JBIC's Challenges for Infrastructure Development in India

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JAPAN BANK FOR INTERNATIONAL COOPERATION

The International Wing of JAPAN FINANCE CORPORATION
CONTENTS

1. Introduction of JBIC

2. Japanese Investors’ View

3. JBIC’s Challenges
1. Introduction of JBIC (1)

International wing of Japan Finance Corporation (JFC), a policy-based financing institution fully owned by Japanese Government.
1. Introduction of JBIC (2)

Conducting operations to fulfill the following 4 functions in order to contribute to the sound development of the international as well as Japanese economy.

- Promoting overseas development and acquisition of strategically important natural resources to Japan
- Maintaining and improving the international competitiveness of Japanese industries
- Promoting the overseas business having the purpose of preserving the global environment, such as preventing global warming; and
- Responding to disruption in financial order in the international economy.

Started from Apr 2010
1. Introduction of **JBIC (3)**

JBIC provides multi-faceted support for the development of developing countries and Japan to meet their increasingly diverse financing needs through and integral combination of its financial products and other services.

![ JBIC Operations Diagram ]

<table>
<thead>
<tr>
<th>7 Operations</th>
<th>4 Financing Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Loans</td>
<td>Lending</td>
</tr>
<tr>
<td>Bridge Loans</td>
<td>Guarantees</td>
</tr>
<tr>
<td>Import Loans</td>
<td>Acquisition and Securitization of</td>
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<td></td>
<td>Public / Corporate Bonds</td>
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<tr>
<td>Overseas Investment Loans</td>
<td>Assignment and Securitization of</td>
</tr>
<tr>
<td>Untied Loans</td>
<td>Loan Assets</td>
</tr>
</tbody>
</table>
Since 1989, JBIC has conducted a survey of Japanese manufacturers every year on their overseas business operations and reported its results. The objective of the survey is to understand the current trends, agenda and future outlook of the overseas business operations of internationally active Japanese manufacturing companies.

Result of JBIC FY2009 Survey – Outlook for Japanese Foreign Direct Investment (21st Annual Survey) – shows that…
2. Japanese Investors’ View (2)

Figure 1: Promising Countries/Regions for Overseas Business Operations over the Medium-term
(next 3 yrs. or so) (multiple response)

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Country /Region</th>
<th>No. of Companies</th>
<th>Percentage Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1(1)</td>
<td>China</td>
<td>353 (297)</td>
<td>74 (63)</td>
</tr>
<tr>
<td>2(2)</td>
<td>India</td>
<td>278 (271)</td>
<td>58 (58)</td>
</tr>
<tr>
<td>3(3)</td>
<td>Vietnam</td>
<td>149 (152)</td>
<td>31 (32)</td>
</tr>
<tr>
<td>4(5)</td>
<td>Thailand</td>
<td>110 (125)</td>
<td>23 (27)</td>
</tr>
<tr>
<td>5(4)</td>
<td>Russia</td>
<td>103 (130)</td>
<td>21 (28)</td>
</tr>
<tr>
<td>6(6)</td>
<td>Brazil</td>
<td>95 (91)</td>
<td>20 (19)</td>
</tr>
<tr>
<td>7(7)</td>
<td>USA</td>
<td>65 (78)</td>
<td>14 (17)</td>
</tr>
<tr>
<td>8(8)</td>
<td>Indonesia</td>
<td>52 (41)</td>
<td>11 (9)</td>
</tr>
<tr>
<td>9(9)</td>
<td>Korea</td>
<td>31 (27)</td>
<td>6 (6)</td>
</tr>
<tr>
<td>10(12)</td>
<td>Malaysia</td>
<td>26 (20)</td>
<td>5 (4)</td>
</tr>
</tbody>
</table>

(Numbers in parentheses represent last year’s figures)

**Restored interest in China**
Companies that saw China as promising had been on the decline for the past few years, but in this fiscal year they rose. China continues to hold the top rank.

**More responses for India, Brazil and Indonesia**
The ranking of India, Brazil and Indonesia did not change, but companies listing these countries steadily rose.

The respondents were each asked to name the top five countries that they consider to have promising prospects for business operations over the medium term (the next three years or so). The table above shows the number of quotation of the countries or regions (no. of responses) and ratio (percentage share), consisting of that number divided by the number of responding companies.
Figure 2: Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so):
2. Japanese Investors’ View (4)

Figure 3: Existence of Concrete Business Plans for Promising Countries/Regions

China’s share driven up by the increasing number of companies with no plans in China
Of the companies that consider China to be promising, the number which actually having plans in China was 197, showing a decreasing trend. On the other hand, the number with no plans dramatically increased to 142, many of these companies responded in favor of China, leading to a rise in China’s percentage share in that category.

A steady number of companies have plans in India, Vietnam, Brazil and Indonesia, despite the economic downturn
At 107, there was a small increase in the companies with plans in India. It is second only to China in the number of companies with plans, indicating a continuing shift from “promising” to actual investment in India. There was not much change in the number of companies with plans in Vietnam, Brazil and Indonesia, despite the economic downturn.
2. Japanese Investors’ View (5)

Figure 4: Reasons for India Being Viewed as Promising for Overseas Operations and Pending Issues

<table>
<thead>
<tr>
<th>Reasons for India Being Viewed as Promising for Overseas Operations</th>
<th>No. of companies</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Future growth potential of local market</td>
<td>248</td>
<td>90.2%</td>
</tr>
<tr>
<td>2. Inexpensive source of labour</td>
<td>106</td>
<td>38.5%</td>
</tr>
<tr>
<td>3. Supply base for assemblers</td>
<td>53</td>
<td>19.3%</td>
</tr>
<tr>
<td>4. Qualified human resources</td>
<td>51</td>
<td>18.5%</td>
</tr>
<tr>
<td>5. Current size of local market</td>
<td>51</td>
<td>18.5%</td>
</tr>
</tbody>
</table>

(Total number of respondent companies: 275)

<table>
<thead>
<tr>
<th>Pending Issues</th>
<th>No. of companies</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Underdeveloped infrastructure</td>
<td>122</td>
<td>46.9%</td>
</tr>
<tr>
<td>2. Security/social instability</td>
<td>78</td>
<td>30.0%</td>
</tr>
<tr>
<td>3. Intense competition with other companies</td>
<td>77</td>
<td>29.6%</td>
</tr>
<tr>
<td>4. Execution of legal system unclear</td>
<td>76</td>
<td>29.2%</td>
</tr>
<tr>
<td>5. Complicated tax system</td>
<td>61</td>
<td>23.5%</td>
</tr>
</tbody>
</table>

(Total number of respondent companies: 260)

- The top reason for India is “future growth potential of local market”. It is clear that there are high expectations for growth in that country. The fifth reason, “current size of local market”, has risen steadily.

- Although the level of concern of an “underdeveloped infrastructure” is gradually falling, it still remains the greatest issue. In part because of terrorist attacks, “security/social instability” has grown significantly compared with the previous year.
2. Japanese Investors’ View (6)

Figure 5: Infrastructures desired to be improved (multiple response)

- **China**: 34% (n=136)
- **Vietnam**: 34% (n=136)
- **Russia**: 17% (n=99)
- **Indonesia**: 35% (n=48)
- **India**: 47% (n=260)

<Many infrastructure issues cited for India, Indonesia and Vietnam>

Of respondent companies, a particularly large portion of them named India (47%), Indonesia (35%) and Vietnam (35%). Road and electricity issues are listed quite often. Water is the third most frequently given problem in relation to India.
2. Japanese Investors’ View (7)

Figure 6: Changes in Main Issues faced in India

- Execution of legal system unclear
- Rising labor costs
- Intense competition with other companies
- Underdeveloped infrastructure
- Security/social instability
- Lack of information on the country
3. **JBIC’s Challenges**

**JBIC** can support infrastructure projects in India which…

- import Japanese machines, equipments, technologies, etc. by Export Credits
- are maintained and operated by Japanese subsidiaries or joint ventures by Overseas Investment Loans
- are used by Japanese companies in India by Untied Loans (conventional facility)
- have favorable impact on preservation of the global environment, such as significantly reducing GHG emissions by Untied Loans (GREEN)
3. **JBIC’s Challenge (1-1)**

**Delhi Mumbai Industrial Corridor (DMIC)**

- Initiated by METI (Japan) and Ministry of Commerce & Industry (India).
- The 1,483 km long DFC Project is to be commissioned by 2012.
- With focus to ensure High Impact Developments within a band of 150 km on either side of alignment of DFC.
- A total of 24 nodes (11 Investment Regions & 13 Industrial Areas) identified in consultation with 6 state governments.
- More than 100 infrastructure projects (total US$ 90 billion) are expected from 2008 to 2016.
3. **JBIC’s Challenge (1-2)**

**Project Development Fund (PDF) of DMIC**

1. JBIC Loan to IIFCL under GOI Guarantee.
2. Transfer funds to PDF Account.
3. Utilize funds in PDF Account to conduct Feasibility Study (F/S) for prospective projects under DMIC.
4. Submit F/S reports.
5. Establish Special Purpose Vehicles (SPVs) which have all necessary clearances and approvals to implement each project. Sell SPVs to Project Developers.
6. Payment for sales of SPVs.

*1: India Infrastructure Finance Company Limited
*2: Delhi Mumbai Industrial Corridor Development Corporation Limited

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Flow of Funds

Other Flows (Services or Rights)
3. JBIC’s Challenge (1-3)

Expected Outcomes of DMIC

Development of Infrastructure in Strategically Important Locations

- Speedy implementation through coordination between central and state governments.
- Enhanced connectivity to DFC, ports, and other infrastructure projects.

Improvement of Investment Climate
3. **JBIC's Challenge (2-1)**

- It was not so easy for Japanese companies (esp. heavy industries) to supply machines and equipments to Indian power producers.
- Some Japanese heavy industries has established their joint ventures in India to manufacture and sell their high performance boilers and steam turbines.
- JBIC has supported construction of their manufacturing facilities.
- It is time to consider how to support their sales in Indian market.
Now considering support for locally manufactured heavy equipments

3. JBIC’s Challenge (2-2)

Machines and/or equipments supply

Japanese Heavy Industries

Payment ( JPY or Rp )

Set up J/Vs

Plant Export

< India >

< Japan >

Power Producers

Heavy Industries

Banks

JBIC

① : Direct Loan from JBIC (basically in JPY)

② : Two Step Loan (in JPY or USD)

②' : Sub Loan in Rp (taking corporate risk)
3. **JBIC’s Challenge (3)**

**GREEN**
(Global action for Reconciling Economic growth and Environmental preservation)

Supporting Projects aiming at Preserving the Global Environment, such as Mitigating Global Warming

- **JBIC**
- **Guarantee**
- **Private Flows**
- **Loan / Equity Participation**

**Eligible Entity:**
Sovereign, Sub-sovereign, non-sovereign such as utilities operating closely with government, Foreign Financial Institution, International Financial Institution.

**Eligible Projects:**
1. Favorable impact on preservation of the global environment, such as significantly reducing GHG emissions.
2. Accepting JBIC-MRV(*) process on the effect of the environmental preservation. (i.e. Energy Efficiency Improvement, Renewable Energy, etc)

*: JBIC original methodology for Measurement, Reporting and Verification.
For Further Information

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### Eligible Projects for GREEN

<table>
<thead>
<tr>
<th>Approach</th>
<th>Sector</th>
<th>Type of Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Efficiency</td>
<td>Industry</td>
<td>• New investment with energy efficient equipment and technology</td>
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<tr>
<td></td>
<td></td>
<td>• Rehabilitation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Waste heat and gas recovery</td>
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<tr>
<td></td>
<td></td>
<td>• Recycle of materials</td>
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<tr>
<td></td>
<td>Power generation</td>
<td>• Highly efficient coal-fired power</td>
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<tr>
<td></td>
<td></td>
<td>• Gas fired power</td>
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<tr>
<td></td>
<td></td>
<td>• Co-generation</td>
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<tr>
<td></td>
<td></td>
<td>• Fuel switching</td>
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<tr>
<td></td>
<td>Transmission and distribution</td>
<td>• Smart grid</td>
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<tr>
<td></td>
<td></td>
<td>• Grid management system</td>
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<tr>
<td></td>
<td></td>
<td>• Highly efficient transformer</td>
</tr>
<tr>
<td></td>
<td>Transport</td>
<td>• Urban Mass Transport</td>
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<tr>
<td></td>
<td>Building utilities and appliances</td>
<td>• ESCO (Energy Saving Company)</td>
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<td>• Energy saving appliances</td>
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<tr>
<td>Renewable</td>
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<td>• Solar power</td>
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<td>• Hydro energy</td>
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<td>• Geothermal energy</td>
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<td>• Biomass energy</td>
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<tr>
<td>Others</td>
<td></td>
<td>• Methane capture</td>
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<td>• REDD</td>
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<td>• Carbon Capture and Storage</td>
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</tbody>
</table>

This is a part of the list and may be changed following the progress of investment climate.