financing through the Micro, Small, and Medium Enterprise Development Project's indirect lending through the PFIs was effective: lagging states were covered; financial inclusion was promoted, particularly by extending financial services to women; and training on entrepreneurship was provided to women. However, the direct lending component was not realized due to limitations in SIDBI's capacity. On the support for the khadi industry, the policy and institutional reforms did not proceed as planned because of difficulty in
complying with the tranche 2 conditions. The objectives of the program will be fulfilled only when the reform interventions have been significantly completed.

2. Lessons

120. The following are some lessons based on ADB’s experience in supporting India’s finance sector during 2007–2015.

121. **Government commitment and ADB’s sustained engagement are factors for success.** The strong support of the government for the IIPFF I and II and its ownership of IIFCL contributed to the successful implementation of the financing facilities. ADB’s extensive engagement with the government in policy dialogue at all levels resulted in an IIPFF design that helped mainstream PPPs in the financial system, leveraged partnerships, and encouraged synergies between institutions and their products and services.

122. **ADB has created a niche by developing catalytic interventions to infrastructure financing, which should be scaled up.** ADB’s strategic support in helping meet the big demand for infrastructure financing demonstrates how a well-structured intervention and knowledge solutions can provide alternative sources of financing and catalyze investments in infrastructure. ADB should provide further lending and nonlending support, particularly for the development of the bond market and innovative financial instruments. This is consistent with the statement of India’s current Finance Minister, in which he asked ADB to continue to be a change agent by supporting innovative and catalytic infrastructure finance projects which would otherwise not happen. On PPPs in particular, there is a need to reassess demand for loans to given the current challenges to the PPP market.

123. **Capacity building assistance for the implementation of safeguards had to be carefully designed, timely, and adequate.** ADB’s financial intermediary projects included support for the adoption of a functioning ESS system. The design identified the areas that need assistance and strengthening, and drew out the necessary support and interventions needed for capacity building. There was active engagement with IIFCL to build staff capacity to handle ESSF review, adoption, and monitoring of subprojects. Initially, there were delays in the activities of the TA. Eventually this resulted in IIFCL having specialized safeguard staff and the capacity to implement safeguards. The capacity that has been built will help IIFCL increase its funding for infrastructure sector. In the case of IREDA, capacity building assistance for strengthening safeguards compliance was included in the design of the financing facility, which will help finance more projects that are ESS-compliant. This TA was yet to be signed at the time of evaluation. In SIDBI, ADB helped developed a simplified screening modality for ESS since the subprojects financed were classified as category C.

124. **The financial intermediation MFF modality was appropriate for infrastructure finance matching disbursements with operations of subprojects.** The successful implementation of the IIPFFs demonstrates that financial intermediation MFFs are an appropriate way to finance PPP infrastructure subprojects. Disbursements in tranches were sequenced with the operations of the subprojects. IIFCL’s participation in the consortium introduced a new business model based on private sector participation. Financial institutions were able to participate in projects in line with their own risk return and capital allocation frameworks.

125. **Institutional capacity of implementing agencies should be adequately assessed at appraisal.** The difficulty in complying with tranche conditions reflected a weakness in the design of the Khadi Reform and Development Program. More effort should have been made to ensure the conditions were appropriate. For example, there was difficulty in complying with the conditions on setting up a marketing organization through a joint venture and effective marketing through PPP as there was minimal response from private sector players. In the case of Micro, Small, and Medium Enterprise Development Project, SIDBI’s institutional and human resource capacity for direct lending hindered the

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105Statement of Finance Minister and ADB Governor Arun Jaitley during the ADB Annual Meeting 2016 in Germany.
realization of its objective to enter into this market segment. At the time of project processing, SIDBI did not have the capacity for direct lending. Though the capacity issue was known at an early stage, posing a major risk to achievement of objective, yet the project proceeded; and eventually the direct lending component did not materialize.

3. Suggestions

126. Based on the review, this assessment offers some suggestions to further strengthen ADB’s strategic role in India’s finance sector.

127. Support further development of alternative sources of long-term funds for infrastructure. In view of the huge financing gap in infrastructure, ADB should continue to support the government to develop alternative commercially viable sources of financing. The ongoing TA for a bond guarantee fund and project preparation TA for the monetization of infrastructure assets are steps that will further support the government’s objective of building infrastructure for sustainable and inclusive growth. The Country Operations Business Plan, 2016–2018 contains a pipeline of ADB lending and nonlending products that support commercially viable alternative sources of infrastructure financing. These include the bond guarantee fund, monetization of infrastructure loans of public sector undertaking banks, and the innovative municipal financing facility for urban infrastructure. Continuing assistance to develop long-term debt market instruments such as corporate bonds will add value to the finance sector in terms of knowledge solutions and catalytic interventions in infrastructure financing, deepening the capital market and broadening the investor base. ADB can build on its work on enhancing bond guarantee structuring skills, preparing the bond guarantee fund, and monetization of infrastructure assets and can continue helping address the institutional, legal, and regulatory constraints that affect the development of a vibrant bond market.

128. With the rising NPAs, most of which are in the infrastructure sector, it is unlikely the banks would finance anywhere close to $113 billion financing gap estimated in the 12th Five-Year Plan. The high NPAs coupled with an overleveraged corporate sector, could choke off an important source of infrastructure finance. Thus, the infrastructure financing gap is likely to grow larger in the years ahead. ADB can continue to support IIFCL to leverage further resources for the infrastructure sector’s financing requirements. Support can continue over the medium term (3–5 years) given the significant demand for infrastructure financing and the catalytic effect of the MFFs. IIFCL’s exposure to any project is limited to 20% and follows the credit terms of the lead bank. If IIFCL is to take a larger role as catalyst for mobilizing resources, it has to innovate and develop new products and services that will provide financing solutions to the infrastructure sector. Under the Accelerating Infrastructure Investment Facility, ADB supported IIFCL’s initiative to include take-out financing and subordinate debt. ADB may continue to support IIFCL in developing innovative financing solutions to accommodate the needs of the market. For example, support for the credit enhancement of project infrastructure bonds has been highly beneficial to India’s infrastructure development goals. Support along these lines will help enable mobilization of contractual savings such as insurance and pension funds to build the domestic capital market.

129. With the PPPs experiencing difficulties in recent years, the demand outlook for loans for PPPs is unclear. Therefore, there is a need to reassess demand for loans to PPPs given the current challenges to the PPP market. As far as the financial intermediation lending for infrastructure is concerned, strengthen the capacity of financial institutions to better implement and monitor frameworks for improved ADB assisted subprojects’ compliance with safeguards and safety standards. Monitoring and reporting of results is also an area that requires continued support.

10For example, insurance and pension funds had a limited window as source of long-tenure debt because of various regulatory requirements associated with risk mitigation.
130. **Continue to undertake interventions supporting environmentally sustainable growth.** The demand for clean and renewable energy will remain strong. ADB has already taken a strategic step by supporting environmentally sustainable growth through the MFFs to IIFCL (Accelerating Infrastructure Investment Facility) and IREDA (Clean Energy Finance Investment Program). Nonlending assistance may also be provided to support further strengthening of the capacity to implement safeguards, risk assessment and management, and to develop innovative financial instruments that will help meet the need for long-term clean and renewable energy financing.

131. **Clearly define the complementarity of sovereign and nonsovereign operations.** The implementation of the Micro, Small, and Medium Enterprise Development Project did not demonstrate effective complementarity between sovereign and nonsovereign operations. There is a need to define more clearly the areas that each type of operation should focus on and to assess the appropriateness of the design in view of market realities.

132. **Consider further support for MSMEs.** The MSME sector is the second largest employer after agriculture and remains a development priority of the government. ADB can provide lending and nonlending support to the sector, particularly in increasing the access of MSMEs to financing through indirect lending, and strengthening the capacity of entrepreneurs, including women, in accessing financial resources and market opportunities. Capacity constraints of institutions have to be adequately assessed and addressed. Problems with the khadi reforms showed the importance of program design which has to take into account institutional constraints and the appropriateness of policy actions.

133. **Assess institutional capacity adequately at appraisal.** In the selection of executing and implementing agencies, ADB should pay more attention to their capacity to carry out the project. If institutional constraints are identified, they should be addressed through capacity development assistance where feasible.
APPENDIX 1: LIST OF OFFICIALS MET

Ministry of Micro, Small and Medium Enterprises
Mr. B.H. Anil Kumar
Joint Secretary

Mr. Samar Nanda
Deputy Secretary

EximBank of India (Mumbai)
Mr. Utpal Gokhale
General Manager

Ms. Poornima Busi
Assistant General Manager

India Infrastructure Finance Company Limited
Mr. Sanjeev Ghai
Chief General Manager

Mr. P.R. Jaishankar
Chief General Manager

Mr. Naresh Goyal
Deputy General Manager

Mr. Rakesh Kumar
General Manager

Indian Renewable Energy Development Agency Limited
Mr. B. Venkateswara Rao
Director (Technical)

Mr. Som Pal
Deputy General Manager

Mr. Rajendra Singh
Senior Manager (Projects and Technical Services)

Mr. K.P. Philip
Senior Manager

Mr. Ishwar Madiwal
Manager (F&A)

Ms. Manjusha Shukla
Deputy Manager (F&A)

1 The team leaders for the CAPE met with some of the officials on the list during the reconnaissance mission held in November 2015 and during consultations at the ADB headquarters.
Ms. Ruchika Drall  
Assistant Environment Officer

Small Industries Development Bank of India (Lucknow)  
Mr. Manoj Mittal  
Deputy Managing Director

Mr. Prakash Kumar  
General Manager

Mr. P.K. Nath  
Deputy General Manager

Mr. Neeraj Srivastava  
Assistant General Manager

Mr. Rajesh Kumar  
Assistant General Manager

Ms. Rachna Gupta  
Assistant Manager

Ms. Shubada Yadav (on videocon)  
Assistant Manager, SIDBI in Pune

Asian Development Bank, India Resident Mission  
Ms. M. Teresa Kho  
Country Director

Ms. Johanna Boestel  
Principal Economist

Mr. Donald Lambert  
Senior Finance Specialist

Mr. Rajeev Singh  
Senior Country Specialist

Mr. Vikram Harsha Annamraju  
Senior Portfolio Management Officer

Asian Development Bank, South Asia Regional Department  
Mr. Cheolsu Kim  
Lead Finance Specialist

Mr. Peter Marro  
Principal Financial Sector Specialist

Mr. Vivek Rao  
Principal Financial Sector Specialist

Mr. Anqian Huang  
Finance Specialist
A. Lending Operations

1. During 2007–2015, ADB approved ten loans amounting to $2.3 billion for India’s finance sector.\(^1\) Loans for infrastructure financing totaled $1.9 billion or 83% of the loans approved. The amount approved for clean energy financing (tranche 1) was $200 million (9%) and for micro, small, and medium enterprise (MSME) financing and development it was also $200 million (9%). The multitranche financing facility (MFF) modality was used for infrastructure and energy finance and comprised 91% ($2.1 billion) of the total loan portfolio. Program loans (7.5%, $150 million) and project loans (2.5%, $50 million) were used for MSME financing. These were financial intermediation interventions in nature except for the Khadi Reform and Development Program.

2. In infrastructure finance, the MFFs were the India Infrastructure Project Financing Facility (IIPFF) I and II, and the Accelerating Infrastructure Investment Facility. In energy finance, the Clean Energy Finance Investment Program was also an MFF. In MSME financing and development, the projects were the Micro, Small, and Medium Enterprise Development Project, and the Khadi Reform and Development Program. IIPFF I was rated highly successful by the PCR but the PVR rating is a notch lower because of some limitations and missing details in project design and formulation. IIPFF II was rated successful by the PCR. Table A2.1 lists the approved loans and Table A2.2 provides a brief description of each.

### Table A2.1: Approved Loans for the Finance Sector, 2007–2015

<table>
<thead>
<tr>
<th>Loan No.</th>
<th>Project Title</th>
<th>Modality</th>
<th>Approved Amount ($ million)</th>
<th>Date Approved</th>
<th>Closing Date(a)</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>2404</td>
<td>India Infrastructure Project Financing Facility—Tranche 1 (MFF 17)</td>
<td>Project (MFF)</td>
<td>300.00</td>
<td>20-Dec-07</td>
<td>15-Jan-10</td>
<td>HS  S</td>
</tr>
<tr>
<td>2452</td>
<td>Khadi Reform and Development Program</td>
<td>Program</td>
<td>150.00</td>
<td>2-Oct-08</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2509</td>
<td>India Infrastructure Project Financing Facility—Tranche 2 (MFF 17)</td>
<td>Project (MFF)</td>
<td>200.00</td>
<td>24-Feb-09</td>
<td>26-Aug-11</td>
<td>HS  S</td>
</tr>
<tr>
<td>2586</td>
<td>Second India Infrastructure Project Financing Facility—Tranche 1 (MFF 37)</td>
<td>Project (MFF)</td>
<td>210.00</td>
<td>27-Nov-09</td>
<td>14-Sep-11</td>
<td>S</td>
</tr>
<tr>
<td>2617</td>
<td>Micro, Small, and Medium Enterprise Development</td>
<td>Project</td>
<td>50.00</td>
<td>26-Feb-10</td>
<td>30-Jun-15</td>
<td>S</td>
</tr>
<tr>
<td>2717</td>
<td>Second India Infrastructure Project Financing Facility—Tranche 2 (MFF 37)</td>
<td>Project (MFF)</td>
<td>250.00</td>
<td>7-Dec-10</td>
<td>23-Oct-12</td>
<td>S</td>
</tr>
<tr>
<td>2822</td>
<td>Second India Infrastructure Project Financing Facility—Tranche 3 (MFF 37)</td>
<td>Project (MFF)</td>
<td>240.00</td>
<td>1-Dec-11</td>
<td>14-Sep-11</td>
<td>S</td>
</tr>
<tr>
<td>3048</td>
<td>Accelerating Infrastructure Investment Facility in India—Tranche 1 (MFF 77)</td>
<td>Project (MFF)</td>
<td>400.00</td>
<td>21-Oct-13</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>3186</td>
<td>Clean Energy Finance Investment Program—Tranche 1 (MFF 87)</td>
<td>Project (MFF)</td>
<td>200.00(^b)</td>
<td>17-Nov-14</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>3307</td>
<td>Accelerating Infrastructure Investment Facility in India—Tranche 2 (MFF 77)(^c)</td>
<td>Project (MFF)</td>
<td>300.00</td>
<td>30-Oct-15</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,300.00</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(a\) Refers to actual financial closing.

\(b\) The total amount approved for the MFF is $500 million. The amount above excludes the balance of $300 million for tranche 2.

\(c\) Not yet effective.

Source: Asian Development Bank databases.

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\(^1\) The $300 million balance of the Clean Energy Finance Investment Program MFF (tranche 2) is excluded. Total amount approved for the sector program including the total amount for this MFF is $2.6 billion.
Table A2.2: Project Summaries

<table>
<thead>
<tr>
<th>Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>India Infrastructure Project Financing Facility (IIPFF I)</td>
<td>To promote infrastructure development, the facility provides financing for viable infrastructure projects through the India Infrastructure Finance Company (IIFCL). IIFCL provides long-term debt financing at commercial rates for infrastructure subprojects. IIFCL prioritizes the financing of viable public–private partnership (PPP) subprojects only as a member of lending consortium where its total lending to any subproject does not exceed 20% of the total capital cost for the subproject. The IIPFF aims to increase the availability of infrastructure and to mainstream the PPP modality for infrastructure development.</td>
</tr>
<tr>
<td>Second India Infrastructure Project Financing Facility (IIPFF II)</td>
<td>IIPFF II supports the government’s infrastructure development agenda. It provides funds at commercial terms with more than 20-year maturities for infrastructure PPP subprojects. IIFCL finances PPP subprojects selected through transparent and competitive bidding process and only those that are assessed for commercial viability. IIPFF II aims to increase the availability and reliability of physical infrastructure in line with the targets of the 11th Five-Year Plan, 2007–2012.</td>
</tr>
<tr>
<td>Accelerating Infrastructure Investment Facility</td>
<td>The facility supports the government’s renewed efforts to accelerate infrastructure growth through increased private sector participation. The facility builds on the successful performance of IIPFF I and II with IIFCL support for PPPs. The facility supports three main areas: (i) direct lending, including renewable and clean energy; (ii) take-out financing, and (iii) subordinate debt. IIFCL provides 20% of its business in direct lending, resulting in efficient capital allocation for lending consortium members. The facility will help increase the availability of infrastructure.</td>
</tr>
<tr>
<td>Clean Energy Finance Investment Program</td>
<td>The program supports lending by the Indian Renewable Energy Development Agency (IREDA) to eligible renewable energy subprojects, including wind, biomass, hydropower, solar, and cogeneration technologies. The financial intermediation loan to IREDA is expected to leverage private capital to expand sector lending in order to add renewable energy capacity in India. The program will help increase renewable energy infrastructure.</td>
</tr>
<tr>
<td>Khadi Reform and Development Program*</td>
<td>The khadi and village industries, originally promoted by Mahatma Gandhi in the 1920s for rural self-employment, are integral to the rural nonfarm sector. Khadi, a handspun and handwoven cloth, is the single largest component of this subsector. The program seeks to revitalize the khadi and village industries, make them more sustainable, increase employment generation and incomes, improve artisan welfare, and develop select traditional village industries. The program comprises a policy reform and implementation framework, promoting and marketing khadi, realizing procurement and production efficiencies, and implementing institutional reforms.</td>
</tr>
<tr>
<td>Micro, Small and Medium Enterprise Development Project</td>
<td>The Micro, Small, and Medium Enterprise Development Project is an innovative, hybrid project that combines ADB’s sovereign and nonsovereign modalities, and incorporates financing earmarked for microenterprises and qualified women entrepreneurs, with the overarching goal of promoting inclusive economic growth and development. The project was designed to reach different segments of the MSME sector. The small and less established micro and small enterprises, which operate primarily in the informal sector, are targeted through the sovereign loan to the Small Industries Development Bank of India (SIDBI). The larger medium-sized enterprises which have limited access to bank finance, will be targeted under the partial credit facility, which will be established without a counter-guarantee from the government. The loan to SIDBI will support the “missing middle” of microenterprises through its direct and indirect lending operations.</td>
</tr>
</tbody>
</table>

* In the report and recommendation of the President, this loan was classified under the industry and trade sector.

b The “missing middle” refers to small borrowers who have potential and have performed well, but have grown too large for traditional microfinance support while remaining unable to access more conventional bank financing.

Sources: Reports and recommendations of the President for the India Infrastructure Project Financing Facility; Khadi Reform and Development Program; Second India Infrastructure Project Financing Facility; Micro, Small and Medium Enterprise Development; Accelerating Infrastructure Investment Facility; and Clean Energy Finance Investment Program.

**B. Nonlending Operations**

3. The total amount of technical assistance (TA) approved by ADB during 2007–2015 was $9.1 million. The areas covered by the support were infrastructure finance (20%), clean and renewable energy finance (8.3%), MSME financing and development (39.2%), pension reforms (11.1%), and rural finance
(22.1%). The TA was broken down as follows: capacity development 59% ($5.33 million), advisory 39% ($3.5 million), and project preparation 2% ($0.22 million).

4. Four TA projects supported infrastructure finance: Capacity Development for IIFCL, which was attached to IIPFF I; Preparing the Bond Guarantee Fund; Enhancing Bond Guarantee Structuring Skills; and Enabling Monetization of Infrastructure Assets. Capacity Building for the Indian Renewable Energy Development Agency Limited (IREDA) TA project supported energy finance and was attached to the Clean Energy Finance Investment Program. In the MSME sector, Capacity Development for Reforming Khadi and Village Industry was related to the Khadi Reform and Development Program, and the Small and Medium Enterprise Trade Development Facility was attached to a nonsovereign loan to the Export-Import Bank of India. Pension reforms were supported by the TA on Implementing Pension Reforms. Financial inclusion is supported by the TA on Strengthening Rural Financial Inclusion and Farmer Access to Markets, which is related to the nonsovereign loan to Axis Bank Limited and Yes Bank. The TA completion reports rated the Implementing Pension Reforms highly successful and the Capacity Development for IIFCL successful. Table A2.3 lists the TA projects and Table A2.4 provides a brief description of each.

### Table A2.3: Approved Technical Assistance for the Finance Sector, 2007–2015

<table>
<thead>
<tr>
<th>TA No.</th>
<th>Project Title</th>
<th>Type</th>
<th>Approved Amount ($ million)</th>
<th>Date Approved</th>
<th>Closing Date</th>
<th>TCR Rating</th>
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<tbody>
<tr>
<td>4938</td>
<td>Implementing Pension Reforms</td>
<td>AD</td>
<td>1.00</td>
<td>8-Jun-07</td>
<td>25-Oct-11</td>
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<td>7030</td>
<td>Capacity Development for India Infrastructure Finance Company Limited</td>
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<td>14-Dec-07</td>
<td>31-Dec-11</td>
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<tr>
<td>7142</td>
<td>Capacity Building for Reforming the Khadi and Village Industry Subsector</td>
<td>AD</td>
<td>2.00</td>
<td>2-Oct-08</td>
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<tr>
<td>7358</td>
<td>Small and Medium Enterprise Trade Finance Development Facility</td>
<td>CD</td>
<td>1.55</td>
<td>30-Sep-09</td>
<td>--</td>
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<td>8279</td>
<td>Preparing the Bond Guarantee Fund for India</td>
<td>CD</td>
<td>0.80</td>
<td>17-Dec-12</td>
<td>29-Sep-15</td>
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<tr>
<td>8764</td>
<td>Enhancing Bond Guarantee Structuring Skills in India</td>
<td>CD</td>
<td>0.22</td>
<td>17-Nov-14</td>
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<tr>
<td>8857</td>
<td>Strengthening Rural Financial Inclusion and Farmer Access to Markets</td>
<td>CD</td>
<td>2.00</td>
<td>18-Nov-14</td>
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<tr>
<td>8876</td>
<td>Enabling Monetization of Infrastructure Assets in India</td>
<td>PP</td>
<td>0.22</td>
<td>13-Feb-15</td>
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<td>--</td>
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<tr>
<td>8937</td>
<td>Capacity Building of the Indian Renewable Energy Development Agency</td>
<td>CD</td>
<td>0.75</td>
<td>6-Aug-15</td>
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<td>Total</td>
<td></td>
<td>9.05</td>
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</tbody>
</table>

AD = advisory, CD = capacity development, HS = highly successful, S = Successful, TCR = technical assistance completion report.

a Refers to actual financial closing.
b TA not yet signed at the time of evaluation.
Source: ADB databases.

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2 In February 2016, an extension of TA validity approval was issued. Yes Bank Limited signed the TA implementation agreement on 2 November 2015. However, Axis Bank Limited has not yet signed the agreement.
<table>
<thead>
<tr>
<th>Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing Pension Reforms</td>
<td>The technical assistance (TA) assisted the government in designing and implementing a national pension system and providing a solution that would provide broad-based old age income security to civil servants (central and states) and the public, especially the informal work force. The objective of the TA was to introduce a national pension system and a comprehensive old age security system that the public could have confidence in, that was sustainable, and that would enhance the national capital market. The TA was to enable the government and Pension Fund Regulatory and Development Authority to formulate a strategy for rolling out a national pension system to the formal and informal sectors, and to establish national pension system institutions and quality service networks.</td>
</tr>
<tr>
<td>Capacity Development for India Infrastructure Limited (IIFCL)</td>
<td>The objective of the TA was to increase the capacity within IIFCL to expand its operations in line with its business plan and so it could finance viable infrastructure projects. The expected outcomes were: capacity development in IIFCL with respect to resource management, subproject risk assessment, and environmental and social safeguards compliance; and risk-based pricing benchmarks for infrastructure financing.</td>
</tr>
<tr>
<td>Capacity Building for Reforming the Khadi and Village Subsector</td>
<td>The TA supported the effective implementation of the Khadi Reform and Development Program through policy and institutional reforms. The TA sought to support (i) the Ministry of Micro, Small and Medium Enterprises and the Khadi Village and Industries Commission in the overall management, implementation, and monitoring of the program; (ii) facilitate procurement and production of khadi; and (iii) support institutional reforms. The envisaged outcome was a revitalized khadi and village industry subsector that provides sustainable employment opportunities to artisans and that enables them to increase their earnings.</td>
</tr>
<tr>
<td>Small and Medium Enterprise Finance Development Facility</td>
<td>The objective of the TA was to assist the Export-Import (EXIM) Bank of India to develop a strategy that would enable it to emerge as the lead trade finance agency in the region and to support the integration of small and medium-sized enterprises (SMEs) in global value chains. The TA was attached to a nonsovereign loan to EXIM Bank. The envisaged outcome was increased access to financing for firms and projects especially in the lagging regions. The expected impact was to increase the competitiveness of SMEs in the global value chain by enabling a business environment conducive to the growth of trade. The original design of the TA was completely revised at the request of EXIM Bank. It was restructured to provide assistance in developing EXIM Bank’s capacity to undertake environmental and social assessments of subprojects and in identifying bankable deals in the SME cluster sector.</td>
</tr>
<tr>
<td>Preparing the Bond Guarantee Fund for India</td>
<td>The TA was designed to examine the modalities, scope, and potential for the establishment of a bond guarantee fund for India in line with its unique institutional and regulatory environment, and to support the development of a local currency bond market. The objective was to provide corporations with greater access to the local currency bond markets, which would enable them to meet their long-term infrastructure and non-infrastructure financing needs. A bond guarantee fund will help roll out and mainstream the credit enhancement product in India’s finance sector and channel its large savings pool to the infrastructure and non-infrastructure corporates. The key TA outputs included a detailed framework and institutional arrangements for bond guarantee fund, a blueprint to operationalize the fund, and enhanced knowledge on bond guarantee fund.</td>
</tr>
<tr>
<td>Enhancing Bond Guarantee Structuring Skills</td>
<td>The objective of the TA was to remove the high legal costs associated with the issuance of credit-enhanced infrastructure bonds by developing legal templates. The TA financed the incremental costs of developing the templates for project bond issuances. The envisaged outcome was an established commercially viable credit-enhancement product for infrastructure project bonds.</td>
</tr>
<tr>
<td>Enabling Monetization of Infrastructure Assets in India</td>
<td>As a small project preparatory TA, the expected outputs were to (i) identify the rationale, the issues, the challenges, and the enabling environment for securitization, (ii) engage with regulators and market participants, (iii) develop a structure and road map that would lead to the piloting a project to monetize the infrastructure loans of public sector undertaking banks.</td>
</tr>
<tr>
<td>Capacity Building of the Indian Renewable Energy Development Project</td>
<td>This TA is attached to the Clean Energy Finance Investment Program. It was designed to help Indian Renewable Energy Development Agency (IREDA) improve its capacity to implement environment and social safeguards, project administration and implementation, and operation and management. The envisaged impact of the TA is increased IREDA investment in clean and renewable energy projects.</td>
</tr>
<tr>
<td>Strengthening Rural Financial Inclusion and Farmer Access to Markets</td>
<td>The TA is expected to support nonsovereign loans to Axis Bank Limited and Yes Bank for rural financial inclusion. Specifically, the TA to Axis Bank focuses on designing and testing financial service approaches to women self-help groups, and loan products targeted to specific regional crops for small farmers. The TA to Yes Bank supports the bank’s system to supervise and monitor the quality of its affiliated business correspondents, including their internal controls, and to improve the financial literacy of business correspondent-affiliated women self-help groups; and to continue the development of financial service products that link small farmers to markets.</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank technical assistance reports.