



Periodic Financing Request Report

Project Number: 47083-004
MFF Number: 0077
October 2018

India: Accelerating Infrastructure Investment Facility in India (Tranche 3)

This is the version of the document approved by Management that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

CURRENCY EQUIVALENTS

(as of 1 October 2018)

| | | |
|---------------|---|------------------|
| Currency Unit | – | Indian rupee (₹) |
| ₹1.00 | = | \$0.0138 |
| \$1.00 | = | ₹72.540 |

ABBREVIATIONS

| | | |
|-------|---|--|
| ADB | – | Asian Development Bank |
| IIFCL | – | India Infrastructure Finance Company Limited |
| MFF | – | multitranches financing facility |
| PPP | – | public–private partnership |
| TA | – | technical assistance |

NOTES

- (i) The fiscal year (FY) of the Government of India and India Infrastructure Finance Company Limited ends on 31 March. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2018 ends on 31 March 2018.
- (ii) In this report, “\$” refers to United States dollars.

| | |
|-------------------------|--|
| Vice-President | Wencai Zhang, Operations 1 |
| Director General | Hun Kim, South Asia Department (SARD) |
| Director | Bruno Carrasco, Public Management, Financial Sector, and Trade Division, SARD |
| Team leader | Donald Lambert, Principal Finance Specialist, SARD |
| Team members | Monica Mei Carino, Project Analyst, SARD |
| | Christopher Lee Damandl, Senior Counsel, Office of the General Counsel |
| | Michael De Los Reyes, Senior Treasury Specialist, Treasury Department |
| | Lindy Lois Gamolo, Operations Assistant, SARD |
| | Pamela Gutierrez, Project Analyst, SARD |
| | Ma. Kristina Hidalgo, Senior Financial Sector Officer, SARD |
| | Maria Laureen Laurito, Senior Social Development Officer (Safeguards), SARD |
| | Vivek Rao, Principal Financial Sector Specialist, Southeast Asia Department |
| | Kristina Recomono, Senior Operations Assistant, SARD |
| Peer reviewer | Rajesh Poddar, Principal Treasury Specialist (Institutional Coordination), Treasury Department |

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TRANCHE AT A GLANCE

| | | | |
|---|--|--|--|
| 1. Basic Data | | Project Number: 47083-004 | |
| Project Name | Accelerating Infrastructure Investment Facility in India - Tranche 3 | Department/Division | SARD/SAPF |
| Country | India | Executing Agency | India Infrastructure Finance Company Limited |
| Borrower | India Infrastructure Finance Company Limited Guarantor: Government of India | | |
| 2. Sector | | ADB Financing (\$ million) | |
| ✓ Finance | Infrastructure finance and investment funds | | 300.00 |
| | | Total | 300.00 |
| 3. Strategic Agenda | | Climate Change Information | |
| Inclusive economic growth (IEG) Environmentally sustainable growth (ESG) | Subcomponents | Estimated CO ₂ reduction (tons per annum) | 372,204 |
| | Pillar 1: Economic opportunities, including jobs, created and expanded Global and regional transboundary environmental concerns | ADB contribution to estimated CO ₂ reduction (tons per annum) | 46,526 |
| | | Climate change impact on the project | Low |
| | | Mitigation Financing | |
| | | Estimated cost of subprojects (\$ million) | 480.00 |
| | | ADB contribution (\$ million) | 60.00 |
| 4. Drivers of Change | | Gender Equity and Mainstreaming | |
| Knowledge solutions (KNS) | Pilot-testing innovation and learning | No gender elements (NGE) | ✓ |
| Private sector development (PSD) | Promotion of private sector investment | | |
| 5. Poverty and SDG Targeting | | Location Impact | |
| Geographic Targeting | No | Nation-wide | High |
| Household Targeting | No | | |
| SDG Targeting | Yes | | |
| SDG Goals | SDG9 | | |
| 6. Risk Categorization: | Complex | | |
| 7. Safeguard Categorization Environment: FI Involuntary Resettlement: FI Indigenous Peoples: FI | | | |
| 8. Financing | | | |
| Modality and Sources | | Amount (\$ million) | |
| ADB | | 300.00 | |
| Sovereign MFF-Tranche (Regular Loan): Ordinary capital resources | | 300.00 | |
| Cofinancing | | 0.00 | |
| None | | 0.00 | |
| Counterpart | | 0.00 | |
| None | | 0.00 | |
| Total | | 300.00 | |
| Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-OTHERS) in the amount of \$500,000. | | | |

I. BACKGROUND

1. **Multitranche financing facility.** The Accelerating Infrastructure Investment Facility in India is a \$700 million multitranche financing facility (MFF) that was approved in October 2013 with the India Infrastructure Finance Company Limited (IIFCL) as both the executing and implementing agency. The MFF supports the Government of India in promoting infrastructure growth through increased private sector investment in public–private partnerships (PPPs).

2. When the facility was approved in 2013, India aimed to mobilize about \$500 billion in private funding to meet its \$1 trillion infrastructure financing requirements under its Twelfth Five Year Plan, 2012–2017.¹ Mobilizing infrastructure financing remains a priority under India’s (i) Three-Year Action Agenda, 2017–2018 to 2019–2020;² and (ii) Economic Survey, 2017–2018, which estimates an infrastructure investment gap of \$526 billion through 2040.³ The facility is an integral part of the Asian Development Bank (ADB) strategy for infrastructure finance in India and complements parallel initiatives in PPPs and capital markets—all of which contribute to creating an enabling environment for long-term financing for infrastructure development.⁴

3. The facility’s outputs include enhanced availability of long-term finance for PPP subprojects and improved project management. ADB has and will continue to work during this tranche through attached technical assistance (TA) with IIFCL on strengthening its risk management, corporate governance, management information systems, and safeguards management.

4. **Tranches.** The facility was designed to have two tranches. ADB approved tranche 1, amounting to \$400 million, in October 2013. Tranche 1 supported 17 subprojects. ADB approved tranche 2, amounting to \$300 million, in October 2015.⁵ However, following ADB approval, the government increased tranche 2’s guarantee fee to 1.20% instead of the 0.25% of tranche 1. With this higher guarantee fee, tranche 2 became at least 0.25% more expensive than the funding IIFCL could have raised from the domestic bond market; consequently, the loan was not signed, and ADB cancelled tranche 2 in 2016.

5. The government, however, agreed to return the guarantee fee to 0.25% and submitted a periodic financing request letter on 6 September 2018 (Supplementary Appendix A). Because tranche 2 has expired, this tranche is designated as tranche 3 and is included in the 2019–2021 country operations business plan.⁶

¹ Government of India, Planning Commission. 2013. *Twelfth Five Year Plan (2012–2017)*. New Delhi.

² Government of India. National Institution for Transforming India (NITI Aayog). 2017. *India: Three Year Action Agenda, 2017–2018 to 2019–2020*. New Delhi.

³ Government of India, Ministry of Finance. 2018. *Economic Survey, 2017-2018*. New Delhi.

⁴ Eligible subprojects under the facility are those meeting the requirements of the government’s [Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called the India Infrastructure Finance Company Limited, issued on 4 January 2006 and amended as of 30 March 2015](#), and [Take-out Finance Scheme for Financing Viable Infrastructure Projects, effective 16 April 2010 and amended as of 27 January 2015](#).

⁵ ADB. 2015. *Periodic Financing Request Report: India: Accelerating Infrastructure Investment Facility in India (Tranche 2)*. Manila. This tranche had been included in ADB. 2014. *Country Operations Business Plan: India, 2015–2017*. Manila.

⁶ ADB. 2017. *Country Operations Business Plan: India, 2019–2021*. Manila.

II. ASSESSMENT OF MULTITRANCHE FINANCING FACILITY IMPLEMENTATION

6. The implementation of this facility should be viewed in the context of ADB's successful engagements with IIFCL. In 2007, ADB approved the India Infrastructure Project Financing Facility, which had two tranches totaling \$500 million and was approved less than 2 years after the establishment of IIFCL.⁷ It was ADB's first MFF to a financial institution for funding of infrastructure subprojects. A \$500,000 TA project attached to the facility trained IIFCL staff in safeguard risk assessment, management, and mitigation.

7. ADB approved a second MFF to IIFCL with three tranches amounting to \$700 million in 2009.⁸ The facility came at a time when liquidity in international capital markets was limited and investors' interest in long-term debt instruments was low. Like its predecessor, it funded infrastructure subprojects in a range of sectors.

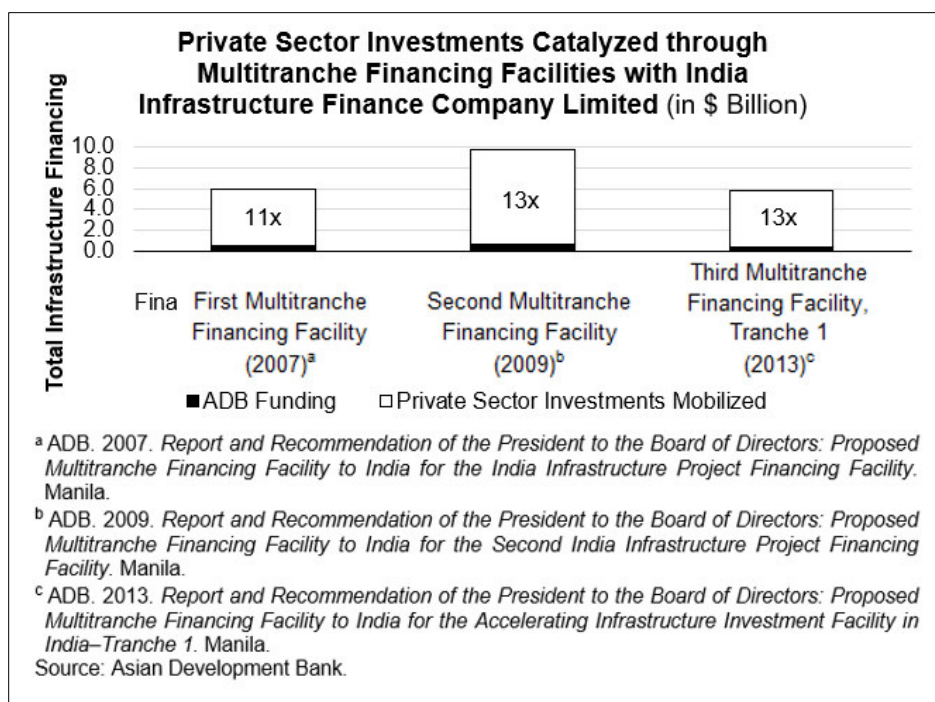
8. These MFFs fully disbursed ahead of their original completion dates. Together, they funded 50 infrastructure subprojects, including major international airports in Delhi and Mumbai. Among these subprojects, two were categorized as nonperforming and one was restructured because of financial distress.⁹ Together, they catalyzed \$14.7 billion in private sector investment. More specifically, for every \$1 of ADB investment in subprojects, IIFCL mobilized \$11 from the market under the first facility and \$13 under the second (figure). ADB evaluated both facilities *successful*, and ADB's Independent Evaluation Department selected the first of these two evaluations for validation and confirmed the *successful* rating.¹⁰

⁷ ADB. 2007. [Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for the India Infrastructure Project Financing Facility](#). Manila.

⁸ ADB. 2009. [Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for the Second India Infrastructure Project Financing Facility](#). Manila.

⁹ Two road subprojects turned into non-performing accounts mostly because of delays in obtaining necessary government approvals (rail-over-bridge approval) to commence tolling. A nonperforming asset account can be upgraded to a standard asset category following a satisfactory record of payments for a 12-month period.

¹⁰ ADB. 2012. [Completion Report: India Infrastructure Project Financing Facility](#). Manila; ADB. 2014. [Validation Report: India Infrastructure Project Financing Facility](#). Manila; ADB. 2014. [Completion Report: Second India Infrastructure Project Financing Facility](#). Manila.



9. These facilities provided more than just finance—they were part of Finance++ and also helped transfer knowledge to IIFCL to (i) design an environmental and social safeguard framework to ensure that ADB resources flow only to subprojects that are compliant with national and ADB safeguard norms, (ii) deepen IIFCL’s safeguard staffing, (iii) strengthen risk management reporting, (iv) and implement a multiyear program to strengthen IIFCL’s risk management.

10. Separate from the sovereign lending facilities, ADB partnered with IIFCL in 2012 under its nonsovereign operations to develop a partial credit guarantee product that allowed infrastructure projects to issue credit enhanced bonds to institutional investors.¹¹ These projects were also highly catalytic and raised over \$7 of investment for every \$1 dollar of ADB’s guarantee. The extended annual review rated this project *successful*, for it was catalytic in introducing partial bond guarantees to the Indian market.¹² Based on the success of this pilot, IIFCL has become the foundation investor in the National Infrastructure Credit Enhancement Limited—which is to be launched by the government by 2019—that is dedicated to providing guarantees to infrastructure projects to attract investment from domestic institutional investors.

11. The first two facilities performed well despite the first coming just 2 years after IIFCL’s establishment and the second during the global financial crisis. Similarly, tranche 1 of this third facility also performed well amid a slowdown in India’s infrastructure sector:

¹¹ In 2012, ADB approved a Credit Enhancement of Project Bonds Facility to IIFCL. On a pilot basis, ADB will provide a guarantee of up to 50% of IIFCL underlying first loss guarantee exposure to issuers of infrastructure project bonds in order to raise their domestic credit rating to AA. ADB. 2012. [Report and Recommendation of the President to the Board of Directors: Proposed Guarantee Facility for Credit Enhancement of Project Bonds](#). Manila (Gu7360-IND, approved on 20 September for \$128 million).

¹² ADB. 2018. *Extended Annual Review Report: Proposed Guarantee Facility for Credit Enhancement of Project Bonds in India*. Manila.

- (i) **Progress on road map.** Actual investment in infrastructure during the Twelfth Five Year Plan of 2012–2017 is estimated at ₹37.2 trillion (\$573 billion), below the target of \$1 trillion.¹³ Although the shortfall can be attributed in part to the ambitious target, there have been serious challenges in the infrastructure sector: over-leveraged sponsors, protracted land acquisitions, time-consuming clearances, and capital shortages.
- (ii) **Improvements in policy framework.** In response to these infrastructure sector challenges, the government has taken proactive measures, including (a) simplifying environmental and forest clearances, which are now processed online; (b) postponing project awards by the National Highways Authority until sponsors have acquired at least 80% of the land; and (c) taking multiple measures to counter imprudent banking practices and expedite bankruptcies to increase capital flow efficiency.
- (iii) **Progress of investment program.** IIFCL has managed relatively well in this difficult environment. Its gross nonperforming loan (NPL) ratio was 8.6% as of September 2017, less than half the infrastructure sector's 19.6% NPL ratio.¹⁴ Disbursements under tranche 1 were timely, with the final disbursement within a month of the tranche's completion date of December 2016. They mainly funded road and renewable energy generation subprojects.
- (iv) **Compliance with undertakings and loan covenants.** IIFCL has substantially complied with ADB loan covenants and other undertakings in relation to tranche 1.¹⁵ It has also satisfactorily disclosed information on the company's website, including that pertaining to its financial accounts, environmental and social safeguard reports, and changes of the company's operations and policies.
- (v) **Focus on risk management.** The earlier two facilities focused on strengthening IIFCL's safeguard management. Although safeguards are a continuing theme, this facility has expanded the focus to strengthening IIFCL's financial management. IIFCL has complied with several loan covenants under tranche 1 to strengthen its risk management and is working to comply with a covenant to complete installing and integrating a new management information system.

III. PERIODIC FINANCING REQUEST

A. Impact and Outcome

12. Tranche 3 is aligned with the following impact: investments in infrastructure increased (footnote 3). Tranche 3 will have the following outcome: private sector investment in infrastructure PPPs facilitated.¹⁶ Tranche 3's \$300 million is expected to help catalyze the financial closing of \$2.4 billion in investments, as IIFCL is usually able to raise at least \$7 for each dollar it lends.

B. Outputs

13. **Output 1: Availability of long-term finance for public–private partnership subprojects enhanced.** ADB funding is expected to fund at least 13 subprojects through IIFCL.

¹³ Footnote 3 (above); Government of India. NITI Aayog. 2017. [Appraisal Document of Twelfth Five Year Plan 2012–2017](#). Delhi; and [Ministry of Statistics and Programme Implementation](#).

¹⁴ Reserve Bank of India, Financial Stability Unit. 2017. [RBI Financial Stability Report](#). Issue No. 16. Mumbai.

¹⁵ The compliance review matrix of facility legal, environmental, and social safeguards is in the Periodic Financing Request from the government for tranche 2 (Appendix 4, Annex 3).

¹⁶ The design and monitoring framework is in Appendix 1.

Based on the indicative pipeline, these subprojects are expected to primarily involve roads and renewable power generation.

14. **Output 2: Operational capacity of the India Infrastructure Finance Company Limited improved.** In addition to completing the management information system integration, IIFCL will also undertake a gap analysis of its risk management framework. The gap analysis will identify priorities, and consultants will work closely with IIFCL to implement the recommended reforms. Moreover, ADB will assist IIFCL through the attached TA to deepen its safeguards expertise, which will become increasingly important as IIFCL plays a larger role in leading (as opposed to just participating in) lending consortiums.

C. Summary Cost Estimates and Financing Plan

15. Tranche 3 is estimated to cost \$300 million, of which climate mitigation is estimated to cost \$60 million (Table 1).¹⁷ ADB and IIFCL have prepared an indicative pipeline of 17 subprojects (Supplementary Appendix B), for which IIFCL has sanctioned ₹56.0 billion (\$778.4 million).

Table 1: Summary Financing Plan

| Source | Amount (\$ million) | Share of Total (%) |
|---|------------------------|-----------------------|
| Asian Development Bank | | |
| Ordinary capital resources (regular loan) | 300.0 | 100.0 |
| Total | 300.0 | 100.0 |

Source: Asian Development Bank.

16. IIFCL has requested a loan of \$300 million from ADB's ordinary capital resources to help finance the project. This comprises the total tranche (project) cost. Tranche 3 will be disbursed in United States dollars on the terms outlined in Table 2 and on such other terms and conditions as set forth in the loan agreement.

Table 2: Summary of Funding Terms

| | Minimum Disbursement | Interest Rate | Maturity ^a | Repayment Profile |
|------------------------------|-------------------------|--|-----------------------|--|
| United States dollar funding | \$100,000 | LIBOR +0.50% p.a. sovereign spread ± rebates or surcharge, if any +0.25% p.a. government guarantee fee | 19.5 years | 4-year grace period followed by 31 semiannual installments (using annuity based on 5% discount rate) |

LIBOR = London interbank offered rate, p.a. = per annum.

^aThe average loan maturity is 12.98 years based on the annuity method with a 5% discount factor.

Note: A commitment fee of 0.15% p.a. will apply on the undisbursed loan amount and payable semiannually.

Source: Asian Development Bank.

D. Implementation Arrangements

17. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (PAM).¹⁸ Although the facility was originally scheduled to close in 2019, it has been extended until September 2023 to compensate for the 3-year period of inactivity following the approval in 2015 and subsequent cancellation in 2016 of tranche 2 (para. 4).

¹⁷ The climate mitigation funding of \$60 million is based on expert judgment informed by actual subprojects funded under tranche 1, and this tranche's indicative pipeline.

¹⁸ Updated project administration manual for project 3 is in Appendix 5.

Table 3: Implementation Arrangements for Project 3

| Aspects | Arrangements |
|---------------------------------|--|
| Implementation period | December 2018–December 2022 |
| Estimated completion date | 31 December 2022 |
| Estimated loan closing date | 26 September 2023 |
| Management | |
| (i) Oversight body | IIFCL Board of Directors |
| (ii) Executing agency | IIFCL |
| (iii) Key implementing agencies | IIFCL |
| (iv) Implementation unit | The IIFCL project management unit is led by a chief general manager and has five other staff members, including safeguard personnel |
| Retroactive financing | ADB may, subject to its policies and procedures and consistent with tranche 1, permit on request retroactive financing of eligible expenditures for the tranche of up to 20% of the tranche amount; expenditures must be incurred prior to loan effectiveness but not earlier than 12 months before the signing of the tranche's loan agreement. |
| Disbursement | The tranche proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) except Sections 8.12 and 8.13. |

ADB = Asian Development Bank, IIFCL = India Infrastructure Finance Company Limited.

Sources: Asian Development Bank and India Infrastructure Finance Company Limited.

18. ADB has checked readiness filters and is confident that the \$300 million tranche can be disbursed within the implementation period. This assessment is based on: (i) a review of the indicative subprojects including four site visits, (ii) IIFCL's excellent disbursement history, and (iii) the option to use retroactive financing.

19. At this facility's origination, ADB approved a free limit of up to \$30 million for qualified greenfield subprojects.¹⁹ Based on IIFCL's satisfactory performance during tranche 1 (para. 11), the free limit will be continued under tranche 3.

IV. ATTACHED TECHNICAL ASSISTANCE

20. In support of one of the facility's outputs, the attached TA for Expanding Infrastructure Financing Capacity will strengthen two key areas.

- (i) **Financial management.** The TA will (a) evaluate and help implement recommendations to strengthen IIFCL's risk management framework, (b) certify the material integration of IIFCL's management information systems, (c) assist IIFCL in the development of multiyear financial projections, and (d) update its credit risk models.
- (ii) **Social and environmental safeguards.** The TA will (a) expose IIFCL to best practices in implementing projects with significant safeguard risks (classified as category A) to better enable it to serve as the lead lender and (b) fund independent semiannual safeguard monitoring reviews of ADB-funded subprojects.

21. The TA is estimated to cost \$500,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-Others), and builds on institutional strengthening TA delivered under the first MFF in 2007 (para. 6). IIFCL will provide counterpart support in the form

¹⁹ For subprojects above the free limit, ADB must approve subproject eligibility in advance. For subprojects below the free limit, IIFCL can approve the subproject in advance of ADB's approval.

of (i) counterpart staff remuneration, (ii) office accommodation and supplies, (iii) local transport, (iv) logistical support, and (v) other in-kind contributions.

22. A total of 36.7 person-months of intermittent consultant services will be required. Two consulting firms will be engaged to recruit one international consultant and five national consultants using the quality- and cost-based selection method, with a standard quality–cost ratio of 90:10. One international and one national consultant will also be recruited for the risk management component. All consultants will be recruited in line with ADB’s *Guidelines on the Use of Consultants* (2013, as amended from time to time). All disbursements under the TA will be made in accordance with ADB’s *Technical Disbursement Handbook* (2010, as amended from time to time).

V. DUE DILIGENCE

A. Economic and Financial

23. Tranche 3 will finance subprojects with strong economic fundamentals. Consistent with the financial intermediary modality, the actual subprojects to be financed will be finalized during implementation. However, based on the economic returns of infrastructure projects generally, the tranche will likely generate significant economic returns—the tranche is expected to predominantly finance roads, and an ADB validation report on a project loan to India for rural roads found the economic internal rate of return of 131 appraised road subprojects was 26.6%.²⁰

24. IIFCL’s financial performance has been adequate despite difficult conditions. As of fiscal year 2017, IIFCL’s capital adequacy ratio was 19.2%, higher than the 12.0% level that the Reserve Bank of India has mandated for IIFCL. Although high on an absolute level, IIFCL’s NPL ratio remains below the average for scheduled commercial banks and well below the average for infrastructure loans. Despite losses reported by many public sector banks as a result of NPLs, IIFCL has remained profitable, with a return on average assets for fiscal year 2017 of 0.2%. IIFCL has strong liquidity and a demonstrated ability to access the Indian rupee public and private debt markets. Finally, because IIFCL remains of strategic importance for the government in promoting long-term infrastructure financing, it benefits from explicit and implicit government support, and is rated on par with the sovereign: BBB– by S&P Global Ratings on the international scale and AAA by domestic rating agencies on the local scale.

25. The economic and financial analyses are in Appendixes 7 and 8.

B. Governance

26. IIFCL has the financial management capacity to administer the tranche. IIFCL board members oversee operations and have suitable industry and policy backgrounds. Accounting policies are well established and follow national statutes. Since ADB approval of tranche 1, IIFCL has successfully applied to be classified as an infrastructure nonbanking financial company, which brings it under the supervision of the Reserve Bank of India. IIFCL will have sufficient equity to absorb tranche 3 without breaching regulatory capital requirements. The financial management risk is moderate, mainly because the internal audit, credit risk management, and management information systems are still being developed.

²⁰ ADB. 2014. [Validation Report: Rural Roads Sector I Project in India](#). Manila.

27. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and IIFCL. The specific policy requirements and supplementary measures are described in the project administration manual (Appendix 5).

C. Poverty, Social, and Gender

28. The poor are acutely affected by inadequate infrastructure, which impedes diversification and improvement of livelihoods. Shocks to the national economy—such as rationing the supply of electricity—particularly impact people who depend on small, informal sector enterprises for their livelihoods. As such, infrastructure development in general and this project in particular promote inclusive growth, reduce poverty, and contribute toward Sustainable Development Goal 9 (targets include building resilient infrastructure, promoting inclusive and sustainable industrialization, and fostering innovation) by (i) expanding overall production capacity and creating additional jobs; (ii) reducing production and transport costs through improved transport and connectivity; (iii) connecting markets; and (iv) improving access to service delivery such as health, education, and other basic services.²¹

D. Safeguards

29. IIFCL's environmental and safeguards management system and management of safeguards under tranche 1 were satisfactory. This project is classified *financial intermediary* for the environment, involuntary resettlement, and indigenous peoples following ADB's Safeguard Policy Statement (2009). The tranche complies with ADB's information disclosure and consultation requirements. Subproject selection criteria will ensure that IIFCL excludes subprojects with activities on ADB's Prohibited Investments Activity List and with indigenous peoples impacts (categories A and B). Subprojects with significant safeguard impacts (category A) for the environment and involuntary resettlement are also excluded. IIFCL will classify each subproject using ADB's environment, involuntary resettlement, and indigenous peoples screening checklists and prepare an environment and social due diligence report for each subproject. ADB will review each subproject's environment and social due diligence report for compliance with the terms of ADB's loan agreement and national laws. IIFCL will be responsible for monitoring safeguards implementation and will continue to submit annual reports on the implementation status of its environment and social management system.

E. Summary of Risk Assessment and Risk Management Plan

30. The project's overall risk is moderate, and benefits are expected to outweigh costs. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²²

Table 4: Summary of Risks and Mitigating Measures

| Risks | Mitigation Measures |
|--|---|
| Slow financial closure of subprojects because of weaknesses in the infrastructure sector or in the balance sheets of other financial institutions that have historically lent to the infrastructure sector | The indicative project amount is 2.6x the size of the tranche, so even if there is a slowdown in financial closures, there is sufficient redundancy to ensure disbursement of the tranche |
| IIFCL cannot materially integrate its management information systems because of the incompatibility of legacy systems | Through the attached TA, ADB will verify the integration of the management information system |

²¹ United Nations Development Programme. [Sustainable Development Goals: Goal 9.](#)

²² Risk Assessment and Risk Management Plan is in Appendix 10.

| Risks | Mitigation Measures |
|---|--|
| ADB funding is used for a subproject with significant (category A) safeguard impacts because the subproject was erroneously classified as having "some" impacts (category B), or other operational errors | With ADB's assistance, IIFCL has established an environment and safeguards management unit that has performed well, and the attached TA will further deepen its capacity. Additionally, IIFCL will use ADB templates to classify subprojects |
| IIFCL's focus is compromised because of alleged or actual incidents of fraud | Supported by project covenants and the attached TA, IIFCL will reduce fraud risk by strengthening its internal audit, risk management, and management information systems |

ADB = Asian Development Bank, IIFCL = India Infrastructure Finance Company Limited, TA = technical assistance.
Source: Asian Development Bank.

VI. ASSURANCES

31. IIFCL has assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents.

32. IIFCL has agreed with ADB on certain covenants for the project, which are set forth in the loan agreement. Among others, IIFCL has agreed to (i) complete in all material respects the integration of its management information system within 12 months of loan effectiveness, (ii) undertake a gap analysis of its risk management and submit the recommendations to its board of directors within 12 months of loan effectiveness, (iii) segregate responsibilities for internal auditor and risk management within 6 months of loan effectiveness, (iv) be profitable as of its most recent audited financial statements, and (v) comply with the Reserve Bank of India's regulatory capital minimums.

VII. THE PRESIDENT'S DECISION

33. On the basis of the approval by ADB's Board of Directors for the provision of loans under the multitranches financing facility in an aggregate principal amount not exceeding \$700,000,000 to India Infrastructure Finance Company Limited and guaranteed by India for the Accelerating Infrastructure Investment Facility in India Investment Program, the President has approved the tranche as described in para. 16 and Table 2 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and guarantee agreements.

DESIGN AND MONITORING FRAMEWORK FOR PROJECT 3

| Impact of the Facility is Aligned with | | | |
|--|---|---|--|
| Investments in infrastructure increased (India Three Year Action Agenda 2017–2018 to 2019–2020) ^a | | | |
| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting | Risks |
| Outcome Private sector investment in infrastructure PPPs facilitated | By December 2023, \$2.4 billion of private sector investments on eligible infrastructure PPP subprojects catalyzed (January 2017 baseline: \$5.4 billion of private sector infrastructure investments catalyzed in PPPs under tranche 1) | Annual report of IIFCL | Slow financial closure of subprojects because of weaknesses in the infrastructure sector or in the balance sheets of other financial institutions that have historically lent to the infrastructure sector IIFCL's focus is compromised because of alleged or actual incidents of fraud |
| Outputs 1. Availability of long-term finance for PPP subprojects enhanced | 1. By December 2022, at least 13 PPP subprojects financed under tranche 3 utilizing the \$300 million loan amount (January 2017 baseline: 12 PPP subprojects funded under tranche 1) | 1a. Annual audited statement of utilization of funds and semi-annual progress reports from IIFCL | |
| 2. Operational capacity of IIFCL improved | 2a. By December 2019, management information systems adequately integrated (January 2017 baseline: only select systems integrated and unvalidated) 2b. By December 2019, IIFCL risk management analysis undertaken and recommendations submitted to its board of directors (January 2017 baseline: not applicable) 2c. By December 2020, IIFCL staff report increased knowledge on management of safeguards for infrastructure projects rated | 2a. Assessment from an independent third party 2b. Copy of the report with cover letter from IIFCL indicating date of the submission to its board 2c. Copy of consultant report | IIFCL cannot materially integrate its management information systems because of the incompatibility of legacy systems |

| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting | Risks |
|--|--|----------------------------|-------|
| | category A (January 2017 baseline: not applicable) | | |
| Key Activities with Milestones | | | |
| 1. Availability of long-term finance for PPP subprojects enhanced 1.1 IIFCL disburses financing to 13 PPPs (Q4 2018–Q4 2021) | | | |
| 2. Operational capacity of IIFCL improved 2.1. An independent third party assesses the adequacy of IIFCL’s management information systems (Q2–Q4 2019) 2.2 IIFCL performs a gap analysis of its credit risk management and submits recommendations to its board of directors (Q2–Q4 2019) 2.3 IIFCL completes in-house training, a study of international practices, and a facilitated review of a non-ADB funded project with significant safeguard impacts (Q2 2019–Q4 2020) | | | |
| Inputs | | | |
| ADB: \$300 million (OCR loan); \$500,000 (transaction technical assistance: Technical Assistance Special Fund) | | | |
| Assumptions for Partner Financing | | | |
| Not applicable | | | |

ADB = Asian Development Bank, IIFCL = India Infrastructure Finance Company Limited, OCR = ordinary capital resources, PFR = periodic financing request, PPP = public–private partnership, Q = quarter.

Note: A total of 30 PPPs (i.e. 17 PPP subprojects under tranche 1 and 13 PPP subprojects under tranche 3) have been committed by IIFCL for the entire \$700 million facility under the facility design and monitoring framework.

^a Government of India, NITI Aayog. 2017. [India: Three Year Action Agenda, 2017-2018 to 2019-2020](#). New Delhi.

Sources: Asian Development Bank and India Infrastructure Finance Company Limited.