



DFIs and Infrastructure Development

Export-Import Bank of India

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بنك التنمية العماني
Oman Development Bank



ADFIAP
financing sustainable development

Structure of the Presentation



Infrastructure Financing: Background

Exim Bank's Experience in Financing Infrastructure

Opportunities for Collaboration

Essential Infrastructure for Development



HARD INFRASTRUCTURE

- Large physical networks necessary for the functioning of a modern industrial nation
- Examples: Roads, buildings, water and energy systems

SOFT INFRASTRUCTURE

- Institutions which are required to maintain the economic, health, cultural and social standards of a country
- These help drive innovation, improve livelihood, contribute towards holistic development

FINANCIAL INFRASTRUCTURE

- Institutions, information, technologies and rules and standards which enable financial activities, and flow of capital in the economy
- It includes banking, micro-finance, insurance, capital market, rating agencies, depositories, among others



Key Characteristics of Infrastructure Financing



Presence of Externalities

Positive Indirect Externalities to Economies

- Such benefits fundamentally difficult to measure
- Even if measured, charging for them may not be feasible or desirable

Natural Monopolies

Often Comprises Natural Monopolies

- Governments want to retain ultimate control to prevent abuse of monopoly power
- Requires complex legal arrangements to ascertain allocation of pay-offs and risk-sharing, thereby aligning the incentives of all parties

Pvt. Investment Difficult

Purely Private Investment Difficult and Costly

- Time profile of cash flows
- High initial risks
- Illiquidity

Infrastructure Financing: Key Sources



DOMESTIC SOURCES

EXTERNAL SOURCES

EQUITY

Domestic investors
Public utility
Dedicated government funds
Institutional investors

Foreign investors
Equipment suppliers (in collaboration with domestic and international developers)
Dedicated infrastructure funds
Other international equity investors

DEBT

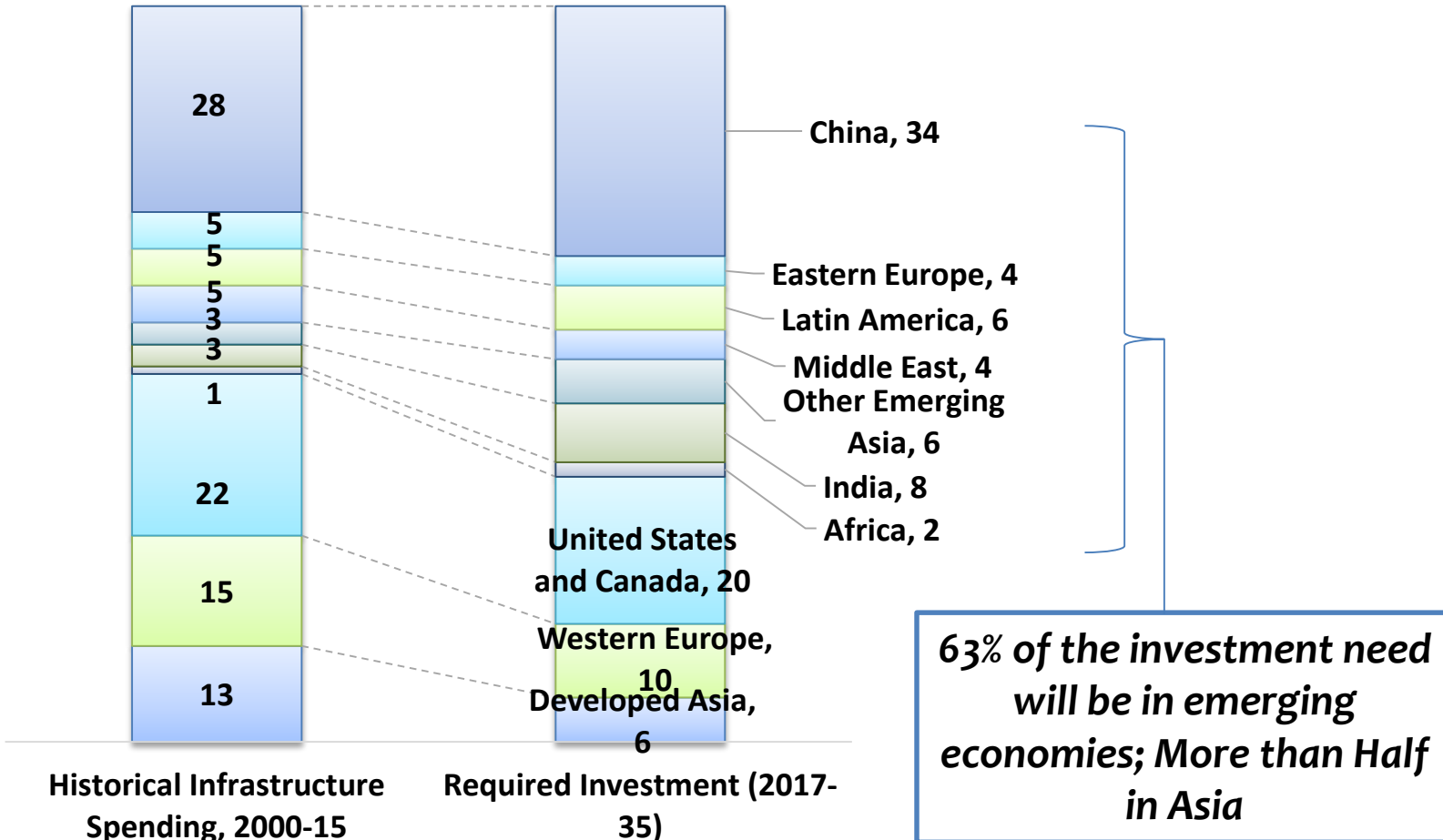
Domestic commercial banks
Domestic term lending institutions
Domestic bond markets
Specialized infrastructure financing options such as infrastructure debt funds
Domestic Development Finance Institutions

International commercial banks
Export credit agencies
International bond markets
Multilateral agencies (financing with development perspectives and in long tenors)

Infrastructure Financing Requirement



Share of Regions in Investment Requirement for Economic Infrastructure (%)



63% of the investment need will be in emerging economies; More than Half in Asia

[Value: US\$ 29.8 trillion]

[Value: US\$ 69.4 trillion]

Role of DFIs in Infrastructure Financing of Developing Countries



- **National DFIs** have played a crucial role in infrastructure development in several countries such as India, Brazil and China by **channelizing domestic and foreign savings**
- **Select critical conditions for development of national DFIs:**
 - ❑ **generation of indigenous savings and wealth** through preliminary development process,
 - ❑ **taxation system,**
 - ❑ **congenial institutional mechanism** which supported ability to absorb capital, transferred from external sources
- **Lack of institutional set up and market depth, slow pace of development, lack of identified opportunities, perceived lack of governance and lack of general confidence has impeded flow of private capital to supplement resources available with DFIs in the less developed countries**

Cross-Border Infrastructure Financing: Why DFIs and ECAs step in?



- While DFIs focus on domestic infrastructure projects, **Export Credit Agencies (ECAs) finance and facilitate cross-border infrastructure development**
- In the face of slowdown in global merchandise exports, increasing protectionism, increasing demand for infrastructure finance, and growing domestic capabilities in infrastructure development, ECAs have enhanced their focus on **project exports as important conduit for expansion of exports**
- Over the years, **several DFIs** have also leveraged their experience in infrastructure financing, and **expanded operations to engage in infrastructure financing in other geographies** (China Development Bank, Korea Development Bank), creating mutually beneficial outcomes for domestic companies and other developing countries
- Assistance by DFIs/ ECAs for infrastructure development usually **requires a minimum percentage of the assistance to be utilized for financing imports from the ECA home country**, thereby creating mutually beneficial outcomes

Relevance of DFIs and ECAs in Infrastructure Financing in Asia-Pacific



- Large scale infrastructure projects in Asia Pacific continue to look to DFIs and ECAs to supplement and facilitate finance due to
 - insufficient liquidity in the local market for commercial banks to fund all of the debt, as also asset-liability mismatch;
 - the long lifespan of projects;
 - potential political or economic risks
- DFIs/ ECAs provide financing support that helps restore investor confidence and facilitate greater investment
- Given their status as quasi-governmental institutions, cost of borrowing, capital reserves and return expectations for such institutions is lower than that of commercial lenders – meaning that cost savings are often passed on to borrowers
- ECAs also provide ‘soft support’ through their intra-government relationships, political knowledge, diplomatic goodwill and reputational strength

DFIs and ECAs in Asia-Pacific



Countries	DFIs (For Infra)	ECAs (Not including purely Insurance Agencies)
Australia	-	Export Finance and Insurance Corporation
China		Export-Import Bank of China China Development Bank
India	India Infrastructure Finance Co. Ltd	Export-Import Bank of India
Indonesia	PT Sarana Multi Infrastruktur	Indonesia Exim Bank
Japan	-	Japan Bank for International Cooperation
Korea		Korea Eximbank Korea Development Bank
Malaysia	Bank Pembangunan Malaysia Berhad	Export-Import Bank of Malaysia Berhad
Oman	Oman Development Bank	Credit Oman
Philippines	Development Bank of the Philippines	Philippine Export-Import Credit Agency
Russia		Vnesheconombank
Thailand	-	Export-Import Bank of Thailand
Turkey	Development & Investment Bank of Turkey	Turk Eximbank
Vietnam		Vietnam Development Bank

Some countries have dedicated DFIs/ and ECAs. In some countries, DFIs have extended infrastructure financing to other geographies, while in some others DFIs are mandated to support both domestic infrastructure and exports



Way Ahead: Expansion of Scope of Infrastructure Financing



- DFIs and ECAs have **largely financed only hard infrastructure**. Multilateral Development Banks have also supported development of soft infrastructure in developing countries, and also helped improve financial infrastructure in developing countries
- DFIs/ ECAs could enhance focus on **bridging the gap in soft infrastructure** and **ensuring a robust financial infrastructure**
- Financing of soft infrastructure could be undertaken by DFIs/ ECAs, especially in the light of industrial processes becoming more high knowledge and technology intensive
- DFIs also need to expand roles in countries where commercial banks are not adequately developed or where Basel norms constraint their ability to support financial intermediation effectively

Export-Import Bank of India: Promoting Cross-Border Infrastructure



- Set up in September 1981 under an Act of Parliament to finance, facilitate and promote India's international trade and investment
- Wholly owned by Government of India

- Objectives:

“... for providing financial assistance to exporters and importers, and for functioning as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade...”

“... shall act on business principles with due regard to public interest”

(Export-Import Bank of India Act, 1981)

- Support to overseas infrastructure development through flagship programmes – Lines of Credit, Project Exports and Buyers Credit

The development role of Exim India extends beyond the domestic boundaries, and leads to promotion of bilateral and regional trade and infrastructure development

Exim India's Role in Other Countries



- Exim India supports **infrastructure development in other countries**, through flagship programs such as Lines of Credit (LOC) and Buyer's Credit under NEIA
- Exim India extends and operates LOCs at the behest of the Government of India besides its own LOCs to overseas entities. Several LOCs are earmarked for infrastructure projects. A project preparation facility has also been set up for LOCs
- As on December 31, 2018, **Exim India has 243 LOCs, covering 62 countries** in Africa, Asia, Oceania, LAC and CIS with credit **commitments of over US\$ 24.2 billion**
- **Buyer's Credit – NEIA** is extended by Exim India to the governments of recipient countries or to the parastatal project authorities backed by sovereign guarantee. As on September 25, 2018, the Bank has sanctioned **US\$ 2.6 billion for 23 projects valued US\$ 2.8 billion**
- **Non-funded facilities** are also extended to Indian project exporters who execute infrastructure projects in other countries

Exim India's Role in Domestic Infrastructure Projects



- Exim India also supports **select domestic infrastructure projects**, although the scope is limited
- Non-funded facilities (like guarantees) are extended to Indian contractors for **executing MDB funded projects**;
- Exim India supports infrastructure projects in domestic market, for **export facilitation** (ports development, creation of special industrial zones, special economic zones, technology parks etc.)

Select Success Stories: Lines of Credit

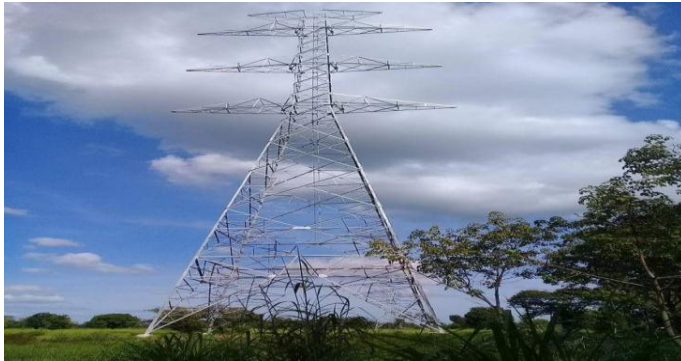


- The 27.5 km long Madhu Road to Talaimannar railway line project in Sri Lanka executed by an Indian company was completed and was flagged off by Hon'ble PM of India, Mr. Narendra Modi in March 2015
- Enhanced the accessibility, safety and speed of train travel in Sri Lanka.



- Construction of the 2nd Bhairab and 2nd Titas Bridge Project covered under an LOC of USD 862 million to the Government of Bangladesh
- The double-line Bhairab bridge is an important link in the Dhaka Chittagong rail route.

Select Success Stories: Project Exports



- Exim India sanctioned an EPCDF of USD 7.80 mn and BG of MYR 27.90 mn to KEC International Ltd for **design, supply and construction of 275 kV double circuit line (D/C) of approx. 166 km in Malaysia** valued at RM 279.29 mn (equiv. ₹ 470.87 crore) secured from Sarwak Energy Barhad (SEB) Malaysia



- Support is provided not just for economic infrastructure, but also for social infrastructure
- Exim India provided a Bank Guarantee of KWD 6.55 mn (equiv. ₹ 144.10 Crore) for construction, operation and maintenance of **Sabah Al Salem University - Kuwait University**

Select Success Stories: BC-NEIA



- BC-NEIA of US\$ 34.33 mn to the Government of **Maldives** for **development of Road network**, executed by a consortium of Mohan Mutha Exports (P) Ltd., India and Ashoka Buildcon Ltd., India, through the Special Purpose Vehicle (SPV) viz. Mohan Mutha- Ashoka Buildcon LLP., India



- BC-NEIA facility of US\$ 30.83 mn to Petromoc, Mozambique to set-up **integrated LPG facility and Bitumen storage facility, at Beira port, Mozambique**
- The facility will enable Petromoc to receive, store, handle, distribute, and retail LPG both within Mozambique and to its neighbouring countries

Select Success Stories: Domestic Infrastructure Support



Company : Gulf Petrochem India Pvt. Ltd.

Location : Pipavav (Gujarat)

Credit exposure : ₹ 73.79 crore

Purpose : Setting up of **bulk liquid storage and handling terminal**, consisting of 46 storage tanks with a capacity of 2,50,136 KL, at the port of Pipavav, Gujarat



Company : Navkar Terminals Ltd.

Location : Valsad (Gujarat)

Credit exposure : ₹ 40.00 crore

Purpose : Setting up of **Inland Container Depot** of 4.70 lakh twenty feet equivalent containers. It is strategically closer to industrial belt of south Gujarat as well as some prominent container terminals on west coast of India

Other Initiatives for Infrastructure Development (1/2)



Concessional Financing Scheme for Strategically Important Projects

- Scheme for supporting strategically important projects which have been secured by Indian companies abroad
- Term loan of US\$ 1.60 billion to Bangladesh India Friendship Power Company Pvt. Ltd. (a 50:50 joint venture between the Bangladesh Power Development Board, Bangladesh and NTPC Ltd., India) for financing the **strategic 1320 MW (2*660 MW) ultra-super-critical Maitree Super Thermal Power Project** on turnkey basis at Rampal, Bangladesh. Once commissioned, it is expected to be the **largest power plant in Bangladesh**

Export Development Fund (EDF)

- In terms of the Exim Bank Act, the EDF is a distinct Fund, administered by Exim India with an independent balance sheet and earnings statement
- EDF has extended a Buyer's Credit Facility of Rs. 30 billion to Iran (Framework Agreement signed between EDF and seven Iranian banks). The credit facility would be utilized for export of steel rails from India and the **Chabahar Port Development Project**



Other Initiatives for Infrastructure Development (2/2)



Project Development & Facilitation Framework (PDFF) in CLMV Countries

- Exim India is working alongside the Ministry of Commerce and Industry, GOI, as the Empowered Institution, in implementing the 'Project Development Fund', with an initial corpus of Rs. 5 billion, for **catalysing Indian investments in Cambodia, Lao PDR, Myanmar and Vietnam (CLMV)**
- The Bank has identified potential sectors in the CLMV region for undertaking preparation of Detailed Project Reports, based on which Special Purpose Vehicles will be set up in the region for implementing the identified projects

Project Development Company in Africa

- Exim India, in collaboration with other Indian institutions and AfDB, has set up the **Kukuza Project Development Company** to facilitate project preparation for infrastructure projects in Africa



Exim Bank's Collaborative Framework in Asia- Asian Exim Bank Forum



- In 1996, Export-Import Bank of India took the initiative of forming AEBF
- Seeks to enhance economic cooperation and forge stronger linkages among its member institutions, thereby fostering a long-term relationship within the Asian Exim Banks community
- ECAs from 11 countries, namely, Australia, China, India, Indonesia, Japan, Korea, Malaysia, Philippines, Thailand, Turkey and Vietnam are members of the forum, with Asian Development Bank being a permanent observer
- Forum endeavours to share expertise and knowledge gained by Asian ECAs. Members have entered into various bilateral and multilateral facilities and arrangements
- Members have also executed reciprocal risk participation agreements among themselves for promoting intra-regional trade

Opportunities for Collaboration



- Challenges in funding infrastructure could be mitigated through cooperation among Asian DFIs and ECAs:
 - ❑ Risk Participation Agreements
 - ❑ Co-financing could be done with other DFIs/ ECAs for infrastructure projects
 - ❑ Guarantee mechanism for local currency borrowing can be set up
 - ❑ Credit enhancement support between members of ADFIAP can be established
- Similar cooperation could be explored with MDBs in the region –like ADB, Islamic Development Bank, AIIB etc.
- Deepening project development and facilitation framework by maintaining a Register of Projects. A separate forum could be established under ADFIAP for sharing early stage projects where other DFIs, ECAs and MDBs including AIIB, NDB can participate
- Capacity building and knowledge sharing initiatives among financial institutions can further enhance capacities for development financing
 - ❑ Exim India has provided capacity building assistance in several developing countries, such as Sri Lanka, Malaysia, Ghana, and is also undertaking an assignment in Saudi Arabia

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