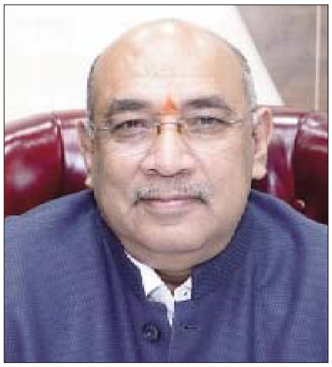
Interview with P.R. Jaishankar

"A plethora of investment opportunities have emerged"



P.R. Jaishankar
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The infrastructure financing landscape has evolved significantly over time. Furthermore, the government has taken various steps to increase private sector participation in infrastructure development. In an interview with *Indian Infrastructure*, P.R. Jaishankar, Managing Director, India Infrastructure Finance Company Limited (IIFCL), talks about IIFCL's achievements and priorities, and reforms to strengthen the PPP framework. Excerpts…

How would you assess the growth of the infrastructure financing sector?

The infrastructure financing landscape has largely taken shape since the onset of the new millennium. The 1990s saw the formalisation of the PPP structure in India. The Government of India made concerted efforts to create an enabling environment for PPP models in the country. For example, the amended National Highways Authority of India Act, 1995; the Electricity Act, 2003; the Special Economic Zone Act, 2005; and the Land Acquisition Bill, 2007 were brought in to improve transparency and reinvigorate the interest of the private sector. Further, in an endeavour to provide long-term funds to PPP projects, IIFCL was set up in 2006 by the Government of India.

Overall, the infrastructure financing landscape has been shaped by a combination of triumphs and setbacks. A crucial facet of infrastructure financing during its nascent stages revolved around asset creation. Various financial institutions were diligently focused on pursuing the strategy for asset creation.

From 2017 onwards, the industry witnessed the successful delivery of completed assets. Currently, the overall size of infrastructure assets amounts to approximately Rs 27.5 trillion. Of this, completed assets account for approximately 45 per cent, equating to nearly Rs 13 trillion. This presents a lucrative opportunity for domestic and foreign institutional investors, and pension funds in the bond market. Approximately 6 to 7 per cent of the NIP is constituted by completed assets, presenting an opportunity for bond financing. Due to the considerable progress made in the sector, a plethora of investment opportunities have emerged. Greenfield investment continues to be at the core of esteemed financial institutions, including IIFCL, Power Finance Corporation Limited and REC Limited.

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What is IIFCL's role in supporting these projects?

Apart from being an innovative lender, IIFCL has undertaken many supplementary measures to provide support to infrastructure projects that have been funded by a consortium of banks. IIFCL is also a lead lender to various infrastructure projects, including the first railway station redevelopment project. IIFCL has established itself as a pioneering financial institution by introducing a range of lending products, such as Takeout Financing, Subordinate Debt and Credit Enhancement. It has been promoting infrastructure financing through various mechanisms, including PPPs, infrastructure bonds, infrastructure investment trusts (InvITs), foreign direct investment and multilateral funding.

IIFCL has made a mark not only as a financier for infrastructure projects, but also through its policy advocacy measures. Its vast experience has enabled it to identify the practical difficulties in the infrastructure sector and helped provide recommendations for regulatory improvement. Some of IIFCL's contribution towards the development of the infrastructure sector are the introduction of the hybrid annuity model and the 5/25 model; creation of the Harmonised Master List of Infrastructure Sub-sectors; coordination with concessioning authorities, NITI Aayog, regulators and government agencies to expedite the resolution of various pending issues in projects; and the introduction of innovative products like Takeout Finance and Credit Enhancement. Taking its digital initiatives forward, IIFCL introduced an Online Project Monitoring System as an effective tool for ensuring progress-linked disbursement in infrastructure projects.

In the future, the company intends to enhance its position as a pioneering infrastructure lender, primarily focused on supporting government activities relating to the NIP and the National Monetisation Pipeline. IIFCL aims to contribute to the expansion of the bond market.

What reforms do you think should be taken to strengthen the PPP framework?

Since 2015, a multitude of reforms have been implemented. The Kelkar Committee, which was formed under the Finance Secretary, strongly endorsed the PPP structure, and it even laid out the mandate for an institution that would include dealing with complex PPP issues like renegotiation, independent regulation, equitable risk allocation, and expeditious redressal of disputes and capacity building for the sector, particularly at the state level. IIFCL was a member of the committee and provided many constructive recommendations such as monetisation of operational assets, and renegotiation of contracts. These reforms have now started to bear fruit and we are seeing increased interest by private sector partners.

Improving upon the previous models, the hybrid annuity model was adopted, which sought to address issues like traffic over-estimation, delays in land acquisition and obtaining approvals. New sectors like ropeways, effluent treatment plants for the Ganga Cleaning project and railways were also brought into the PPP ambit.

Today, we stand on the cusp of a breakthrough in the infrastructure sector. With the government's focus on the sector, and innovation in infrastructure financing, India holds the potential of coming at par with many developed economies. Several initiatives have begun to demonstrate positive outcomes. As a result of impactful reforms, there has been a surge in investment interest, which has instilled confidence among investors. This has led to the resurgence of PPPs. However, a faster rate of revitalisation is still desirable. The infrastructure sector needs to be looked at holistically and an infrastructure law must be established to address the concerns and priorities of all stakeholders.

There is a need to expand the bipartite structure into a tripartite one, involving the lenders. This expansion would introduce several beneficial practices, such as conducting ratings prior to granting concessions. At the concession authority level, it is necessary to divide the termination payment system and transfer it to the domain of insurers. This could facilitate adoption of the new product by insurance firms and also instill confidence among investors and lenders. This product is under discussion with the Insurance Regulatory and Development Authority of India. It is being conducted in collaboration with the Asian Development Bank and may be termed Project Completion Risk Insurance. Further, it is imperative to establish a system of rating within the concessioning authorities for rating traffic and revenue consultants.

What are the major challenges and opportunities in greenfield financing?

Noticeable progress has been made in overcoming obstacles such as land acquisition and environmental clearances. Nevertheless, further improvement is crucial. In the past, the absence of a minimum land limit rendered it impossible to ensure a satisfactory level of project preparedness. At present, approximately 80 per cent of land needs to have been procured. This has led to a higher standard of project preparation. As a result of the government's focus on the implementation of structural reforms within ministries, approval times have reduced. However, grievance redressal and arbitration require more attention.

What are the biggest challenges facing the infrastructure financing sector? Which areas require regulatory attention?

For greenfield financing, it is essential to consider the most effective methods to ensure that the risk management system is accurately implemented within the regulatory framework. An infrastructure project encompasses multiple distinct stages, for instance, the pre-bid stage and the post-bid stage. The post-bid stage involves securing funding, particularly for greenfield projects. Subsequently, there is the completion phase and finally, there is the post-completion phase as per the concession tenor. Every stage has distinct prerequisites that necessitate a comprehensive examination from the standpoint of relay financing. It is imperative for regulators to acknowledge this and consider extending tenors and providing exit routes for existing players, including lenders and promoters.

What are some of IIFCL's short-term, medium-term and long-term priorities?

In the short term, the company will maintain its focus on the activities it has been funding. In the following year, the company intends to expand its cumulative sanctions to Rs 3 trillion and disbursements to Rs 2 trillion. IIFCL is aiming to grow through internal accruals. In addition, it is focusing on growing its net worth in order to meet the needs of infrastructure initiatives. Furthermore, it is contemplating attracting more investors by introducing new instruments such as alternative investment funds. In the long term, IIFCL will continue to play its role as a primary long-term innovative infrastructure lender.

What will be the infrastructure finance requirements for India in the next 10 years?

Over the past five years, infrastructure needs have increased by 50 per cent. The number of infrastructure projects has grown from 6,000 to 9,000 in the NIP, while the amount has increased from Rs 1 trillion to Rs 1.5 trillion.

As per Budget Speech 2023-24, the "Effective Capital Expenditure" of the centre is budgeted at Rs 13.7 trillion, which will be 4.5 per cent of GDP. As per estimates, if India were to invest in infrastructure to the tune of 6 per cent of GDP, it would achieve a GDP level of $7.5 trillion by 2030. This is also consistent with our target of becoming a $5 trillion economy by 2027.

We are also seeing a new emerging trend of asset class with about 45-50 per cent completed assets in key sectors like roads, airports and renewable energy. This presents an opportunity for refinancing through the bond market and asset monetisation. With infrastructure now being propelled by the aspirations of the people, rapid strides can be anticipated across the entire landscape over the next decade. Overall, the opportunities and future of infrastructure financing are very promising.