

Infrastructure financing

With an estimated Rs. 100 Lakh Crores¹ needed to meet India's infrastructure requirements till 2022, infrastructure financing continues to be key to achievement of the country's economic aspirations. Given the need to meet fiscal deficit targets, the need to attract financing from non-Government sources becomes important.

Key issues which need to be addressed to streamline infrastructure financing include the following:

- (a) Reducing dependence on bank financing and increased participation of long term financiers like pension, insurance, and sovereign wealth funds, thereby addressing issues of asset liability mismatches and increased risk of default
- (b) Mitigating high risk profile during the initial period of a typical infrastructure project due to delays & uncertainties in procuring land, obtaining regulatory approvals etc. which impact credit rating and deter private investment;
- (c) Inadequate depth of the infrastructure / corporate bond market which in turn impacts the ability of infrastructure companies to raise resources, due to a variety of factors like regulations limiting investments from pension funds / insurance companies to instruments with a rating of AA or above etc.

A beginning was made with announcement of Infrastructure Investment Trust guidelines by SEBI in September 2015, promulgation of the Insolvency & Bankruptcy Code, 2016 and the November, 2018 SEBI directive to large corporates to fund at least 25% of their borrowings through the corporate bond market with effect from FY 19-20.

For strengthening these initiatives and deepening the infrastructure finance market further, the following additional measures have also been announced in the Annual Budget 2019-20:

- Operationalization of the Credit Guarantee Enhancement Corporation in line with the guidelines notified by RBI. This would help in augmenting the current credit guarantee facility offered by the NIIF-ADB combine, which is not adequate viz. a viz. the financing requirement. Consequently, projects which are financially viable but may not be able to meet the internal investment norms (AA or above) of insurance companies due to the stage of maturity of their project, may be able to leverage these facilities and qualify for investment. Currently, while insurance companies are allowed to invest 15% of their total investments in the infrastructure sector, most of them are not able to reach this limit due to limited projects meeting their investment norms.
- Deepening of corporate bond markets (including infrastructure bonds) through increase in tri-party repo transactions with AA rated bonds being accepted as collateral and increasing user friendliness of corporate bond trading platform.
- Allowing FPIs to transfer their investments in IDF-NBFCs to domestic investors during the lock-in period thereby increasing the attractiveness of these instruments to FPIs.

A Global Investor Meet for attracting long term financiers like pension funds, sovereign wealth funds and insurance companies to be anchored by NIIF is also on the anvil. This is aligned to NIIF's earlier alliance with the Abu Dhabi Sovereign Wealth Fund and its recent tie-up with Roadis for a road infrastructure financing platform.

¹ Source: Annual Budget 2019-20

With health, education and basic amenities like drinking water supply etc. also featuring in the list of projects for which financing would be required, corporate CSR and funding by philanthropic institutions are likely to constitute an important source of financing. An initiative for setting up a electronic fund raising platform similar to a social stock exchange for raising of finance by social sector organizations has been launched. Also, the definition of CSR has been expanded to include education and health related initiatives.

Quick implementation of the above measures together with :

- (a) Robust institutional process for identifying of and objective value for money analysis of infrastructure projects proposed for private investment;
- (b) Designation of a nodal agency for anchoring public private partnerships (PPPs) in infrastructure which could be mandated with notifying the various types of PPPs including activities / steps; finalizing concession and other contractual arrangements, capacity building of line Ministries and Departments and
- (c) Putting in place an objective framework for contract renegotiation as well as alternate dispute resolution

Is likely to go a long way in positioning India as one of the pioneers in infrastructure financing.