EXPERT TAKE

SUJOY BOSE
CEO
NIIF

Right Regulations, Vehicles can Draw Global Capital into Infra Financing

Also, there's need for infra investing mindset to become climate friendly

The Economic Survey forecasts India's GDP growth to be 8-8.5% in 2022-23 on the back of increased capital expenditure and infrastructure spending. As India and the world emerge from pandemic-related dislocations and make their inevitable journeys in their commitments of net zero greenhouse gas emissions, there is an opportunity to reimagine India's infrastructure development and its financing in a manner that is smart, green, and future-ready.

Significant growth is expected from robust exports. India is rightly focused on bringing down the logistics costs-to-GDP ratio over the next few years as well as on playing a leadership role in the energy and mobility transition away from fossil fuels.

Several steps taken by the government over the last few years have improved India's attractiveness for international infrastructure investors, including: improved regulatory frameworks; transparent and well-structured auctions; smart offtake arrangements through central government-backed counterparties; and, a bouquet of products such as toll operate transfer, investment trusts (InvITs), sovereign-linked commercially managed equity funds (NIIF), production-linked incentive schemes to spur local manufacturing, and tax benefits for large international institutional investors.

Global and domestic players will seek to invest in assets where public sector is ready to transfer ownership

India needs a jump up in its investment-to-GDP ratio. Implementation of the ₹111 lakh-crore National Infrastructure Pipeline (NIP) is expected to be partly financed by National Monetisation Pipeline (NMP). NMP, showcased in the last budget, created tremendous excitement among international investors. With many global pension funds allocating 15-20% of assets under management to alternative assets, including infrastructure, it is a good moment for India to increase its aggression in executing the NMP.

Over the last year, India's infrastructure asset monetisation programme has relied on tax-efficient escrowing of cashflows from operating assets into InvITs. This is more a financing tool for public sector agencies rather than asset monetisation, and is not a preferred investment approach for most international institutional investors. On the other hand, public sector InvITs could be ideal for large Indian institutions such as EPFO, LIC, and other pension and insurance trusts, which need long-term tax-efficient assets with predictable cash flows to match their long-term liabilities.

Sophisticated international investors and domestic players will mostly seek to invest in assets where the public sector is willing to transfer ownership. Such asset monetisation will not only raise capital for financing NIP but will also harness private sector operating efficiencies as seen in the privatisation of metro airports.

Finally, our infrastructure investing mindset must become climate friendly. Recently, a report on India's Green Future was prepared to highlight policy changes required to harmonise green taxonomy and unlock finance.

The survey also highlights the need for policy to prepare for clean energy transition and that climate finance will be critical for countries such as India. The Green Growth Equity Fund (GGEF) – a $741 million, the largest country-focused climate fund in emerging markets – is another example of concerted effort in promoting sustainable businesses, which was co-anchored by NIIF.

Right regulations, well-designed transactions, and appropriate vehicles can help channelise significant global capital into India's infrastructure financing, making it smart, green, and future ready.