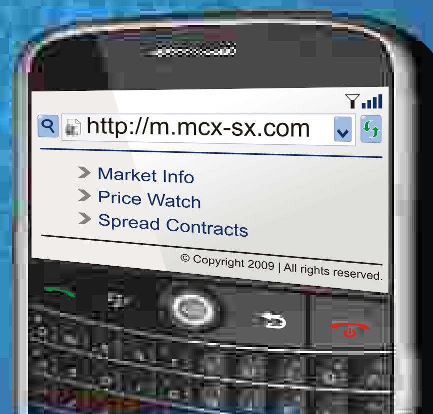
Banking & Finance DIGEST

Issue No. 6 March 2011

Infrastructure Financing

Currency prices of ¥, €, £ and $ on your mobile via WAP portal



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ABOUT FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence and its subsequent emergence as one of the most rapidly growing economies globally. FICCI plays a leading role in policy debates that are at the forefront of social, economic and political change. Through its 400 professionals, FICCI is active in 39 sectors of the economy. FICCI's stand on policy issues is sought out by think tanks, governments and academia. Its publications are widely read for their in-depth research and policy prescriptions. FICCI has joint business councils with 79 countries around the world.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI has direct membership from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 83,000 companies from regional chambers of commerce.

FICCI works closely with the government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sector specific consensus building and networking.

Partnerships with countries across the world carry forward our initiatives in inclusive development, which encompass health, education, livelihood, governance, skill development, etc. FICCI serves as the first port of call for Indian industry and the international business community.

FOREWORD

As we go on board the new fiscal, it gives us immense pleasure to release the 6th Issue of our highly acclaimed 'Banking and Finance Digest'. At the completion of its inaugural year, our endeavour by means of this digest is bearing fruit and supplementing FICCI's firm resolve in acting as a catalyst to enable suitable policy changes critical for the growth of Financial Sector in India. The issues discussed herein, over the past fiscal, have served as invaluable inputs for our extensive network of industry members and stakeholders.

This issue of our Digest comes to you at a crucial point in time wherein the economy has witnessed eight rate hikes since last March, failing to tame inflation. The hikes however, have dampened investment climate already clouded by bureaucratic delays, corruption scandals and supply side bottlenecks. Sluggish investment is further limiting the growth prospects by decelerating the addition of much-needed infrastructure and industrial capacity in the economy. Given the scenario, there is a need to create a better synergistic relationship between government and industry for identifying solutions for major bottlenecks facing this critical segment of the economy. This calls for the exclusion of regulatory hurdles in setting up infrastructure projects to attract private investment and better resource allocation and mobilization of funds available for infrastructure development.

If India can overcome the prevailing deficit in most segments of physical infrastructure, its growth prospects will receive a tremendous boost. In this regard, the current issue of our digest aims to bring to the forefront perspectives of experts from India Inc. and financial sector intermediaries on 'Infrastructure Financing'

We thank our partners MCX Stock Exchange for extending their support to help achieve our endeavour.

We do look forward to views and suggestion from the readers to help us improvise the content of the digest and make it more relevant and informative.

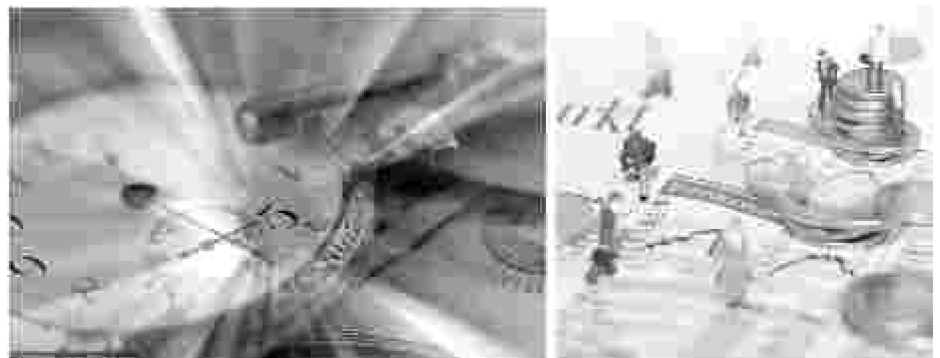
Infrastructure Financing

FICCI's Banking and Finance Team

Infrastructure is a burning issue that has an important bearing on the ability to attain double digit growth rates in the country. For attaining the envisaged growth rate for the country, there is a need for an exponential increase in the flow of investments to this sector.

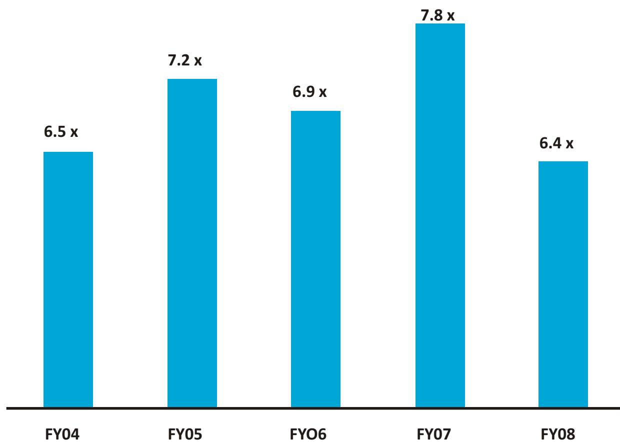
According to Planning Commission estimates, projected spending for infrastructure is expected to grow at 22% CAGR for the 11th Plan, with spending as a percentage of GDP expected at 11% by FY12, compared to 12% CAGR for infrastructure spending for the 10th Plan. Further, total funds available for the XIIth Plan is expected to be approximately 31 % short of the INR 4,100,000 crore targets for infrastructure financing, translating into a funding gap of almost 1,273,000 crores for the plan period. In order to bridge this gap, additional debt funds of INR 950,000-1,050,000 crores would be needed, with the remaining coming from equity sources.

Even if certain assumptions of increasing flow from existing sources were to be made - Private sector equity investment in infrastructure increases from 18% to 35%; Government spend on infrastructure stays at 44%; Bank lending increases from 14% to 20%; Insurance investments in infrastructure increases from 7.5% to 15% - nevertheless there would continue to remain a gap of INR 744,000 crores that would require tapping new sources of capital.

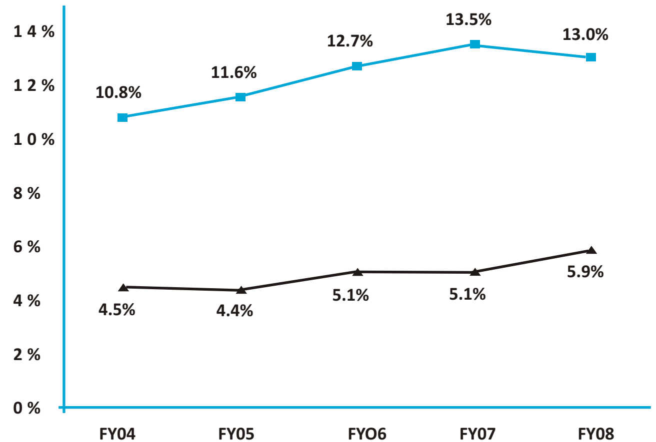


INDIA'S INFRASTRUCTURE INVESTMENT GAP

China's Investment in Infrastructure as a Multiple of India's (x)



Investment in Infrastructure as a % of GDP



Note: Comparable China data is for the previous calendar year

A quick look at the above charts highlights the stark reality of the levels of growth being experienced by India in comparison to China. India has historically always remained underinvested in infrastructure. China's investment in infrastructure was almost six and a half times that of India for FY 2008, with investment in infrastructure as a percentage of GDP almost 13% for the same financial year compared to 5.9% for India. A comparison between India and China shows that Gross Capital Formation as a percentage of GDP is only 32% in the case of India compared to 42% for China, with a greater part of the differential arising in the infrastructure and real estate sector.

CHALLENGES

i) **Speedy implementation of projects** - Land acquisition and environmental clearances are major concerns for infrastructure developers. Land identification should be done by Government and acquisition price to be indicated to the bidder at the project bidding stage. The Letter of Acceptance (LOA) should be issued to bidders and contractors only when land acquisition is complete in all respects. Additionally, the scope, terms of reference and obligatory process of environmental clearance and procedures should be standardized by Ministry of Environment & Forests to enable faster environmental clearances. A suitable body should be incorporated by the project authorities to help the bidders and developers in obtaining such clearances at a fast pace.

ii) **Co-ordination among Government agencies -** The actions and policies of different Centre and State Governments and even within Central Ministries needs to be better coordinated. A single window clearance system should be implemented along with specific guidelines on time bound approval mechanism to resolve the issues. By combining the experience gained by central government with local

government knowledge of the needs and priorities of its residents and service users, PPP projects can also be implemented successfully.

iii) **Slow pre-tendering approval process -** The multitude of approvals required for infrastructure projects (e.g. from the External Finance Committee, Public Investment Board or by the Cabinet Committee for Economic Affairs), and absence of defined timelines, add almost up to one year to the pre-tendering process.

iv) **Steady MCA, RFP & RFQ norms -** The frequent changes in the Model Conversion Agreement, Request For Proposal (RFP) and Request For Quotation (RFQ) norms should be avoided as it makes project implementation difficult and results in bidders spending a lot of time, effort and money in performing due diligence. Also the shelf life of RFP clauses should be at least one year before any changes are made. It is also recommended that qualification criteria adopted by the government should focus on financial capability, technological innovations, partnerships and holistic capability of advisors/developers for development of diverse and state-of-the art infrastructure.

v) **Shorter tender process -** A reduction in the time lag between the bid for a project and the commencement of construction would result in completion of project within budgeted cost. The rise in time and material cost due to inflation would also be controlled then.

vi) **Poor Quality of Detailed Project Report (DPR) -** It is recommended that the DPRs prepared should be accurate and of good quality to enable better project planning and timely completion of project with minimum deviations.

vii) **Shifting of Utilities -** Relocation of utilities for infrastructure development, especially water-pipe-lines, electric lines/transformers take considerable time due to several procedures, and is time consuming as well. Also, they are very specialized works and normally executed by their own departments. Moreover, relocation of utilities can only be taken up after taking possession of the acquired land.

POLICY ACTIONS TO FACILITATE MORE FUNDS FLOW INTO INFRASTRUCTURE

1. There is a need to implement policies to deepen and strengthen the domestic bond markets as recommended by Patil Committee and Raghuram Rajan Committee

2. There is a need to permit domestic mutual funds to launch direct infrastructure funds (DIFs)

3. There is a need to ensure appropriate capital structures according to the requirements of the project. A lack of long-term components in the

funding mix of projects leads to a significant increase in the embedded risks in the project.

4. The RBI continues to be wary of long term non-fund exposure of banks, even with appropriate risk weight age measures. This may however be explained by the RBI's view that broader markets are not sophisticated enough and credit enhancement might lead to systemic risks for vulnerable sections as risks get sliced and distributed down the system.

I. For Banks

1. Banks and not just Infrastructure NBFCs should be allowed to raise tax-free infrastructure bonds.

2. While CRR/SLR are liquidity measures, infrastructure bonds are long-term instruments with fixed maturities and as such there should be CRR/SLR exemption to infrastructure bond liabilities and only investments in infrastructure bonds issued by specified institutions should be included into SLR.

3. Most banks have a limited presence in rural areas, and as such find it difficult to meet direct agriculture lending limits. At the same time, infrastructure is going to be crucial to the growth of the economy in the coming years. Banks therefore recommend that infrastructure lending be included within the definition of priority sector by separately defining 'rural infrastructure' within priority sector limits. This would greatly help banks meet priority sector targets while simultaneously benefiting transport and power projects in rural areas.

4. Overall group exposure norms in the context of infrastructure lending also need to be further reviewed. Non-recourse lending to a SPV of the parent company should not count in group exposure limits, even as understandably it is easier for banks to push SPV projects in front of the board with a name backing it. Instead, it is recommended that only a percentage of the exposure of the SPV should be attached to the group, which will greatly ease group exposure limits for the parent company.

5. Funding long-term assets like infrastructure and homes with deposits, which are mostly short term in nature creates asset liability mismatch for banks. Thus, takeout financing has an important role to play as it allows banks to sell their loan portfolio to a third party after a certain period of time thereby freeing up capital and absolving them from their long term obligation. This will ensure more funds are freed up for financing long gestation projects.

6. Banks should be allowed to accept pledge of shares as security for infrastructure projects, and treat them separately from bank's investment in capital markets and direct equity exposure.

Thus there is a need to separately define capital market limits for infrastructure projects as similar problem exists in funding overseas acquisitions through foreign SPVs as well.

II. For Insurance Companies

1. Insurance company investments into SPVs of infrastructure projects, debentures of private limited companies and non- dividend track record companies in infrastructure should be included within the ambit of "approved" investments.
2. There is a need to review single party exposure norms (particularly with respect to norm around 25% maximum exposures to financial institutions) in case of investments in infrastructure bonds issued by entities like PFC, REC
3. Infrastructure related investments of insurance companies should be exempt from the overall limit of at least 75% of non-Government securities related investments in AAA securities
4. Investments in newly proposed infrastructure Debt Fund should be treated as qualified investments in infrastructure for insurance companies.
5. There is a need to review minimum credit rating requirements for insurance company investment into infrastructure (from current AA). The insurance sector has the capacity to provide long-term funding for infrastructure projects,

provided appropriate yield management measures are in place.

A process of investment grading is more appropriate compared to an AA rating and insurance companies should be allowed to come in at the take out stage for commercially operational projects such as Power Purchase Agreements (PPAs).

References
(Work done by FICCI's Corporate Finance Committee Subgroups)

Infrastructure Financing

N.S. Kannan
Executive Director & CFO, ICICI Bank Ltd.

The Indian economy has the potential to realize sustained high growth rates. However, this would require continuous policy support in key focus areas targeted towards addressing the constraints that the economy currently faces. An important focus area critical to addressing the supply constraints in the economy is infrastructure development. The Planning Commission in its mid-term appraisal of Eleventh Five Year Plan noted that economic growth in India has been adversely impacted on an average by 1 to 2 percentage points due to infrastructure bottlenecks. As such, infrastructure development and increased investment in infrastructure has emerged as one of the government's top policy priorities.

Channeling domestic and foreign financial savings scale into infrastructure requires policy interventions that balance the growth and stability objectives. The government has been focusing on increasing infrastructure investments in the country, particularly private sector investments. These include allowing 100% FDI (under the automatic route) in all infrastructure sectors including the roads, power, ports, and airport sectors, extended tax holiday periods up to ten-year tax holidays (under section 80-IA of the Income Tax Act 1961) to enterprises engaged in the business of development, operation, and maintenance of infrastructure facilities and emphasis on PPP as one of the preferred modes for project implementation. In the Union Budget for FY2012, the government has continued with its focus on increasing investments in infrastructure

through measures such as increasing FII investment limit for corporate bonds by infrastructure companies by US$ 20 billion, creation of special vehicles in the form of notified infrastructure debt funds with reduced witholding tax and tax exempt income, continuation of additional deduction of ` 20,000 for investment in infrastructure bonds etc.

While such measures are steps in the right direction, it should be noted that the requirement for infrastructure financing is going to be significant going forward. The Planning Commission has carried out a preliminary assessment of the investment in infrastructure during the Twelfth Plan (2012-17). The projected investment requirement would be of the order of about ` 41 trillion (about US$ 1 trillion). It is projected that at least 50% of this investment would have to come from the private sector against about the 36% anticipated in the Eleventh Plan. The public-sector investment would have to increase from ` 13 trillion in the Eleventh Plan to about ` 20 trillion. Thus financing infrastructure would be a big challenge in the coming years.

In this context, the growth in bank financing of infrastructure projects has been noteworthy. Banks' lending to the infrastructure sector has grown significantly from about ` 72.00 billion in 2000 to about ` 1,245.00 billion in 2009, a compounded annual growth of 45.0% during the last 10 years. The share of bank finance to infrastructure in gross bank credit has increased from just 1.8% in 2001 to 12.7% in 2010. Net bank credit to infrastructure has increased substantially in the current fiscal as well. As compared to net bank credit increase of about ` 640.00 billion during April-November 2009 there has been an increase of about ` 1,020.00 billion during April-November 2010, showing a 60% increase. While the increase has been significant, the requirement going forward is even larger. In view of this, it would be important to facilitate banks to increase their participation in infrastructure financing. Some recommendations in this respect include, permitting advances in infrastructure projects to be considered as priority sector lending, permitting banks to issue infrastructure bonds with tax benefit, excluding long term borrowings for the purpose of infrastructure financing by banks from cash reserve ratio and statutory liquidity ratio requirements and enabling banks to take security of shares in the case of infrastructure companies in excess of 30.0% of their paid up equity capital.

In addition to the banking sector, pension funds and insurance companies could also be developed as active participants in financing of infrastructure projects as infrastructure investments are better suited for their asset liability management and investments profile. Further, the strong growth in resources with insurance companies equips them to play a larger role in the rapidly evolving infrastructure sector. Key recommendations in this regard include, permitting investments in infrastructure securities belonging to "other than approved investments" category out of pension funds, exemption for infrastructure projects from dividend criterion of dividend payment of not less than 4% for at least seven out of nine immediately preceding years for classification as approved investments, relaxation of minimum rating criterion for debt investments in the case investments in infrastructure, permitting life insurance companies to participate as take-out financing institutions in infrastructure projects etc.

It is also important to realise that domestic sources alone may not be sufficient in meeting the requirements of the infrastructure sector and that there would be a need to tap foreign sources of funds as well. In this regard, the recommendations for increasing foreign investments in infrastructure include, relaxing the ECB ceiling of USD 500.0 million per annum per company for infrastructure projects, allowing ECBs for the purpose of refinancing rupee loans by infrastructure companies, relaxing the all-in-price ceiling for ECBs for infrastructure projects etc.

While the above suggestions are aimed at ensuring adequate financing for infrastructure projects, it is important to realise that the policy framework needs to be continuously strengthened to increase the viability of infrastructure projects in India. In this respect the goal should be to create an environment of regulatory and policy level certainty, so that the project viability is determined only by market dynamics and contractual arrangements. In this context, it is important to note that banks are comfortable in assuming credit and market risk and on the ground matters need to be addressed to facilitate large scale funding. It would be important to ensure that all necessary clearances and approvals for infrastructure projects are provided upfront. The Government may also consider setting set up a corpus, which would provide support to a pool of projects. Such a corpus could be funded through budgetary allocation, contributions from multilateral agencies etc. The

corpus could be used to create First Loss Default Guarantee Funds provide partial guarantees to lenders for certain projects which may need such support. The corpus could also be used to create a Viability Gap Funding mechanism.

The recent emphasis on infrastructure development in India is indicative of the fact that we will be seeing significant activity in this space going forward. Given this background, over the next decade infrastructure investments and the trickle down effects of infrastructure spending and development will emerge as another pillar of growth for our economy. Infrastructure investment will have a significant positive impact on overall economic growth, with its linkage to other sectors in terms of

demand for their output, its generation of employment and its improvement of national productivity.

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Mr. N.S. Kannan is the Executive Director and Chief Financial Officer of ICICI Bank. His responsibilities include Finance, Taxation, Corporate Legal, Treasury, Commercial & Investment Banking Group, Corporate Communications and Corporate Branding. He also has the responsibility for day to day administration of the Compliance and Internal Audit functions.

Prior to his current assignment at ICICI Bank, Mr. Kannan was the Executive Director of ICICI Prudential Life Insurance Company. He was responsible for the Corporate Centre including the Finance & Accounts functions, Investor/analyst relations, Investment Management, Corporate Strategy, Corporate Communications, Human Resources and Business Intelligence. Prior to ICICI Prudential Life Insurance Company, Mr. Kannan was the Chief Financial Officer and Treasurer of ICICI Bank.

Mr. Kannan has been with the ICICI group for 20 years. He joined the ICICI group in 1991 as a project officer. During his tenure at the ICICI group he has also handled project finance operations, infrastructure financing, structured finance and treasury operations.

Mr. Kannan is a postgraduate in management from the Indian Institute of Management, Bangalore with a gold medal for best all-round performance. He is also a Chartered Financial Analyst from the Institute of Chartered Financial Analysts of India and an Honours graduate in Mechanical Engineering.

Infrastructure Financing - Investing in India's Growth

Vardhan Dharkar
Chief Financial Officer (CFO), KEC International Ltd.

Infrastructure Finance - Crucial for India's overall economic growth

Economic advancement of a country critically depends upon adequate availability of physical infrastructure. In the 11th & 12th five year plans, India has targeted infrastructure investment of Rs. 20 lac cr. and Rs. 40 lac cr. respectively. Investment in infrastructure is prerequisite to sustain GDP growth rate above 8% & transform India into an economic world power. To achieve these targets, strong focus is required to enhance the quantity as well as the quality of infrastructure financing. We can meet these targets if we have-

- Political stability
- Bipartisan support to economic policies
- Stable fiscal policies
- Stable land acquisition & environment policies
- Efficient dispute resolution process and
- Strong & vibrant financial market.

This article attempts to focus on financing for infrastructure projects in India.

Current Source of infrastructure financing – 11th Five year plan

(Rs. Crore)

Particulars	First 3 years Actual		Last 2 Years Estimated		Total 5 Years Estimated	
A. Budgetory Support	352,167	45.0%	565,992	44.4%	918,159	44.7%
Commercial Banks	164,345	21.0%	267,480	21.0%	431,825	21.0%
NBFC (Incl. IIFCL)	78,259	10.0%	124,699	9.8%	202,958	9.9%
Insurance/Pension Funds	31,304	4.0%	52,046	4.1%	83,350	4.1%
ECBs	46,956	6.0%	76,884	6.0%	123,840	6.0%
B. Debt	320,863	41.0%	521,109	40.9%	841,972	40.9%
C. Equity & FDI	109,563	14.0%	186,456	14.6%	296,019	14.4%
Total	782,593	100.0%	1,273,557	100.0%	2,056,150	100.0%

Source: Planning Commission, Own Research

As can be seen from above table, even after 60 years of independence, we are still dependent on budgetary support for almost half of infrastructure

financing. This needs to change & is slowly changing. We need to accelerate the pace of change & increase the role of other players like banks, insurance, players, equity markets & FDI. Private sector has to play a vital role to meet infrastructure financing requirement.

Public Private Partnership

Huge investment requirement to fund the country's growth cannot be met by government alone and it needs to be supplemented by investment from private sector. It is estimated that contribution of the private sector would rise from about 20% in the 10th five year Plan to about 30% in 11th five year plan to about 50% in 12th year plan. One of the key policy initiative government has taken to encourage investment by private sector is adoption of "Public Private Partnership", popularly called "PPP". This measure has resulted in private sector investing in roads, power & airport projects in last 10 years. We need to follow this model more aggressively in other infrastructure sectors also. Clear policy roadmap with standard concession agreements will increase investment by private sector.

Indian Debt Market for long term funding requirement - Limited depth and breadth

In many countries across the world, long-term debt forms major share of infrastructure finance. However we are constrained by lack of depth and breadth of the secondary debt markets. Infrastructure projects have a long pay-back period and require long-term financing in order to be sustainable and cost effective. There is a need to improve the depth and liquidity of the corporate bond market to provide an additional source of funding for infrastructure companies

This section sets out each player's role, challenges & possible ways to improve infrastructure financing.

Banks /Financial institutions

Infrastructure financing has traditionally been the responsibility of Banks & Development Financial Institutions (DFI). However over period of time, DFIs have lost their focus & have converted themselves into commercial banks.

Commercial banks presently contribute around 20% of total infrastructure investment. Banks generally face difficulty in providing long term debt due to their asset-liability mismatch, volatility in interest rates and tightening credit conditions, they typically lend for the medium term. In addition to above, for large infrastructure projects, they are constrained by their balance sheet size & prudential customer

exposure norms. State Bank of India, India's largest bank is not even in the world's 50 largest banks by assets.

In order to overcome these constraints, smaller banks should be encouraged to merge & create large banks. We must have at least 2 large globally competitive banks. These banks should be encouraged to raise capital globally with longer maturity. These banks should invest in technology and have robust & contemporary risk management practices. These measures will help them to take higher exposure to individual projects with longer maturity.

Insurance and Pension funds

Unlike many other countries where insurance and pension funds are key investors in long-term infrastructure bonds, in India both are jointly expected to contribute less than6% to the total infrastructure investment in the current five year plan period.

Insurance/pension funds have an ability to invest in infrastructure projects with long maturity, as they have long term funds at disposal and are not faced with asset liability mismatch issue. However presently these institutions have many restrictions imposed by their respective regulatory bodies (IRDA etc) from exposing them too highly to the infrastructure sector on prudential considerations.

India has the largest growing middle class population, but very small proportion of it invests in insurance and pension plans; however this can be changed by introducing proper incentives and suitable schemes, thereby generating additional long term funds for infrastructure investments by these institutions.

External Commercial Borrowings (ECB's)

The inflows from ECB's have been rising, however such inflows have sectoral cap, end-use restrictions and interest rate cap. The cap on interest cost for ECBs makes it difficult for the borrowers to raise senior debt, subordinated debt,

mezzanine financing as the maximum permissible return is not considered good enough to match the perceived risk. The risk perception of Infrastructure projects in India is high due to lower country rating and project rating issues.

In the past we have been revising ECB policies too frequently to make it a stable source of financing. We need to have stable medium term ECB policy removing the cap on interest rate at least for companies with strong track record.

Corporate bonds

Corporate bond market is totally under developed in India. The government and private sector has not made much effort to tap this option. If properly developed, this channel can provide ample long term funding. Corporates with strong balance sheet should be encouraged to tap this option. Transaction cost for trading in these bonds should be reduced. FII limits for investment in such bonds should be increased.

Foreign Currency Reserves

We currently have foreign currency reserves in excess of USD 300 billion. In the past, there were discussions to use these

reserves for infrastructure development in India. We need to revive these discussions and form a committee comprising nominees from government, RBI, banks & private sector to take the decision.

Equity markets

The options listed above can provide significant amount of long term funding however what can be game changing for infrastructure development in India is proper development & nurturing of equity markets.

There is no doubt that if we properly develop & nurture equity market in India, all our needs for infrastructure investment can be met fully. To achieve this we need to have

- Spread of equity culture across India with stable policies
- Appropriate incentives for equity investments
- Impartial & strong regulator
- Low transaction cost
- Efficient dispute resolution mechanism
- Strong corporate governance culture
- High transparency & disclosure requirements for corporates.

Other policy measures which are required to improve infrastructure funding

Inflation management

High inflation results in high interest rates which in turn reduce viability of infrastructure projects. Some of the factors like high oil & commodity prices as also high agricultural prices may not be in control of government, however with dynamic, relevant economic policies and fiscal deficit management, effect of inflation can be moderated.

Suitable policies to address Environment and land acquisition issues

Currently due to unclear environment & land acquisition policies, many projects get delayed, resulting in higher project cost and impacting the project viability adversely. We need to address these issues proactively to balance the interests of all the stakeholders. It is a need of the hour to evolve stable and pragmatic environment & land acquisition policies enjoying bipartisan support.

To conclude, with political consensus, reforms, stable political environment, strong governance, clear policies and regulatory framework, we can achieve the targets set out in 11th & 12th five year plan for infrastructure investment thereby making India major economic power in world.

Vardhan Dharkar
Chief Financial Officer (CFO)
KEC International Ltd.

Mr. Vardhan Dharkar, is the Chief Financial Officer (CFO) of KEC International Limited, one of the leading players in the infrastructure EPC space. He is a Chartered Accountant with 24 years of rich experience in various areas of finance. Prior to joining KEC in 2007, he has worked with leading pharmaceutical companies like Wokhardt Limited & Dabur Limited. He was conferred the prestigious award of Best CFO 2009 - Infrastructure & Construction Category by the Institute of Chartered Accountants of India.

At KEC, Mr. Dharkar is the member of company's Management Committee and responsible for the Finance, Accounts, Taxation, Legal and IT function.

He commenced his long tenure with Wokhardt Limited (1988-2006) as an Officer in Finance and progressed to become the Vice President Finance in 2002. Subsequently, he was the Chief Financial Officer at Dabur Pharma Limited.

A professional with commitment to all round excellence, Mr. Dharkar also serves as the- Finance Committee member at FICCI and a Finance & Taxation Committee member at CII and IEEMA.

Funding The Indian Infrastructure Sector Through The Debt Markets

Hitendra Dave
Managing Director & Head-Global Markets, HSBC, India

India's Infrastructure requirement is very large and is increasing further to support the economic growth momentum. As a developing economy with significant growth prospects, it is extremely critical that all its infrastructure requirements are met in a complete and timely manner.

The Planning Commission had targeted an infrastructure investment estimate of INR 20000 bn for the Eleventh Five Year Plan (2007-12), and this number is expected to more than double for the next 5 year plan. It is also estimated that a large majority of these investments will come from private companies, and may be as public private partnerships too. In most other developed countries, a significant quantum of such funding is sourced through the public capital markets and funding sources are not restricted to only bank finance. In particular, debt capital markets have provided funding for such transactions through Project Bonds, syndicated loans etc, therefore reducing dependence on local bank financing for such transactions.

Two key categories of infrastructure companies which require funding in large quantums:

1. Companies with large operating assets in the infrastructure space which includes some of the large private and public sector companies in the energy and oil sector (Opcos) and

2. Special Purpose Vehicles which are establishing, on a standalone, non-recourse basis greenfield projects in the infrastructure sector (ProjectCos)

Opcos are typically highly rated, well known household names which have relatively easy access to the capital markets. However, even Opcos have been unable to tap the largest and most liquid pool of long term debt finance available for funding their long term investments in the infrastructure sector, which is in the form of international bonds. International bonds can provide access to term financing (can be upto 30 year plus tenor) to an extent not available in the bank market and highly attractive pricing levels. However, on account of the extremely high incidence of withholding taxes applicable to bonds (close to 25% including surcharges etc) issued by Indian corporates to overseas investors, this market has been relatively untapped by infrastructure companies (with the notable exceptions of NTPC in 2006 and Indian Oil Corporation in 2010). The Government needs to consider relaxing the withholding tax levels for borrowings made by infrastructure companies. A good start has been made during the recent annual budget where the Finance Minister declared a reduction in withholding taxes payable for overseas borrowing by an infrastructure fund. However, the same withholding tax cap needs to be made applicable for borrowings by infrastructure companies too.

ProjectCos have traditionally borrowed only from the bank loan market, despite the insurance/ pension fund segment being fundamentally more suitable for investing in bonds issued by such ProjectCos. Insurance/ pension funds have not lent to project companies setting up greenfield infrastructure projects and the bond market has not matured sufficiently for addressing the needs of such projects. One of the key factors that have traditionally deterred infrastructure companies from investing in such Project Bonds is the low credit rating for such bonds (due to the "project"

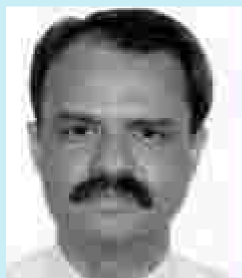
related risks attached to such bonds). In order to provide an impetus to such Project Bonds, it is imperative that a Project Bond Guarantee Company is established which could play the role of both the project assessor as well as provide a partial or full guarantee to debt issued by such ProjectCos. Such a role could also be added to the mandate of existing specialized infrastructure financiers such as IIFCL. Furthermore, other regulatory steps could include waiving of the rule pertaining to total debt investments of insurance companies not exceeding 20% of networth plus bonds, since most such ProjectCos would have a negative or negligible networth in the initial phase in the project lifecycle.

In addition to these steps, other systemic steps to boost capital flows into the infrastructure

sector would involve the setting up of the infrastructure debt fund, in line with recommendations of the Deepak Parekh committee on the proposed India Infrastructure Debt Fund. This fund is proposed to be set up and managed as a trust, with an intial corpus of Rs 50000 Cr, approved and regulated by SEBI under the modified venture fund guidelines, and managing debt with tenor of more than 10 years. By recommending a series of regulatory measures encompassing SEBI, RBI, IT, IRDA and PFRDA, it is expected that this fund would be able to bridge this financing gap successfully and allow both domestic and international capital market participants to provide funding to high quality assets in the Indian infrastructure sector. The recommendations of the committee are also in line with similar funds established across the world for financing infrastructure assets.

Till date, debt financing for infrastructure projects has been largely confined to banks that have difficulty in providing long term debt due to their asset-liability mismatch. In order to allow infrastructure projects with longer payback periods to access non-traditional funding sources

through the debt capital markets, the Government needs to proactively address the supply side factors constraining the delivery of such finance through the mechanisms highlighted above. This is critical for sustaining the growth momentum of the economy and resulting in the development of world class infrastructure facilities.



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Funding India's infrastructure

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McKinsey and Co.

India's infrastructure demand has been growing steadily over the last decade, with significant momentum built up in the last three-four years. The Government has set very ambitious plans for infrastructure investment over the next five years. At current plan levels, India will be one of the biggest destinations for infrastructure investments globally. However, there remains many structural constraints to growth of infrastructure, particularly from a funding point of view. Given the critical role of infrastructure in sustaining 9 percent + growth for the Indian economy, a number of actions will need to be considered to ease these constraints and facilitate adequate flow of funds to meet India's massive infrastructure requirements.

THE INFRASTRUCTURE OPPORTUNITY IN INDIA

India's infrastructure demand has grown steadily over the last decade. The mobile telephony market in India has been the fastest growing major market in the world, growing at over 60 percent CAGR in terms of number of subscribers between 2004 and 2010 and is currently at over 550 million subscribers. Air traffic has grown at 2x GDP between 2004 and 2010, while container traffic at ports has grown above GDP over the same period. The XIth plan represented a significant inflection point in terms of infrastructure investment: from 2008 until the end of India's Twelfth Five Year Plan (XIIth) in 2017, the government has committed to increasing gross capital formation from 5 per cent of GDP for the Xth plan to 8.5 percent by end of XI plan period

(FY 2012) and 11 per cent by end of the XII plan period (FY 2017). This translates to a total spend of INR 20 lakh crore during the XIth plan, with a further increase to INR 41 lakh crore during the XIIth plan.

Importantly, the policy framework and regulatory oversight for infrastructure has created an enabling environment for private sector investment. An estimated 30 per cent of India's planned infrastructure spend is projected to come from the private sector for the XIth plan. This represents an almost three-fold increase in the share of private and PPP investments in total infrastructure spend, relative to the Xth Plan. The government further projects that the share of private investment for the XIIth plan will reach 50 per cent, representing a further increase from the XIth plan. The banking system in India has evolved significantly in the past decade and supported the growth of infrastructure. Over the past decade, the share of bank credit to infrastructure has increased from <2 percent of total outstandings, to over 10 percent of total outstandings, a CAGR of nearly 50 percent between 1998 and 2010.

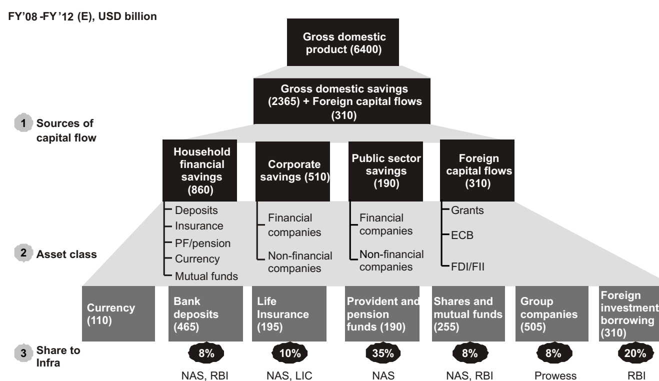
However, for all its progress, India still lags significantly behind other developed and comparable emerging markets, in terms of infrastructure development. Across sectors, there is a significant gap between demand and actual on the ground supply of infrastructure. The gap is particularly stark when compared to China. Between 2004 and 2008, the Gross capital formation in China was at 42 percent of GDP, as compared to 32 percent for India. This gap has been almost entirely explained by investment into real estate and infrastructure, where China is more than 10 percent points higher than India (at 21 percent of GDP vs. 10 percent for India). Further, India is heavily reliant on budgetary support and bank credit for funding its infrastructure needs. This is very different in China, where over 75 percent of infrastructure if funded through internal accruals and user charges.

LIKELY FUNDING GAPS

The plan targets for investment in infrastructure over the next few years are very ambitious and entail a step-jump increase over the current levels. However, there are likely to be constraints in terms of funding this massive investment in infrastructure. Based on current structure of macro-economic flows of capital, infrastructure investment in India is funded primarily by three sources - Budgetary support through issuance of Government securities (which are subscribed to primarily by the Pension and provident funds); Bank deposits and Foreign capital (through ECBs, FDI, FII).

EXHIBIT 1

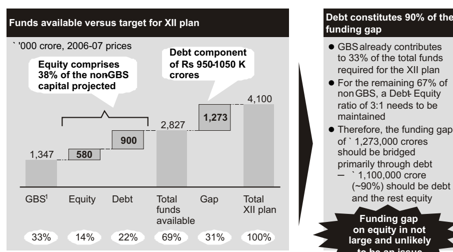
Structure of macro economic flows of capital into infrastructure investment



Based on the current sources of funding and expected trends, we estimate that there could be a short-fall of 30 percent in projected infrastructure investments over the XII plan period i.e. a gap of Rs 1,300,000 crore. A significant gap will need to be bridged through additional debt funding.

EXHIBIT 2

A significant part of the gap will need to be bridged through additional debt funding



1 Share of GBS computed using all savings flow to Government securities; Some of these securities will be those raised by agencies like NHAI and hence will fall under IEBR (is likely to be a small proportion)

SOURCE: Planning commission, RBI, IRDA, Prowess, NAS, team analysis

Of the total estimated gap of Rs 1,300,000 crore in terms of total funding, debt sources will need to contribute between Rs 950,000 crore and Rs 1,050,000 crore i.e. nearly 90 percent of the total gap. This shortfall will be the result of several barriers: asset liability mismatch and exposure limit issues for banks; the high pre-emption of funds from the banking system; investment restrictions on long-term savings mobilisers, namely insurance, pension, and provident funds; and the shallowness of the bond market. Current sources of debt funding will be unable to meet the gap and will require tapping into additional pools of capital.

POLICY ACTIONS FOR CONSIDERATION

The government should consider a series of policy measures to remove these barriers and steer more capital into India's infrastructure sector by debottlenecking flows from existing sources of capital and allowing new investor groups to enter infrastructure finance play. Some potential actions are outlined below

- Develop a robust bond market that will help channel more funds into infrastructure. From examples seen in the United States with municipal bonds and Malaysia with infrastructure bonds, bond markets have played an important role in channelling capital into infrastructure. Unfortunately, the bond market penetration in India is currently only 2 per cent of the GDP - significantly lower than other developing countries like China (8 per cent) and Malaysia (15 per cent). A number of policy changes have been initiated recently to help the growth of corporate bond market in India (e.g., enhancing the FII limit to USD 20 billion, introduction of repos in corporate bonds; introduction of interest rate futures which will support development of debt market; increasing clarification of regulatory jurisdiction). However, there is a need to address additional challenges to truly promote market development - particularly in terms of developing credit enhancement mechanisms, providing clarity on capital relief from securitision; addressing the "crowding-out" effect from Government securities; removing the bottlenecks on issuance and trading with respect to stamp duty, market making and 2 way quotes.

- Pro-actively target and facilitate investments from "large" global funds pools i.e. sovereign funds, Asian Central banks who have a relatively stable source and longer investment horizon

- Enable banks and infrastructure-focused NBFCs to direct funds to the

infrastructure sector in a more efficient manner. Potential actions which can be considered include allowing banks to raise tax free infra-bonds, provide CRR/SLR exemption to infra bond liabilities; review take-out financing guidelines (capital requirements, limits); review overall group exposure norms in context of infra lending

- Liberalise investment guidelines for insurance companies and provident and pension funds, so they can invest in or lend to high quality infrastructure SPVs. These measures, however, imply a higher degree of risk taking that will make the system more vulnerable to non-performing liabilities, and should therefore be done as part of a holistic reform/liberalisation of an insurance company's investment policy, rather than only for specific sectors such as infrastructure.

- Develop credit enhancement mechanisms for infrastructure loans and bonds to attract a greater share of insurance/pension funds. A financial institution like a bank can provide credit enhancements for loans and bonds; alternatively IIFCL's mandate can also be adjusted to participate as a credit enhancer of infrastructure loans/bonds. Since the 1990s, the US has seen exponential growth in rated project finance bonds, mostly issued as municipal bonds that have been a large source of infrastructure capital in the country. Moody's reports that the number of rated bonds increased from three to 600 between 1992 and 2009. A significant portion of these was insured by monoline insurers

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Mitigating the 30 per cent shortfall in India's infrastructure investment capital is imperative to maintaining India's unhampered growth over the next decade. Improved infrastructure means a better, faster flow of goods and services, and increased interest from investors across industrial sectors in India.

Renny Thomas
Partner
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Renny Thomas is a Partner based in the Mumbai office of McKinsey and Company and leads the Strategy cell for McKinsey's Asia-Pacific Financial Institutions Group and McKinsey's Strategy Practice in India

His experience over the last 13 years at McKinsey has included:

- In terms of clients, working with 30 leading institutions from across North America, Europe and Asia on issues related to strategy, organisation and operations
- In terms of markets, has worked in several markets across Asia - India, the Middle East, Singapore, Thailand, Indonesia, and Australia
- Has led several knowledge efforts and publications from McKinsey, including analyzing Growth in India over the last two decades and the Future of Banking in Asia

Renny has a B. Tech degree in Electrical Engineering from IIT Delhi and an MBA from IIM-Ahmedabad - both completed with honours.

Creating a viable bond market for infrastructure financing in India

Joseph Massey
Managing Director & CEO, MCX Stock Exchange

Given its large and young population and rapid economic growth, India's need for creation of infrastructure for sustained economic development is an essential element of its growth story. To cite an example, McKinsey Global Institute estimates that India will have to build 700-900 million square meters of residential and commercial space a year up to 2030 - equivalent to adding one Chicago every year, and build 350-400 km of metros and subways every year during the same period to make its growth story sustainable.

Although the importance of creating soft infrastructure was perceived even in the early years after independence, the significance of physical infrastructure for sustained economic development has been recognized and put into concrete policy action only in the last decade or so. Poor infrastructure has resulted in high transactions costs, wastages & inefficiencies, preventing the economy from realizing its full growth potential. The Eleventh Five Year Plan (2007-2012) envisages total investment in physical infrastructure (electricity, railways, roads, ports, airports, irrigation, urban and rural water supply and sanitation) to increase from around 5% of GDP in 2006-07 to 9% of GDP by the end of the plan period, 2011-

12. This translates into a cumulative investment need of about $542 billion during the Eleventh Plan period which is expected to increase to $1,000 billion over the Twelfth Five Year period. A steady rise in infrastructure investment spending is already visible, which has moved up from 5.4 percent of GDP in 2005-06 to 7.5 percent in 2009-10. Clearly, more needs to be done to speed up the investment and quicker turnaround of infrastructure projects to make our economic growth a sustainable process.

One of the biggest bottlenecks in infrastructure creation is its financing. The Deepak Parekh Committee (2007) on infrastructure financing noted that despite of large savings in India, there is serious dearth in the availability of long term funds in the medium to long term, inhibiting creation of adequate infrastructure. While the problems associate with the asset-liability mismatches would prevent banks from lending aggressively to the infrastructure sector, high cost of funding had kept the NBFCs away. The high magnitude of financial resources needed for creating sufficient infrastructure has to be financed through multiple financial products – equity, debt and various combinations of both, mobilized from diverse sources - non-bank finance, pension and insurance funds, foreign equity and debt, etc. Given the current fiscal compulsions of the government, it is the private sector which would need to mobilize and create infrastructure over the years. However, the share of private infrastructure investment is increasing only at a snail's pace, inching up from 2.2 percent of GDP in 2007-08 to 2.6 percent in 2009-10 and is expected to touch 3.3 percent by 2011-12. Evidently, more needs to be done to rope in the private sector in the infrastructure space – as much for creation, as for providing the flow of resources to finance them. The Parekh Committee made a host of recommendations for mobilizing private investment into long-term infrastructure related investments. These included distributing financial risk more widely and efficiently across the financial system – domestically and abroad; making infrastructure financing more attractive for a wide spectrum of investor/financier classes by providing more liberal regulatory regimes for infrastructure vis-à-vis non-infrastructure sectors and in some cases, offering well designed fiscal incentives; achieving this through a facilitating framework for each class of financing institution, while ensuring that accelerated investment in infrastructure does not jeopardize fiscal discipline; targeting foreign financial savings by inducing foreign investments into infrastructure; tapping the potential of insurance companies; utilizing foreign exchange reserves; facilitating equity flows into specialized infrastructure development companies etc. Despite the policy support that followed later, many of the problems in infrastructure financing remains the same.

Core issues in infrastructure financing

The core issue in inadequate finance in infrastructure is not inadequacy of savings, but inadequacy of instruments and institutions that can channelize the savings to the requirements. One of the biggest ironies of the Indian financial system is its lopsided nature, where only a few products (some of them of considerable sophistication) dominate, while some others lag behind. One of the surprising laggards in the Indian financial space is the class of corporate bond products. World over, the equity and derivatives market have followed a well-entrenched bond market in the economy. Yet, India, the fourth largest economy of the world (in PPP terms), with the savings rate as high as 37 percent, annual turnover of the equity market at Rs 55 lakh crores (2009-10), does not have a corporate bond market worth its name. SEBI data for corporate bonds during March 2010 shows a reported turnover of less than Rs.3,300 crores. Thus, while the market capitalization of Indian equities is 110 percent of GDP, the market cap for corporate bonds is just about 3 percent of India's GDP. The corresponding figure for Malaysia is 43 percent and Hong Kong 35 percent. Significantly, the share of corporate bonds in the total bond market is just 5 percent in India, compared with 45 percent in Malaysia and 52 percent in Hong Kong, implying that government bonds account for larger share in India – rendering it shallow and unattractive. Thus, in the absence of a deep capital market that can channelize resources from the savers to the investors requiring capital on a long term basis, viz. those in infrastructure financing, private efforts at mobilizing and deploying long term capital has been less than desirable except for those undesirable ways such as equities and bank debts.

What prevents the development of an active bond market in India?

Various experts have pointed to a number of causes behind the underdeveloped state of Indian corporate bond market. However, most answers to this question leads to the gamut of unaddressed issues in the regulatory realm of this market. The regulatory environment in India is unique in that the regulator, as an agent of the state, has a dual function over the entities it supervises: it ensures compliance with laws for ensuring a level playing field, while at the same time taking concrete steps for orderly development of the market. The regulatory institutions that are entrusted to do this also include self regulatory organizations (SROs) such as exchanges. In India, unfortunately, existing trading platforms are hardly seen taking much interest in developing the bond market. For instance, the cumbersome public issuance process, which is time-consuming, expensive and inflexible, puts off many a potential issuer of debt paper. The costs including those for fiduciary

agents, registration, rating agencies and bank fees is very high especially for issues of smaller amount. Yet, SROs have not taken any step to ameliorate such conditions.

The SROs and the Policy makers have to do much more to encourage issuance, investment and trading in innovative debt instruments, which may suit the preferences of many a market players. For instance, many of the developed countries have a vibrant market for sub-investment grade securities. But, in India

there is practically no scope for sub-investment grade securities because of the restrictions on insurance and pension companies from investing in low rated credits. Insurance and pension funds, who are ideally placed to hold such long-term assets matching their liability side, are

not allowed to buy into paper rated below AA. Moreover, the requirement that at least 65% of their assets need to originate in public sector companies further liquidates any scope for private sector to tap it. As such, many of them hold less than 10% of their corpus in private sector bonds, thus preventing the development of a vibrant corporate bond market. Worldwide, insurers play a large role in the corporate bond market; for instance, the US insurance funds hold roughly 45 percent of their assets in corporate bonds while in Korea the number is 40 percent. Similarly, while various kinds of structured bonds are available to suit investor needs in many countries, only fixed rate coupon bonds are allowed in India. With such lackadaisical approach of the SROs towards developing the corporate bond market, the overwhelming preference of corporate India is for issuing debts on private placements.

Addressing the issues

According to reports, in early 2007, the two biggest stock exchanges in India were mandated to develop a corporate bond market in India. The exchange trading platform was made available to market and it was expected that the exchanges would prime the market and bring more participation from all segments of the participants. The efforts made by them in this direction was neither visible nor is the end result of the same. It is high time that the institutions and policy makers join hands together for the development of the bond market. More investor awareness programs in different centers for enhancing retail participation and encouraging corporates to use this route for raising capital could be some of the means to achieve this end. There is also a dire need for further simplification of listing and disclosure requirements for corporate bond issuers, with a strict time frame to clear the applications. The SRO's could also explore market making in the corporate debt segment to facilitate price discovery and to provide liquidity in the market - on the similar lines of primary dealers in government securities. An active exchange traded market will also trigger greater activity in OTC market. Further, the importance of information flow cannot be overemphasized. Hence, there needs to be a mechanism that captures all the information relating to trades in

corporate bonds, disseminates the same and keeps a database of trade history. Various regulators should direct their respective regulated entities to report all the transactions done by them to the trade reporting system, in order to bring in transparency in the market and entice further participation.

Besides the above, various experts have called on the government to take a slew of pro-active market reforms to make the corporate bond market more attractive for infrastructure financing. These include credit enhancement in commercial banks, relaxation in the norms for insurance and pension funds to invest in corporate bonds and making it easier for primary dealers to participate in the bond market. Similarly, the current system of high haircut for repos on corporate bonds also needs to be replaced by a risk-averse yet more corporate bond-friendly regime. Another major irritant coming in the way of a large national bond market is the multiplicity of state-level taxes, such as stamp duty, on debt papers. In this regard, the (hopefully) introduction of a pan-India Goods and Services Tax (GST), replacing the panoply of state-level taxation is expected to infuse fresh momentum in this relatively sluggish segment of India's financial sector.

The Union Budget 2011-12 appears to have made a small but significant beginning in this regard. The Finance Minster's announcement to raise the FII limit for investment in corporate bonds, with residual maturity of over five years, issued by companies in infrastructure sector by USD 5 billion, is a positive signal for enhancing the flow of foreign funds to this sector. This will raise the total limit available to the FIIs for investment in corporate bonds to USD 40 billion. As many of the infrastructure companies are organised in the form of SPVs, this decision to permit trading in unlisted bonds as announced by the Finance Minister is expected to provide some impetus to the flow of foreign capital in the corporate bond market, and thereby to the infrastructure sector.

Emphasizing domestic resources

Implementation of a market-friendly policy regime, enhancing competition amongst SRO's to focus on debt segment and development of awareness about the corporate bond market in India, which, as argued, is a sine qua non for generating resources of the humongous scale that would be required for financing infrastructure growth given the vital role it plays in sustaining our growth process. However, too much reliance on foreign capital

may entail structural problems in the economy which may be difficult to mend. The East Asian financial crisis of 1997 happened largely due to the reliance of those countries on foreign capital to finance their economic growth. Therefore, in the end, it is the mobilization of domestic savings through appropriate institutional arrangements, policy regime, deep markets and suitable financial products of different risk profile and maturities in the way forward to create a sustainable mechanism for flow of resources to finance infrastructure requirements of our country. To that extent, public policy would do well to incentivize domestic resources through institution building, fiscal incentives, and

monetary measures for channelizing them towards a long-term savings market.

Joseph Massey
MD & CEO
MCX Stock Exchange

Mr. Joseph Massey is the MD & CEO of MCX Stock Exchange (MCX-SX). He is instrumental in formulating and implementing policies, procedures and best practices at MCX-SX, besides overseeing strategic operations and overall functioning of the exchange. Prior to MCX-SX, he was heading the operations of Multi Commodity Exchange of India.

Mr. Massey has over 20 years of diverse corporate experience and had stints at leading financial organisations such as Life Insurance Corporation of India, the Reserve Bank of India, Stock Holding Corporation of India, and the Vadodara Stock Exchange. Before joining MCX, he was the head of Interconnected Stock Exchange of India-a collaboration of 15 regional stock exchanges.

Mr. Massey is widely travelled and gains his rich experience from his visits to the world's top exchanges such as NYMEX, LME, CBOT, CME, NYBOT, CCX, EURONEXT-LIFFE, IPE, NYSE, NASDAQ, Philadelphia Stock Exchange, SEC, CFTC, LSE, Singapore Stock Exchange and DTC. He has also been a part of various committees of FMC, SEBI and the Government of India on various policy issues pertaining to commodities and securities market. He is also currently the chairman of South Asian Federation of Exchanges (SAFE), a regional forum of exchanges and regulated entities.

Infrastructure Financing - Opportunities & Challenges

S. Vishvanathan, Managing Director & CEO
SBI Capital Markets Ltd.

The Eleventh Five Year Plan (2007-2012) envisages total investment in physical infrastructure (electricity, railways, roads, ports, airports, irrigation, urban and rural water supply and sanitation) to increase from around 5 per cent of GDP in 2006-07 to 9 per cent of GDP by the end of the plan period if the targeted rate of growth of 9 per cent for the Eleventh Five Year Plan period (2007-12) is to be achieved.

Consistent with the above projection, the investment in physical infrastructure alone during the Eleventh Five Year Plan has been estimated to be about Rs. 20,02,000 Crore. The table below gives a brief snapshot of the requirement and the funding thereof.

Investment in physical infrastructure during the **XIth five year plan**	Rs. 20,02,000 Crore • Central Government 37.16%, • State Governments 32.76% • Private sector:30.07%	
Funding Sources	Non Debt: Rs 10,64,000 Crore	Debt Resources: Rs 9,96,000 Crore

The substantial requirement of debt resources would have to be financed through various sources including domestic bank credit, non-bank finance, pension and insurance funds and through the ECB route.

Opportunities:

While the planning commission has invited views and suggestion for the preparation of the approach paper for 12th five year plan (2012-2017), the government is projecting an increased outlay of $1 trillion on infrastructure in the 12th Plan.

Infrastructure	Deficit	Eleventh Plan Targets
Roads/Highways	• 65590 km of NH comprise only 2% of network;	• 6-laning - 6500 km in Golden Quadrilateral;
	• Carry 40% of traffic; • 12% 4-laned; 50% 2-laned; and 38% single-laned	• 4-laning - 6736 km NS-EW; • 4-laning 20000 km of National highways; • 1000 km Expressway
Ports	• Inadequate berths and rail/road connectivity	• New capacity: 485 m MT in major ports; • 345 m MT in minor ports
Airports	• Inadequate runways, aircraft handling capacity, parking space and terminal buildings	• Modernize 4 metro and 35 non-metro airports; • 3 greenfield in North East Region; • 7 other greenfield airports\
Railways	• Old technology; saturated routes; slow speeds (freight: 22 kmph; • passengers: 50 kmph); • low payload to tare ratio (2.5)	• 8132 km new rail; 7148 km gauge conversion; • Modernization of 22 stations; dedicated freight corridors
Power	• 13.8% peaking deficit; 9.6% energy shortage; • 40% transmission and distribution losses; • Absence of competition	• Add 78577 MW; • Access to all rural households
Irrigation	• 1123 BCM utilizable water resources; • Yet near crisis in per capita availability and storage; • only 43% of net sown area irrigated	• Develop 16 mha major and minor works; • 10.25 mha command area development;
Telecom/IT	• Only 18% of market accessed; obsolete hardware; • acute human resources' shortages	• Reach 600 m subscribers overall & 200 m in rural areas; • 20 m broadband connections; • 40 m Internet connections

Challenges in Infrastructure Financing

Introduction

With the increasing need for the development of infrastructure, the Government has taken several measures to facilitate the development of the infrastructure projects. Some of the major initiatives in the recent times are as follows:

- **Take-out financing arrangement through ECB Route**

RBI has recently permitted take-out financing arrangement through ECB, under the approval route for refinancing of Rupee Loans availed from the domestic banks by eligible borrowers in the sea ports, airports, roads including bridges and power sector for

the development of new project. It involves certain conditions relating to entering of tripartite agreement between the borrowers, and the overseas lenders, take out within three years of scheduled commercial operations, and average maturity of 7 years and other prudential norms.

Issues:

1. According to the scheme, the Project needs to sign a tripartite agreement upfront with domestic banks and overseas recognized lenders. It will be difficult for the foreign lenders to come to an agreement at the initial stage itself and hence assume the execution risk at the time of take out. Owing to this constraint, the domestic banks may not be able to get away with the long tenor loans leading to asset liability mismatch.
2. The scheme also specifies the condition that takeout of loans needs to be done within 3 years of COD. This constraint leaves the Project and foreign banks with little flexibility. The foreign entities may like to take out the loan with an average maturity of 7-8 years. The foreign lenders may desire to appraise the Project by looking at the cash flows of a Project which is running for a certain period and then assume the risk thereof. Such a condition, if omitted can help the banks manage their ALM more effectively and attract foreign lenders participation.

- **IIFCL's Take Out Financing Scheme**

In order to boost the availability of longer tenor debt finance for infrastructure projects, IIFCL recently launched its takeout financing scheme, aiming to take over Rs 3,000 Crore of banks' infrastructure loans.

The scheme can be used to effectively address Asset-Liability mismatch of commercial banks arising out of financing infrastructure projects and also to free up capital for financing new projects. The scheme evolved by IIFCL would also facilitate incremental lending to the infrastructure sector.

According to the scheme, IIFCL shall provide takeout financing to individual Lender(s) to the extent of 100% of the residual

amount of the loan on the Scheduled Date of Occurrence of Takeout after one year of the scheduled CoD with a minimum tenure of about six years, post the buy-out.

- **Credit Enhancement by IIFCL**: In a recent interview, Mr SK Goel, IIFCL chairman, had indicated that they are planning for credit enhancement facility to private bonds worth Rs 5000 Crore every year through guarantee mechanism with ADB acting as reinsurers for the guarantee provided.

- **Tax free Infrastructure Bonds**: Banks have been allowed to raise tax free infrastructure bonds, and the same qualifies for exemption under section 80CCF to the extent of Rs 20000 exclusively for investing in infrastructure bonds. Recently, two institutions have come out with bond issues with IDFC raising Rs 3400 Crore, and L&T to raising Rs 700 Crore. We expect IIFCL to raise Rs 1200 Crore in the near future.

Inspite of the initiatives taken by the government, there are certain issues which need to be addressed. Some of them are discussed below:

Common Issues

The common issues faced by Infrastructure Projects are as under:

1. **Re-definition of Priority Sector lending:** Development of infrastructure sector is beneficial not just to remove the structural bottlenecks but has many positive externalities such as sustainable employment generation (many projects in remote locations such as power projects), development of SSI industries near infrastructure projects etc. Considering the multiplier effect on the local economy, lending to infrastructure sector can be treated as priority sector lending.

2. **Infra projects with limited recourse to Sponsors to be excluded from definition of "Group Company":**

Infrastructure Projects are typically funded through SPV's on project finance basis with limited recourse to Promoters and security for the Lending is created primarily on a combination of project cash flows, project documentation and available project assets.

a. Some level of recourse is available mainly during the construction period and hence it is a matter for consideration whether during the construction period the advance should be excluded from the definition of "Group company”

b. However, given the fact that during the operating period, there is little or no support of the Sponsors, the advance during this period can definitely be considered for exclusion

from the definition of "Group Companies".

3. Permitting Banks to fund Domestic Acquisitions: Banks are allowed to extend credit/ non-credit facilities (viz. letters of credit and guarantees) to Indian Joint Ventures/ Wholly owned Subsidiaries abroad and step-down subsidiaries which are wholly owned by the overseas subsidiaries of Indian companies even for supporting foreign acquisitions.

    a. In the infrastructure sector many private developers with either running company or projects having achieved substantial developmental activities are willing to divest shares, most of them on account of lack of adequate funds to take the projects forward. In such instances except few large corporates, potential investors require funding over and above their own sources to acquire the shares being offered.

    b. RBI has not expressly permitted extending loans for financing of domestic acquisition other than government disinvestments, consequently many of these projects are unable to complete thereby roadblock in critical areas of the economy.

    c. The inhibition is apparently on account of section 19(2) of Banking Regulation Act which stipulates that banks cannot hold directly or indirectly or as a security holds shares worth more than 30%.

    d. The funding of acquisition by banks is a globally acceptable methodology. Considering the same, it is submitted that either relevant provision of Banking Regulation Act may be amended to remove the cap or collateral of shares in favour of Security Trustee may be permitted. In that regard, it may be mentioned that Banks collectively have been taking pledge or mortgage of even up to 100% through Security Trustee route in project finance transaction and same has not objected by RBI.

4. **Debt Financing**: The hurdles encountered in tying up the debt for the infrastructure projects are as under.

    - Exposure limits set by the banks put a ceiling on the lending capacity to infrastructure projects which have a high debt requirement.

    - Banks are needed to allocate 40% of the lending to priority sectors such as agriculture and small scale industries. The regulatory requirement for banks to place funds with RBI close to 29% of its liabilities further reduces the funds available for lending.

    - The current regulations restrict the banks from raising long-term bonds. Presently, only around a third of the bank deposits come from long term resources. Thus, banks have restricted the long term loans to certain proportion of the total deposits.

    - Bond markets in India have not yet developed

fully, which has resulted in over dependence by the project developers on the Commercial Banks for availing debt finance. Thus the resultant cost of debt is on a higher side as compared to global benchmarks.

- The interest rate ceilings set by RBI on ECBs put a constraint in availing foreign currency loans for domestic infrastructure projects. Presently, the all-in-ceiling interest cap is 500 basis points over the 6 months LIBOR. The quantum for raising ECB has also been capped at $500 million per Company per financial year. Hence a relaxation on the capping of ECB loan amount as well as the interest rate on such loans for Infrastructure Projects will facilitate the developers in raising the debt required for the financing the supply of equipments.
- Since infrastructure projects require financing with longer tenors (around 15 years), it leads to Asset Liability Mismatch for the Commercial banks which have a lower portion of their funds form long term sources. Some of the options to mitigate the same are provision of Take Out financing , raise money through long term bonds, setting up special investment vehicles with the help from Government which would lend to infrastructure projects with tenors more than 15 years, etc.

5. **Regulatory Approvals:** There is a substantial delay in obtaining the requisite statutory approvals for the Project. Further, the process of obtaining critical approvals like Environmental clearance and Forest Clearance is time-consuming. As the drawl of debt for a Project is subject to such obtaining the statutory clearances, any delay in the same impairs the Project schedule which may further lead to cost overrun. Recently, Vedanta's Aluminum project in Orissa has also gone through major environmental issues.

6. **Duties on imported equipments:** The upcoming Infrastructure Projects are dependent on imported equipments due to lack of timely availability of indigenous equipments. However, owing to the duties on imported equipments the cost of the Project escalates. A relief to the Infrastructure Projects may be given by relaxation of the prevailing norms for import duty on capital goods as is given to Mega Power Projects (Thermal power projects with capacity in excess of 1000 MW and Hydro Power plants with capacity in excess of 500 MW).

Sector-specific Issues

The Infrastructure Projects face generic issues like availability of long-term financing and obtaining regulatory approvals. However, some challenges faced are specific to the sectors. The sector-wise issues faced by Infrastructure Projects are as under.

A. Power

1. **Challenges of Equipment Supply:** Presently, the domestic equipment manufacturing sector is unable to supply more than 10,000 MW of equipments per year while China has a power equipment manufacturing capacity of the order of 70,000 MW per year. It has been observed that constraint in domestic equipment supply market and the higher lead time has forced the Power Project Developers to approach the Chinese manufacturers.

2. **Land Acquisition:** In numerous cases, acquisition of land for the Project by Developers has posed a problem which in the last two to three years has assumed much larger proportion. There have been instances where the Developers inspite of having spent considerable funds and time on development of the Project, had to move to another site because of extreme resistance and protest by the land owners and other local people. Many of the Power projects get delayed because of the non availability of land. Land acquisition and Resettlement & Rehabilitation was one of the major issues encountered in the Sasan Ultra Mega Power Project.

3. **Fuel Supply:** Securing a firm fuel supply for power projects is critical for the projects. It is estimated that the total Coal requirement for the thermal power plants shall be around 614 MT in the year 2013-14.The total domestic coal production is in India is expected to be in the range of 450MT thereby resulting in a deficit of around 163 MT of coal. In order to bridge this deficit, either captive mining needs to be done domestically or import coal from other coal producing countries.

   The allocation of coal linkage was done through the Standing Linkage Committee (SLC) (Long Term) in December 2009, after a gap of two years. The longer duration between two subsequent SLC meeting poses uncertainty on allocation of coal linkages to new projects. Hence such SLC should be conducted at regular and more frequent intervals.

   Around 89 coal blocks have been allotted to the Power Sector for captive consumption. However, only 14 of these blocks are currently under development. The delay in development of the coal blocks may be attributed to the time taken for obtaining the statutory clearances, approval of mining plan/approval and the resolution of issues in the Joint Venture Agreements for the coal block to be allocated jointly to two or more developers. Consequently, though the coal blocks have been allocated, majority of them are yet to be developed for mining of the coal resulting in the allocated coal blocks to remain unutilized.

   Due to the uncertainty in obtaining the coal linkage and unavailability of captive coal blocks, many of the thermal

power projects have to depend on the imported coal to ensure the power production. The imported coal is costlier as compared to the domestic coal plus the transportation charges involved are higher.

Further, large number of gas based power projects are facing similar crisis in terms of securing a long term gas supply for the power projects. Proper gas allocation policy needs to be in place to address such issues.

4. **Environmental Clearance:** Another major issue encountered by power projects is the obtention of the environmental clearance. Recently, it has been observed that local resistance/opposition to the coal based power projects has increased considerably resulting in the delay in the procedure for obtaining the environmental clearance.

5. **Availability of firm Power Purchase Agreement (PPA):** A firm long term offtake arrangement is considered essential for the debt tie up of the power projects. These power purchase agreements are being entered through case I bidding process, whereby the location of the project, fuel type of the project, fuel source or the technology used in the power plant is not specified, takes around a year to complete. Further, these case I biddings are not done frequently enough so that the power developers are able to tie up the power offtake with the distribution companies. Either the frequency of these case I biddings should be increased so that the power developers are able to bid for power sale and enter into firm long term PPA or the distribution licensees should be allowed to enter into power purchase agreements with Independent power developers without the bidding process. This shall allow the power developers to enter into a firm long term PPA with the distribution licensees which subsequently, mitigate the offtake risk to a large extent.

6. **Funding Issues for Wind/Other renewable Projects:** Wind Power Projects which are done by the Independent power producers for sale of electricity to the state grids are still in its infancy stage. Large number of issues plagues such projects, ranging from the problem of grid instability to the comfort of the lenders in financing such projects on Project Finance basis. The project cost for the wind power projects is on a higher side as compared to thermal power projects. Consequently, the debt servicing capability of the project is impacted. Further, in case of thermal power plants, lenders have recourse to project assets which would comprise of the building, land area, equipments, etc, however, in case of wind energy projects they have recourse to the wind turbines generators only. Also, till date very few wind power projects

have been financed on the SPV basis. Considering all these, it may be inferred that the lenders are not very comfortable with funding wind power projects on a non recourse basis.

Also, with respect to other renewable energy sources, it has been observed that the cost of generation of Power is very high (in case of solar power the cost / MW is as high as Rs 12-13 Cr/Mw) which inhibits the growth of such power sources.

Suggestions and Recommendations:

- Thrust on Power Sector Reforms.
- Banks to be allowed to increase Sectoral Exposure limit for Power sector. Alternatively, break the industry into thermal, hydel, Non Conventional energy etc.;
- In order to supplement the domestic resources, banks may be allowed to raise ECBs under the approval route and on-lend them to developers of Ultra Mega Power Projects, preferably with proper hedging as these projects do not provide natural export cover.
- Explicit exemptions would be needed in respect of stamp duty to encourage take out financing so as to enable lenders take long term position in power projects.
- Banks should be allowed to augment their capital base through innovative instruments as most exposure norms are linked to the bank's networth.
- MoF may be required to allow a structure where banks take up loans having tapering payment (major repayments in initial 10 years) whereas institutions like IIFCL/Insurance Companies etc. accept ballooning repayment (major repayments after 10th year). This would entail funding of a project in such a fashion that major portion of bank loan is repayable in initial years while major portion of IIFCL/Insurance Companies loans are repayable after 10 years. Such a structure would fit into banks ALM repayment when specialized institutions like IIFCL promoted for specific objective of priority Infrastructure projects lending can accept repayment which are back ended.

- Need to look into a short-term arrangement to meet the funds requirement for initiating the project till the project achieves the final financial closure.
- Inclusion of power projects especially Non-Conventional Energy (NCE) projects under priority sector lending by Banks;
- Viability fund particularly for hydroelectric and project at remote areas.
- Insurance Companies, Financial Institutions should be encouraged/provided incentives to invest in longer dated securities to evolve an optimal debt structure to minimize the cost of debt servicing. This would ensure lowest tariff structure and

maximum financial viability. Option of a moratorium for an initial 2 to 5 years may also reduce tariff structure during the initial years.

B. **Ports**

1. **Provision for exit in Concession Agreement:** Current concession agreements require that the consortium shall have 51% equity stake until 3 years post COD and atleast 26% thereafter. The Lead Member shall require to hold atleast 50% of the Consortiums Holding. External equity infusion though permitted by the Concessioning Authority, becomes difficult to avail as most external PE players invest considering a time frame of 7-8 years. Hence, financing structures having exit mechanisms for one or more equity participants becomes difficult to arrange.

2. **Container Freight Station (CFS):** Currently a CFS is not entitled for the tax benefits available to infrastructure projects as they are not classified as an inland port. Thus, they do not categorically fall under an infrastructure project as a result of which

financing of such Projects for long tenors becomes difficult. Lenders may allocate a cheaper source of funds for such proposals to facilitate investment in the sector.

3. **Maritime Boards:** Currently there are only 3 maritime boards in states of Gujarat, Maharashtra and Tamil Nadu. Formation of State Maritime Boards will facilitate and expedite resolution of issues pertaining to various key clearances/approvals and transfers of titles. E.g. In case of Gopalpur Ports, though the State PCB had given its NOC and recommendation to MoEF, the recommendation from Orissa State Coastal Zone Management Authority was delayed. In states where maritime boards are present, all these clearances shall come under single window thererby considerably reducing the time taken to obtain such clearance.

4. **Foreign Direct Investment norms:** The Government is exploring the possibility of reduction in cap for FDI in the Port Sector owing to the concerns on National Security. This is expected to adversely impact the investment prospects of the sector. However, since the Government has a Right of Refusal to the grant of concession to a particular consortium due to security concerns and the same may be exercised on a case-to-case basis, the Government may reconsider its proposition of reducing the FDI cap for the sector. Recently, a consortium for Vizhinjam Port was denied concession on account of security concerns by the Government.

C. **Telecom**

Financing of Telecom Projects is affected to a great extent by Regulatory framework in place. However, due to ambiguity in policies formulation, financiers tend to

be cautious on some fronts. A few of the issues we have faced are -

1. **Municipal clearances:** While rolling out passive infrastructure, clearances are required to be sought from Municipal authorities in each city which is very time consuming and leads to inadvertent delays in the project. Setting up of a Single Window Clearance system would streamline the process and bring down the implementation time.

2. **Environmental clearances:** Environmental clearances are required for setting up of Passive Infrastructure due to concerns about radiation, etc. There are no uniform guidelines in this regard as Standing Advisory Committee for Frequency Allocation is yet to put forth a clear policy detailing the clearance requirements.

3. **Time lag in implementation of approved policies:** There is a distinct time lag between the announcing of policy by DoT and implementation of the same, as seen in the case of the 3G auctions and Mobile Number Portability. Operators, despite drawing up business plans, are hindered in approaching financiers due to delay in implementation of the said policy which leads to hurdles in obtaining financing for the project

4. **Inadequate availability of spectrum to telecom operators:** Spectrum is scarce in certain circles like Delhi due to non-vacation of spectrum by Defence Forces. Telecom Operators wishing to provide services in these circles are prevented by lack of spectrum, leading to loss of potential revenue as these circles are very lucrative. As per a TRAI consultation paper on MNP, authority has projected the wireless subscriber base till 2014 on CAGR to 1093 million, which needs to be addressed on per service area basis. TRAI also came out with a consultation paper in October 2009, on the overall spectrum management issues.

As per this paper, a total of 582 MHz (appox) of spectrum in various bands will be required to be made available for mobile and broadband wireless services in next 5 years. However, out of 1161MHz of identified spectrum, a minimum of 287 MHz and a maximum of 454 MHz (approx.) is presently available for commercial usage. The defence forces have been using spectrum in the 2.1 GHz band, which they are refusing to vacate in the absence of alternate spectrum being made available to them.

The Indian cabinet has recently passed a proposal for building an Optical Fibre cable network, a project worth Rs.9,000 crore; which the defense forces will shift to and will be able to vacate the 2.1 GHz band. The vacation of the spectrum is expected to take place by August 2010.

5. **M&A norms do not facilitate value creation:** The current hyper-competition amongst existing players has led to tariff wars, thereby making the financing of new operators unattractive to financiers. Consolidation as

a means to combat hyper-competition through Mergers and Acquisitions is currently not attractive due to various clauses such as three year equity lock-in period and lack of clarity on spectrum available to the consolidated entity, thereby non-facilitation of value-creation.

6. **Tenure of passive infrastructure financing:** Passive infrastructure financing warrants tenure of greater than 10 years. While longer tenures are prevalent in non-telecom infrastructure financing in India and abroad in the form of re-placement financing, the same has not been seen in this sector due to lack of precedent

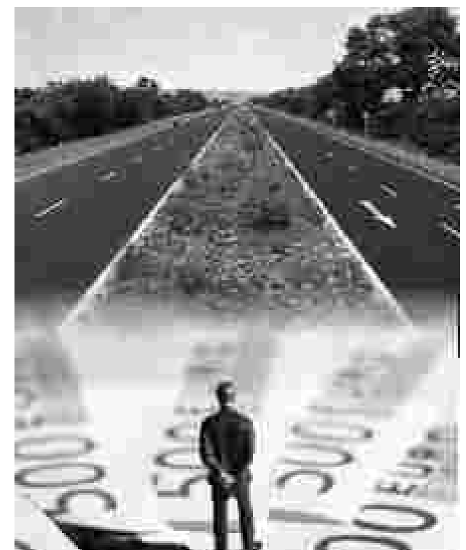
7. **Security clearance in case of foreign vendors:** There is an ambiguity on the clearances for Telecom Equipment Suppliers based out of China, etc as also for operators/service providers such as Telenor, Telecordia, Batelco and Orascom due to the security concerns owing to their network footprints in Pakistan, Bangladesh. While security clearances are required from DoT because of nationality of vendor or operating footprint of service provider, there is no clear-cut directive enabling financiers to take a decision regarding loans to importers of equipment/operators.

8. **Delay in security creation:** Telecom Licenses are generally the primary security available to lenders. The Security Creation for Telecom Operators entails execution of a tripartite agreement between Operator, Lender and DoT. Due to delay from the DoT in execution of said agreement, project loans to Telecom Operators tend to be treated as clean loans, thereby creating concerns from Lenders.

D. Roads

1. **Classification of Loans:** Highways are public goods and no charge can be created on these. It has no characteristics of an acceptable security for lenders. Without there being a tangible security, as per RBI norms, lenders have to classify loans to highway projects as 'unsecured'. Though some lenders have taken a liberal view and classify these as secured, technically it cannot stand audit scrutiny. B. K. Chaturvedi Committee on NHDP; in their first report in November 2009, has tried to address this issue by making an explicit provision in the Model Concession Agreement (MCA) permitting lenders to create a charge on Escrow Account to the extent permissible as per their priority in the 'waterfall'.

In the 2nd report submitted in March 2010, the Panel has recommended to the Ministry of Roads, Transport and Highways to start conversations with the



RBI seeking escrow and substitution agreements as valid security. RBI's approval on the same may facilitate the process of debt tie-up and accelerating the financial closure of such projects.

2. **Differences in Total Project Cost:** The Total Project Cost (TPC) as per the Concession Agreement is generally lower than the one evaluated by the Lenders/ Concessionaire. Since the termination payments are linked to the TPC as per the Concession Agreement, there may be a possibility of shortfall in payments in the event of such termination. An increase of 10%-20% in the TPC by the National Highways Authority of India (NHAI) in the recently offered projects is a welcome step. Further, linking the termination payments to TPC as per the financing agreements will provide the comfort to the Lenders/ Concessionaire.

3. **Termination due to Concessionaire Event of Default:** Presently, no termination payments is payable by NHAI in case of termination due to Concessionaire default during the construction period. Further, 90% of the outstanding debt is covered in case of the Concessionaire's default during operational period. This perceived risk of the Lenders may be mitigated by protecting the entire debt outstanding in all events of termination.

S. Vishvanathan
MD & CEO
SBI Capital Markets Ltd.

Mr. S. Vishvanathan joined SBI Capital Markets Limited (SBICAP) as Managing Director & CEO on the 22nd June 2009. Prior to this he was Chief General Manager of the North Eastern operations of State Bank of India (SBI).

Mr. Vishvanathan joined SBI as a Probationary Officer in 1976 and has served the Bank in several capacities in Wholesale Banking, Retail Banking, Global Markets and International Banking.

As General Manager Global markets, Mr. Vishvanathan had extensive exposure to Debt, Foreign Exchange, Equity and Derivative Markets both at the Domestic as well as International levels.

As Regional Manager, Mr. Vishvanathan was responsible for running a cluster of 50 Branches largely covering retail products. Mr. Vishvanathan has at different points during his tenure in the Bank's International Division and Treasury been responsible for initiating the State Bank into Derivatives and Structured Products and for building an infrastructure to market them to the Bank's clients.

In his assignment at New York Branch of the Bank, Mr. Vishvanathan has worked in the Foreign Exchange and the Debt Markets as a Dealer.

In his present assignment as MD & CEO, SBICAP Mr. Vishvanathan heads the Investment Banking arm of SBI. SBICAP is active in the Debt, Equity, Private Equity and M&A Segments and has been rated as the No. 1 Project Debt arranger globally by Dealogic and Reuters Thomson for the CY 2009.

Scaling Up Indian Infrastructure – the imperatives

Hemant Kanoria,
Chairman & Managing Director, SREI Infrastructure Finance Ltd.

India has been clocking an average annual GDP growth of 8% plus for more than half a decade now. In order to sustain this growth momentum and to achieve the much coveted double-digit growth, the country's physical infrastructure has to play a pivotal role. For a moment if we compare ourselves with China, we lag way behind. The argument may be that because we are a democracy, therefore it is not easy. While the argument is true, because we are democracy, therefore it has to be a more thought through and inclusive process, which would be beneficial to all.

Every country, at some juncture, reaches a point where it needs a quantum jump in infrastructure. According to me we crossed that stage few years back, but that intended thrust to infrastructure addition did not happen. It is not that the Government is not aware of the infrastructure deficit, but somehow because we do not plan meticulously the implementation procedure as a result of which our infrastructure implementation is hardly able to cope with the desired growth objectives. In the process, we are perhaps compromising a 1% or more of GDP growth every year.

In India, the Five Year Plans (FYPs) form the basis of resource allocation. As per the Eleventh FYP (2007-12), infrastructure sectors demanded a total investment of USD 514 billion during that period of which 30% was to come from the private sector. The Twelfth FYP (2012-17) projections have almost doubled the infrastructure investment to USD 1025 billion and the private sector is to provide 50% of that. Worldwide, government has been the dominant player in infrastructure creation. In India,

the Government has taken the right step and promoting private sector investments in this field. As per Eleventh FYP figures, there has been active private participation in sectors like telecom, ports, airports and electricity generation.

The Challenges

However, for private sector to implement infrastructure projects, attention has to be given on regulations which would ensure project viability and address hurdles. Often discontinuous and inconsistent thinking leads to time and cost overruns thereby rendering many a project unviable. The issue of user charges has plagued sectors like power, urban water supply, irrigation, etc. Land acquisition has emerged as the most sensitive issue. Without a comprehensive policy that takes care of the resettlement, rehabilitation and compensation of the displaced, all projects that involve acquisition of land are likely to get mired in protests and legal tangles. Environmental clearances are also emerging as a major hindrance. Often there is a major lack of co-ordination between the State Government and the Central Government. There are inter-department / inter-ministry co-ordination problems as well. With regulations not fully thought through, there are frequent changes in policies which pose a serious risk for private investment. Shortage of skilled and semi-skilled manpower is emerging as another serious issue.

And over and above these, there are the financial challenges. On the debt front, corporate bond market remains underdeveloped. There is too much reliance on commercial banks for infrastructure loans. 80% of infrastructure projects are financed by public sector banks. Since such projects usually have long gestation periods of 10-15 years and bank deposits typically have tenures of 3 years or less, this creates asset-liability mismatch problem for commercial banks. As it is, banks are exhausting their prudential limits in terms of sector, borrower and project exposures. Long-term resources at fixed interest rates are scarce. Floating rate loans with short reset periods escalates cost through higher interest burden, especially in a rising rate regime. While insurance companies and pension funds are repositories of huge amount of

long-term funds, ideal to match infrastructure project tenures, these entities are apprehensive of taking exposure in such projects. Insurance Regulatory and Development Authority (IRDA) guidelines stipulate insurance companies to invest in AA rated infrastructure projects or projects backed by government guarantees, whereas infrastructure projects are typically rated BBB. Provident funds are allowed to invest only up to 15% of their funds in private sector securities. In addition, a sovereign credit rating of BBB- (Standard & Poor's) acts as a dampener for attracting investments from foreign funds. On the equity front, 70-80% of the equity comes from project developers. They are however reluctant to invest directly in Special Purpose Vehicles (SPVs) for Public Private Partnership (PPP) projects due to concession agreement restrictions on sale of developer's equity. Of late, there has been a rising level of interest

of Private Equity (PE) players in infrastructure projects. PE players are actively investing in sectors like road and power generation and also taking exposures in port and airport projects.

Way Forward

This combination of non-financial and financial issues has greatly thwarted infrastructure creation. But with concerted efforts such roadblocks can be overcome. To start with, there has to be an Infrastructure Vision for the country. The leadership should come from none other than the Prime Minister himself. The idea of a National Development Council for Infrastructure was mooted more than a year back. This body, to be chaired by the Prime Minister with all Chief Ministers participating, will have the mandate to improve Centre-State coordination and set the overall Vision for the country. This body has to be supported by another apex body which should ideally be chaired by the Cabinet Secretary and have all the Chief Secretaries of the States as its members. The mandate of this body would be to address all implementation bottlenecks on a war footing. Such a mechanism needs to be put in place on an urgent basis.

The issue of land acquisition must be addressed urgently and involvement of Government (Centre and the States) is a must in such a sensitive issue. Solutions regarding land matters are possible by using scientific methods to identify land banks, master-planning of activity zones and provisioning essential infrastructure namely transportation links, energy supply, water supply, etc. Regarding environmental clearances, Central Government has to play a key role in getting clearances.

The specific ministries need to be evolve a robust mechanism for getting private sector feedback on draft regulations and policies in order to avoid frequent changes later. The ministries should also endeavour to set up autonomous sector-specific regulatory bodies.

As regards scaling up of human capital, it is not possible for either the Government or the private sector to tackle this matter alone. The two must co-operate and evolve construction-focused vocational training modules and implement it on a pan-India basis. Government should actively consider allowing FDI at least for higher education and specialized technical courses. There is a need to undertake a 'Train the Trainers' programme where it is imperative to involve industry experts to upgrade skills of the present faculty. Bringing in foreign experts through tie-ups with overseas specialized training and education institutes should also be considered. Scholarships can also be extended to meritorious students as well as faculty so that they can go abroad, upgrade their knowledge and then return to disseminate that knowledge thereby expanding the base for trained professionals. Following the example of Haryana Government, training institutes may also be allowed to register as not-for-profit societies so that private sector has an incentive to set up more training institutes.

Regarding addressing the funding problem, while developing a long-term corporate bond market may take some time, one way to immediately address the issue, although partially, is to tap the huge domestic household savings. Government has introduced tax incentives so that a part of that savings can get channelized into infrastructure investment. However, the quantum of investment per individual per year has been limited to Rs. 20,000. Taking a conservative estimate that only 50% of India's 34 million tax-payers invest in such scheme, this would lead to resource generation to the tune of USD 8 billion per annum, when the required annual infrastructure investment as per Twelfth FYP would be at USD 200 billion. The annual cap should be raised to at least Rs. 50,000 so that resources to the tune of USD 20 billion can be generated. If at least 10% of the annual requirement can be raised from domestic savings, that would boost infrastructure creation. Also, as of now specific entities namely Infrastructure Finance Companies (IFCs) are allowed to issue such infrastructure bonds. Since commercial banks constitute the major source of infrastructure loans, such banks should also be allowed to issue such loans. The bonds issued by IFCs this fiscal have received a mixed response. One reason for that is the infrastructure bonds have a minimum lock-in period of 5 years and are offering an interest rate mostly lower than that offered by fixed deposit schemes with lesser tenures offered by commercial banks. In order to make investing in infrastructure bonds attractive, Government may consider making the interest earning from such bonds tax-free.

Government, along with RBI, must explore possibilities of evolving a mechanism that would improve credit rating of infrastructure SPV bonds so that players like insurance companies and pension funds are encouraged to subscribe to such bonds. Also it remains to be seen whether Government will relax guidelines to allow insurance companies to invest in bonds with less than AA rating. At least these institutions may invest after the Commercial Operational Date when the construction risk of the project is over. Such steps will go a long way in evolving a vibrant corporate bond market.

Government would also have to work towards developing

Instruments like securitization, credit derivatives, credit insurance, etc. in order to enhance the sophistication and maturity level of the bond market. Securitisation has huge potential for sectors that are capable of generating steady revenue streams e.g. power, road, port, airport, water supply, etc.

Since infrastructure developers can tap external commercial borrowings (ECBs) under automatic route, it makes little sense to allow IFCs to access ECBs under the approval route. The end objective for both entities is the same. Also, IFCs are allowed to raise up to 50% of their net owned funds from ECB for on-lending to infrastructure projects. Since speedy infrastructure creation is the need of the hour, the borrowing cap needs to be relaxed.

Since PE funds are making some progress in infrastructure investing, guidelines need to be fine-tuned in order to facilitate

channelising of foreign investments into infrastructure through PE funds.

Some initiatives have already been taken. The Viability Gap Funding (VGF) mechanism to enhance financial viability of competitively bid PPP project is one. India Infrastructure Finance Company Ltd. (IIFCL) has been set up to provide long-term debt with average maturity of 10 years or more. It can provide subordinate debt. It can also extend refinance to banks ad other eligible financial institutions for their loans to infrastructure projects and extend take-out finance thereby addressing the asset-liability mismatch problem of lender commercial banks to some extent. The UK subsidiary of IIFCL is also mandated to provide foreign currency loans to infrastructure projects in India. RBI is also allowing take-out financing of rupee loans through ECBs.

Conclusion

Our Government is presently in a situation where it has very little fiscal headroom to allocate greater resources for infrastructure. There has been pressure on both international domestic fronts. Rising oil prices are impacting prices of both petro-products and fertilizers. Insulating the consumer and especially the farmer from this implies a rise in the subsidy bill. A persistent high food inflation, which is a result of supply-side factors, is being countered with monetary tightening. Subsidies on account of food, fuel and fertilizer subsidies are on the rise, which implies that either Government will have to borrow that extra money from the market or it has to dig into resources earlier allocated for productive investments like infrastructure. With Government's hands tied, the private sector is being accorded a larger responsibility.

However, India is presently in a peculiar situation where long-term funds are available and interest rates are rising continuously. In such a scenario, to get private investment in infrastructure Government would have to go the extra mile in acting as a facilitator cum guide for the investor, both domestic and foreign. Government would, in fact, have to actively consider every possible avenue of accessing foreign fund sources. If India is serious about fast-tracking infrastructure creation, Government would have to undertake financial reforms so that our financial markets become equipped to meet our infrastructure needs.

Hemant Kanoria
Chairman & Managing Director
SREI Infrastructure Finance Ltd.

Mr. Hemant Kanoria is the Chairman and Managing Director of Srei Infrastructure Finance Ltd. Srei was started in 1989 and has been engaged in the infrastructure sector since the last twenty two years, being among the first few private players to enter this area in India. Beginning as an equipment financing company, Srei has evolved into a holistic infrastructure institution offering a wide spectrum of infrastructure products and services ranging from financing equipment to projects, project advisory, fund management, investment banking and project development & management.

Srei's shares are listed on all major stock exchanges in India and also in London. Srei's equipment financing business is through a joint venture with BNP Paribas, presently the largest global bank. Srei's telecom tower infrastructure business, world's largest independent telecom tower company, is a joint venture with the reputed Tata Group of India. Srei Sahaj, the largest rural IT infrastructure company with 28,000 centres catering to about 280 million people, provides various B2C and G2C services including e-learning courses. With an employee-strength of more than 7,200 in the group today, it has a total asset base of about USD 9 billion.

Mr. Kanoria is the Chairman of National Committee on Infrastructure of FICCI and has been on the Board of Governors of Indian Institute of Management (IIM) - Kolkata, Member of Regional Direct Taxes Advisory Committee, Government of India and President of Calcutta Chamber of Commerce among others.

Indian Economy – An Update

GROWTH

The Indian economy has emerged from the slowdown caused by the global financial crisis from 2007 to 2009. With growth in 2010-11 now estimated at 8.6%, the turnaround has been fast and strong. While growth appears to be comfortable having moved back to the pre-crisis trend, inflation pressures are however yet to abate.

Eight rate hikes since last March, with more on the way, have failed to bring inflation under control that topped expectations at 8.3% in February 2011. The hikes have however dampened demand and worsened an investment climate already clouded by bureaucratic delays, corruption scandals and supply side bottlenecks. Moderation in the domestic economy, particularly in the industrial sector, is likely to dampen appetite for domestic assets. Sluggish investment, in addition is slowing the addition of much-needed infrastructure and industrial capacity in the economy.

The RBI on 17th March, 2011 met for its mid-quarter review and raised its repo and reverse repo rate by 25 bps each (to 6.75% and 5.75% respectively) along market expectations.   According to the RBI "Continuing uncertainty about energy and commodity prices may vitiate the investment climate, posing a threat to the current growth trajectory". Thus, RBI's rate hiking cycle in FY12 is now likely to be more extended than initially anticipated but is also likely to be far more front-loaded in an uncertain macroeconomic environment.

INFLATION

WPI inflation still remains above the RBI tolerance level and

further monetary tightening is on the cards. Inflation is no longer a play on food prices - it has somewhat rapidly become a more generalized phenomenon. While the consensus forecast for the month of February was 7.8 %, the headline number printed at 8.3 %. This divergence came as a rude shock to the market.

While food inflation has moderated, the non-food components have more than compensated keeping primary articles inflation on the whole fairly robust. More importantly, core inflation has hardened clocking 6 % on a Y-o-Y basis in February. The sequential or M-o-M numbers are a tad more alarming -the February core index was 1.6 % higher than in January. The current hardness in inflation comes on the back of core inflation that suggests strong demand pressures that exert their own influence on prices and abet the pass-through of international commodity price pressures. The signals are not clear whether core inflation is caused by more general demand pressures, which would best be addressed with more aggressive policy tightening, or by second round effects of earlier food and commodity price shocks, for which the current monetary policy stance is likely to be adequate.

March inflation is expected to print near the February level (close to 8 %). With fuel price changes over the next few months, average for H1 FY12 is expected to be over 8 %. RBI is expected to yet again hike its repo and reverse repo by another 25 bps in its Annual review in May and this is likely to be followed by 50-75 bps of rate increases through the fiscal year.

INDUSTRIAL PRODUCTION

Series of hikes in repo and reverse repo rates have had a visible impact on the Industrial production numbers, which have decelerated substantially in recent months. There is also a lot of nervousness in the market given the global developments. The RBI in its latest review warned of weak investment conditions. Industrial output rose just 3.7% in January, its strongest in three months. Investment in India grew just 6% in the December quarter, far behind the 18% growth in the six months through September, according to Citigroup.

FICCI's two most recent surveys viz. Business Confidence Survey and Manufacturing Survey have

pointed towards weakening of business confidence and projected a moderation in industrial growth as a consequence of rising cost of finance and rise in prices of other important raw materials. FICCI hopes that going ahead RBI would fine tune the monetary policy taking full cognizance of Industry's concerns and will act in concert with the government to address both the demand and supply side issues that are contributing to inflationary pressures becoming broader based. The government will have to focus urgent attention to addressing supply side constraints and improve the investment environment.

EXCHANGE RATE

The INR started 2011 on a weak note and has emerged as one of the main underperforming Asian currencies on the block. Initially, concerns over the prospect of domestic monetary tightening adversely impacting growth weighed on domestic equity performance and flows. However, flows into the debt markets in January and other 'non?portfolio' flows??? ECBs, FDI?? and the like appeared to have counterbalanced this in the subsequent weeks.

The benchmark Bombay share index has tumbled 12%, making it the worst performing major stock market in Asia along with Japan, where the recent tsunami ensuing nuclear crisis threatens to add to a broader global environment of risk aversion, this is having obvious implications on risk appetite possibly driving the INR lower.

Further, tighter domestic monetary policy is projected to weigh on domestic growth prospects putting a downside risk to 9% GDP growth forecast for FY12 subsequently undermining the INR. Despite weak equity sentiment and underperformance, absolute depreciation in the INR has been moderate, the USD/INR pair is expected to remain ranged in 44.80?45.76 region as concerns over domestic growth and inflation are moderated by the recent fall in oil prices and expansionary US monetary policy. Global crude oil prices and developments in the MENA region will likely emerge as important factor that is likely to drive the INR in the medium term.

FOREIGN INVESTMENTS

The drop in FDI inflows to $17.08 billion during the ten months of the current fiscal from $22.96 in the corresponding period (April-January) of the previous financial year is attributed to the financial troubles in several European economies. With slowdown in Foreign Direct Investment by 25 %, India's dependence on Foreign Institutional Investor inflows has increased this fiscal.

Moreover, the gap between the FDI and the inflows from FIIs, has grown to $14 billion in 2010-11, according to the latest official data. While FIIs invested $31.03 billion during April- January 2010-11, India received FDI of $17.08 billion during the same period, showing a gap of about 45 % between the two. In 2009-10, the difference between FII and FDI was only $1.9 billion. However, in the previous years of 2007-08 and 2008-09, FDI inflows were way ahead of the money coming through the share market. FDI flows are likely to improve mildly in FY12 from the previous fiscal year. Due to the low interest rates in G?3 economies, domestic

economies are likely to continue their dependence on external loans to meet their funding needs

FOREIGN TRADE

India's exports during January, 2011 were valued at US $ 20605 million (Rs. 93534 crore) which was 32.4 % higher in Dollar terms (30.8 % higher in Rupee terms) than the level of US $ 15557 million (Rs.71500 crore) during January, 2010. Cumulative value of exports for the period April-January 2010 -11 was US $ 184632 million (Rs 842063 crore) as against US $ 142740 million (Rs. 680382 crore) registering a growth of 29.3 % in Dollar terms and 23.8 % in Rupee terms over the same period last year.

India's Imports, which were hit by the crisis, have recovered sharply with high positive growth since December 2009. The ascending trend in imports has continued. India's imports during January, 2011 were valued at US $ 28587 million (Rs.129764 crore) representing a growth of 13.1 % in Dollar terms (11.7 % in Rupee terms) over the level of imports valued at US $ 25267 million (Rs. 116127 crore) in January, 2010. Cumulative value of imports for the period April-January, 2010-11 was US $ 273598 million (Rs. 1248141 crore) as against US $ 232582 million (Rs. 1107732 crore) registering a growth of 17.6 % in Dollar terms and 12.7 % in Rupee terms over the same period last year.

OVERALL BALANCE OF PAYMENTS POSITION

Although the country's current account deficit (CAD) has been kept under check due to large capital flows coming through the FII route, but the quality of the inflow remains an issue. "It is necessary to focus on the quality of capital inflows with greater emphasis on attracting long-term components, including FDI, so as to enhance the sustainability of the balance of payments (BoP) over the medium-term," RBI had said while expressing concerns on the decline in FDI.

In its mid-quarterly policy review, the RBI had estimated the CAD for 2010-11 at around 2.5 % of the country's Gross Domestic Product (GDP). It is expected that CAD (Current Account The trade deficit for April - January, 2010-11 was estimated at US $ 88965 million which was lower than the deficit of US $ 89843 million during April -January, 2009-10. The net balance of payments position is likely to remain strained as net capital flows struggle to match the deterioration in the CAD because of rising oil prices. Any crisis is unlikely as there are adequate forex reserves to cover both the imports bill and external debt.

Banking Sector

1. The RBI in February allowed public sector banks to expense their pension and enhanced gratuity liabilities over five years. This would also spare them from taking a one-time blow on their profits and net worth due to new accounting norms. The provisioning for the enhanced amount will begin from the current financial year ending March 2011. However, the banks will have to amortise at least one-fifth of the total amount every year.

2. The RBI is considering setting-up a panel to study the slowdown in foreign direct investment (FDI) in the country. The panel would suggest ways to encourage FDI. India received less foreign direct investment in 2010 than the previous year, courtesy a modest recovery in the global economy which reduced the risk and expansion appetite of corporates across the world.

3. The RBI in March said it has put off implementation of its guidelines on compensation including salary for CEOs and other top officials in private and foreign banks till 2012-13. This is to provide more time to banks to formulate their policies. The guidelines were originally slated for implementation from 2011-2012.

4. The RBI is in favour of allowing foreign institutional investors (FIIs) in the credit default swap (CDS) market for corporate bonds when the product is launched. However, FII participation should be restricted only to buying credit protection to hedge their credit risk, says RBI. They have been kept out of the category of 'market makers,' who are permitted to quote both buy and/or sell CDS spreads.

5. The RBI has formed a working group to examine issues pertaining to the regulation of non-banking financial companies (NBFCs). The group will be headed by former Reserve Bank deputy governor Usha Thorat. The group would deal with emerging issues concerning the definition and classification of NBFCs, regulatory gaps and arbitrage, maintaining governance standards and appropriate approach to NBFC supervision.

6. The RBI has allowed interest rate futures (IRFs) trading on 91-day Treasury Bills (T-Bills). Since the time of inception, volumes have remained thin in IRFs on 10-year gilt as they were considered illiquid by market players. Thus, the introduction of IRFs on Treasury Bills will help develop the market. The final settlement price of the contract shall be based on the weighted average price or yield obtained in the weekly auction of the 91-Day Treasury Bills on the date of expiry of the contract.

Capital Markets Sector

1. Market regulator SEBI sought to give more teeth to its new guidelines on dissemination of news by market intermediaries by holding compliance officers of such firms liable for breach of duty in case of a failure to check contents forwarded by employees. The move came after growing concerns over some employees indulging in activities like fraud against clients, front-running, circular trading and manipulating share prices through rumour-mongering.

2. SEBI allowed the listing of securitized debt and published disclosure norms for issuers on its website on 17 March. In India, the annual issuance of such instruments is pegged at '40,000-50,000 crore. The recent move by capital market regulator Securities and Exchange Board of India (Sebi) to allow the listing of securitized debt is likely to revive the market for such instruments, which suffered in the wake of the 2008-09 slump.

3. SEBI redefined the use of exit load by mutual funds, which will now have a little more liberty in the way they remunerate distributors. The new circular gives funds more flexibility in the use of accumulated exit load corpus, known as load balance. Exit loads are normally charged when investors redeem before one year. While this will not make a dramatic impact on MFs, fund officials are hoping this may well be a beginning towards a more flexible commission regime.

Insurance Sector

1. The IRDA formed a panel to look into modalities of electronic issue of policies. Among other issues the panel will examine mechanics involved in issuance of electronic policies, examination of the legal implications and the required amendments, if any to the relevant regulations, guidelines and other circular issued by IRDA, modus operandi of proposed electronic structure.

2. IRDA in February released a framework for amalgamation of non-life insurance companies to ensure smooth functioning of the sector. The framework offers guidelines pertaining to protection of policy holders, rationalisation of the branch network, streamlining of products, taxation and valuation issues and projected revenue of the merged entity.

3. The IRDA in February announced its new guidelines on "persistency ratio." Persistency ratio refers to the extent to which policies sold in the previous year are renewed. It is the inverse of "lapse ratio", which refers to the number of policies that customers fail to renew. Under the new rules, insurance companies will have to

terminate the contracts of agents who fail to get more than half the policies sold by them renewed in the subsequent year. The rules come into effect from July 2011.

4. To plug yet another loophole in the insurance industry, the IRDA has asked insurance companies to follow the 'File and Use' guideline for social schemes sponsored by the government. The regulator has asked insurers to file the product after the tender had been awarded under the 'file and use' procedure, within 10 days from the date of such an award. Pricing should be based on the previous experience of such schemes offered by the insurer, it added.

5. IRDA intends to allow investors more choice. The IRDA is planning to allow more options with the unit-linked pension plan. At present, there is only one product in that space and insurance companies are mandated to offer a 4.5 per cent return on such plans. The return of 4.5 per cent is not guaranteed during the currency of the policy but can change depending upon the interest rate movement. The guarantee depends on the reverse repo rate and has to be reviewed annually. The return, however, can only move between three and six per cent.

6. The IRDA is considering allowing insurers to trade in gold exchange-traded funds and equity derivatives. It may also allow them to take part in the securities lending and borrowing (SLB) segment. The aim is to give them more options to hedge risks.

FICCI MSME Summit 2011 – Vision 2020: Policies for a Dynamic Framework for MSMEs

15th February 2011 – New Delhi

FICCI organised its MSME Summit 2011 – Vision 2020: Policies for a Dynamic Framework for MSMEs on 15th February 2011 at New Delhi.

Mr. Sanjay Bhatia, Chairman, FICCI MSME Committee & Managing Director, Hindustan Tin Works Ltd. and Mr. RCM Reddy, Co-Chairman, FICCI MSME Committee & MD, IL&FS Clusters development Initiative Ltd welcomed the participants at the Summit.

Mr. Virbhadra Singh, Hon'ble Minister of Micro, Small & Medium Enterprises, Government of India inaugurated the Summit. In his inaugural address the Minister said that MSMEs face several difficulties in their quest for growth. These relate mainly to easy access to capital, technology, marketing and infrastructure, availability of information critical to business growth and simplified systems and procedures.

He also said that the Government was fully aware of the signal contribution of the MSME sector to industrial production and exports. As per the quick estimates of the 4th All India Census of MSMEs, there are 26 million MSMEs in the country, providing employment to about 60 million persons. The sector has consistently registered higher growth rates than the overall manufacturing sector, thereby demonstrating a higher degree of resilience and adaptability.

At this occasion, FICCI-Grant Thornton (Knowledge Partner) also released a report on “Vision 2020- Implications for MSMEs”. The report highlights the strategic importance of the MSME sector in the current economic scenario; challenges for the MSMEs operating in India and suggests ways of helping MSMEs achieve their full potential so that the sector can be an engine of growth for India's economy.

Mr. Arun Maira, Member, Planning Commission, chaired the session on 'Building a Competitive MSME Segment – Policy Reforms and Regulatory Framework'. The summit also deliberated upon topics such as 'Credit and Financing Options' chaired by Mr. Sanjay Bhatia, Chairman, FICCI MSME Committee and Managing Director, Hindustan Tin Works Limited, 'Effective Strategies for Enhancing Market Access' chaired by Dr. H P Kumar, CMD, National Small Industries Corporation (NSIC), and 'Infrastructural Bottlenecks and Technology Acquisition' chaired by: Dr. Shyam Agarwal, AS & DC (MSME), Ministry of Micro, Small and Medium Enterprises, Government of India.

At the Valedictory Session of the Summit a special address was delivered by Shri. T K A Nair, Principal Secretary to the Prime Minister, Government of India and Chairman, Prime Minister Task Force on MSME. In his address, Mr Nair, said it is the enabling environment in the states that will facilitate the growth of the sector. The Summit was attended by over 350 participants and was followed by networking session and Dinner.

FICCI-Sa-Dhan National Microfinance Conference 2011
Re-engineering Microfinance: Need for New Products & Policies

March 15 & 16, 2011 – Hotel Ashok, New Delhi

Given the accentuated position that the Microfinance sector finds itself in, it is time for the sector to introspect and refurbish the future path of Financial Inclusion movement in India. The microfinance sector came into being to address the financial needs of the poor and according to many, the movement needs re-thinking. Therefore, recasting of the microfinance movement is pertinent and imperative.

With this in mind, FICCI in collaboration with Sa-Dhan (The Association of Community Development Finance Institutions) organized the ninth edition of the National Microfinance Conference on March 15-16, 2011 at Hotel Ashok, New Delhi. The theme of this year's Conference was “Re-engineering Microfinance: Need for New Products and Policies”.

The conference provided a unique platform for policy dialogue and for microfinance practitioners and other stakeholders to exchange views, experiences and suggestions on various operational issues of microfinance and enterprise building. It drew participation from the entire gamut of the Microfinance Industry including Self Help Groups (SHGs), Joint Liability Groups (JLGs), leading community leaders, livelihood support agencies, bankers and insurance companies, corporates, investors, diplomats, regulators and policy makers from the Government of India & State Governments, Parliamentarians, International and National experts, Researchers and Media, et al.

FUTURE EVENTS

14th Annual Conference on Insurance

"India Insurance : Turning 10, Going on 20"

11th April 2011 - FICCI, Federation House, New Delhi
(Registration - 8.30 a.m. onwards)

Inaugural Address by
Mr. J. Hari Narayan
Chairman
Insurance Regulatory Development Authority (IRDA)

Special Address by
Mr. Shashi Kant Sharma
Secretary
Department of Financial Services, Govt. of India

TOPICS FOR DISCUSSION

- The evolving distribution world
- The operating model of the future
- What regulatory / policy support will be required to pull it off

KEY SPEAKERS

Mr. Sandeep Bakhshi, Chairman, FICCI's Insurance & Pensions Committee and MD & CEO, ICICI Prudential Life Insurance Co Ltd.

Mr. S.L. Mohan, Co-Chair, FICCI's Insurance & Pensions Committee and Secretary General, General Insurance Council

Mr. Neeraj Aggarwal, Partner & Director, BCG

Dr. Amarnath Ananthanarayanan, CEO & MD, Bharti AXA General Insurance Co. Ltd.

Mr. Sanjiv Bajaj, MD, Bajaj Capital Ltd.

Mr. Amitabh Chaudhry, MD & CEO, HDFC Standard Life Insurance Co. Ltd.

Mr. Jayant Dua, MD, Birla Sun Life Insurance Co. Ltd.

Mr. A. Giridhar, ED, Insurance Regulatory & Development Authority (IRDA)

Mr. John Holden, CEO, Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd.

Mr. Hemant Kaul, MD & CEO, Bajaj Allianz General Insurance Co. Ltd.

Dr. R K Kaul, CMD, Oriental Insurance Co. Ltd.

Mr. Ritesh Kumar, MD & CEO, HDFC Ergo General Insurance Co. Ltd.

Mr. S. B. Mathur, Secretary General, Life Insurance Council

Mr. Pranay Mehrotra, Principal, BCG

Mr. G Prabhakara, Member - Life, IRDA*

Mr. N.K. Prasad, ED & CEO, Computer Age Management Services (CAMS)

Mr. M N Rao, MD & CEO, SBI Life Insurance Co. Ltd.

Mr. Jaydeep Kumar Roy, CEO, L & T General Insurance Co. Ltd.*

Mr. Alpesh Shah, Partner & Director, BCG

Mr. Gaurang Shah, MD, Kotak Mahindra Old Mutual Life Insurance*

Mr. Rajesh Sud, CEO & MD, Max New York Life Insurance Co. Ltd

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FICCI - CCI, Conference on “Regulation of Combinations”

21st of April, 2011 at FICCI, Federation House, New Delhi

FICCI in association with the Competition Commission of India (CCI) is organizing a Conference on “Regulation of Combinations” on 21st of April, 2011 at FICCI, Federation House, New Delhi. Shri Murli Deora, Hon'ble Minister for Corporate Affairs has kindly agreed to deliver the Inaugural Address. Also, Shri Anand Sharma, Hon'ble Minister of Commerce and Industries has kindly agreed to deliver the Keynote Address at the Conference.

As you are aware, the Competition Commission of India has published the new draft merger regulations titled “Competition Commission of India (Procedure in regard to the transaction of business relating to combination) Regulations, 201_”. Once the Regulations come into force, they will have far reaching impact on the industry.

FICCI has been actively involved in the consultative process with the Ministry of Corporate Affairs and Competition Commission of India for having a law which does not impede the mergers and acquisitions and cross border transactions. The conference aims to discuss, evaluate and seek industry's feedback on the Draft Merger Regulations so that these can be considered before its implementation.

FICCI's Health Insurance Conference “Efficiency in Delivery: Win-Win for Stakeholders”

July 19, 2011, The Lalit,New Delhi

The Health insurance industry has registered very impressive growth in the last decade in terms of premium, policies sold and lives covered on the back of increasing disposal incomes and awareness. Moreover, the fundamentals remain strong for a robust growth in the near to medium term. However, considering the multiple complexities inherent in the industry due to inter-relational challenges of a variety of stakeholders, efficient and effective health insurance delivery has always remained a challenge in evolving markets. It is therefore imperative to tackle the twin objectives of facilitating satisfying delivery of intended service to the beneficiaries through better coordination among stakeholders and addressing the need for a quantum jump in investments and technology to pursue greater penetration of health insurance in the years ahead.

Focus of the Conference:

- Standarization initiaives in Development of Standard Treatment Guidelines and Electronic Health Record
- Pilot testing of Standard Billing Procedure and Discharge Summary Format
- Sharing of International experiences in promoting penetration of Health Insurance

- Promoting Quality in Health through Health Insurance
- Discussions on various Governement sponsored Studies
- To discuss various strategies to rapidly increase penetraion of Health Insurance
- To brainstrom the way forward for garnering financial and technological investements for the rapidly growing industry

Why Participate:

- Sharing of research work conducted by FICCI team, which would pave way for efficient Health Insurance market in India
- Discussions about FICCI's standardization initiatives in Health Insurance space
- Interactions with the policy makers & practitioners on the contemporary issues
- Understand the dynamics of Health Insurance business strategies and models
- Obtain regulatory updates from the Government and Regulator
- Networking with leaders of Insurance and Health care Provider Industry

Target Audience:

Non-Life Insurance Industry, Healthcare providers, Insurance Brokers/Agents , Third Party Adminstrators, Clinical Experts, Medical Devices & Hospital Equipment Companies, Medical Education Institutes, Life Insurance Industry, Banking and Financial Services Sector, NGOs/SHGs/MFIs, Micro Insurance Institutions, Non Banking Finance Companies (NBFCs), Policy Makers and Regulators , Multilateral and Bilateral Organisations, Technology Providers, Consultants and Analysts, Media

FICCI IBA Banking Conference

23rd-25th August, 2011 at Hotel Nrident, Nariman Point, Mumbai

Over the years FICCI IBA Banking Conference has established itself as a prominent event in the annual event calendar of the banking industry in India. This forum has brought together leaders from the Banking industry onto one platform to share their perspectives and examine the key proceedings taking place in the Asian and global Financial markets.

We are pleased to inform you that FICCI and IBA are organizing the 10th edition of Annual Conference on "Global Banking: Paradigm Shift" from 23rd-25th August, 2011 at Hotel Trident, Nariman Point, Mumbai. Boston Consulting Group (BCG) is the Knowledge Partner of the forum. Dr. D Subbarao, Governor, Reserve Bank of India has kindly agreed to deliver the Keynote Address in the Inaugural Session.

The conference attracts delegates & speakers from within India and around the world. It is attended by the Heads of Major Banking and Finance companies of India and abroad. Building on the success of the conference in 2010 (India Banking 2020), the conference for 2011 aspires to raise its standard in terms of size and diversity of participation, quality of discourse, and extent of influence The FICCI IBA banking Conference 2011 will aim to get rich participation from a broad spectrum of Indian industry.

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