

JBIC's Challenges for Infrastructure Development in India

Sep. 14, 2010

Ryuta Suzuki



**JAPAN BANK FOR
INTERNATIONAL COOPERATION**

The International Wing of

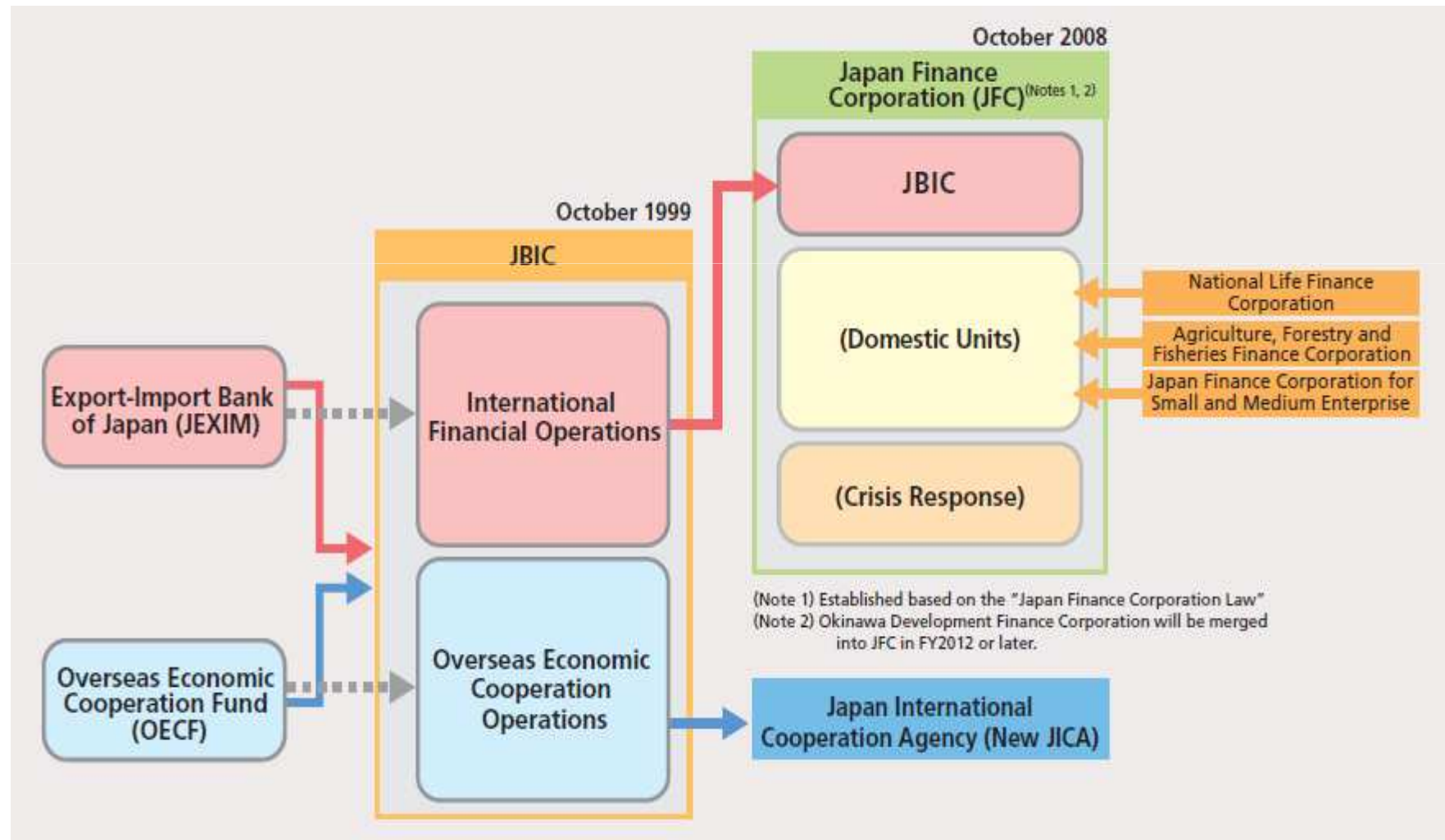
 **JFC JAPAN FINANCE CORPORATION**

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.

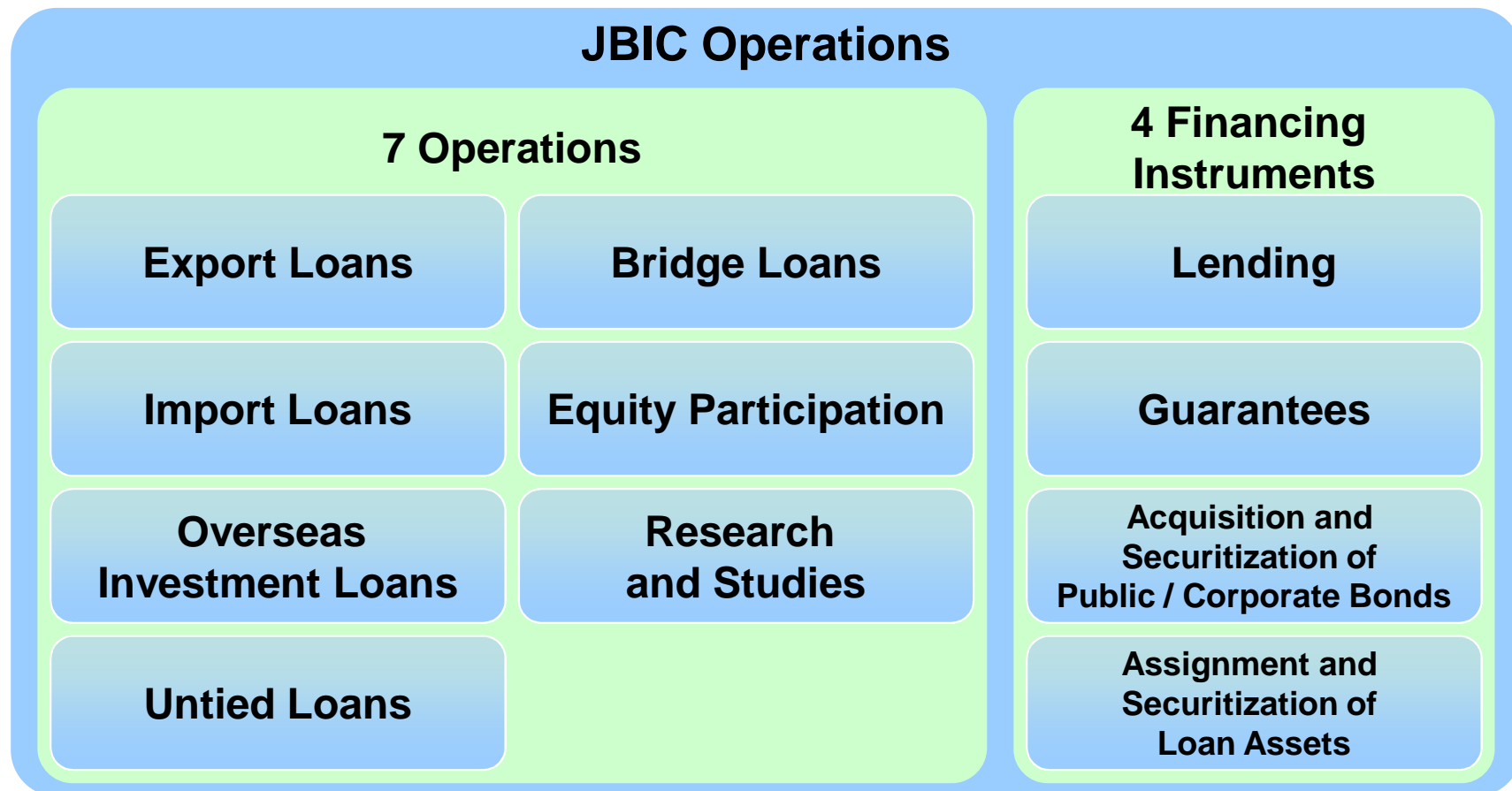
- ✓ Promoting overseas development and acquisition of strategically important natural resources to Japan
- ✓ Maintaining and improving the international competitiveness of Japanese industries
- ✓ Promoting the overseas business having the purpose of preserving the global environment, such as preventing 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.



2. Japanese Investors' View (1)

Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

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)

Ranking	Country /Region	No. of Companies		Percentage Share (%)			
		480	(471)				
1(1)	—	China	353	(297)	74	(63)	↑
2(2)	—	India	278	(271)	58	(58)	—
3(3)	—	Vietnam	149	(152)	31	(32)	↓
4(5)	↑	Thailand	110	(125)	23	(27)	↓
5(4)	↓	Russia	103	(130)	21	(28)	↓
6(6)	—	Brazil	95	(91)	20	(19)	↑
7(7)	—	USA	65	(78)	14	(17)	↓
8(8)	—	Indonesia	52	(41)	11	(9)	↑
9(9)	—	Korea	31	(27)	6	(6)	—
10(12)	↑	Malaysia	26	(20)	5	(4)	↑

(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.

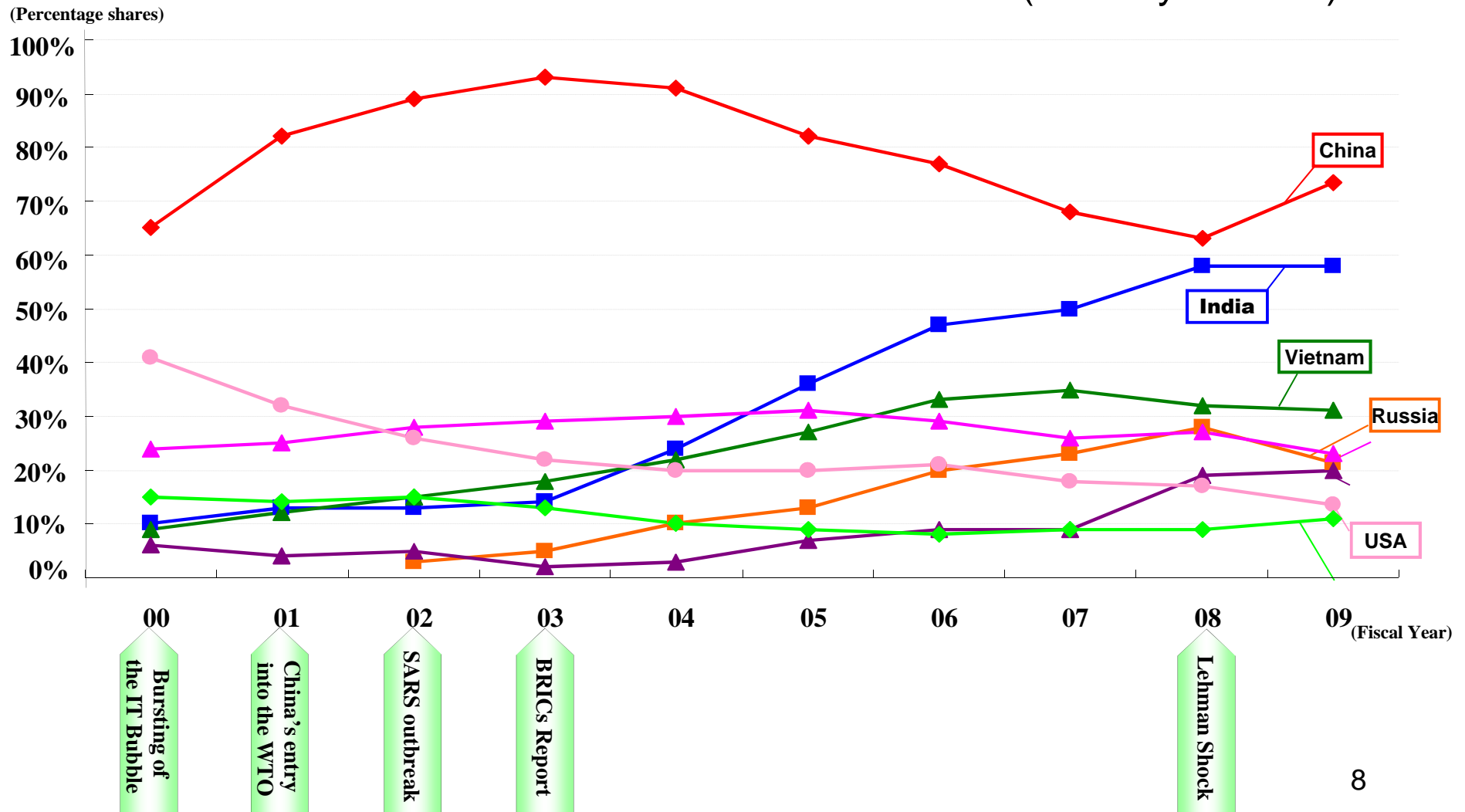
More responses for India, Brazil and Indonesia

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.

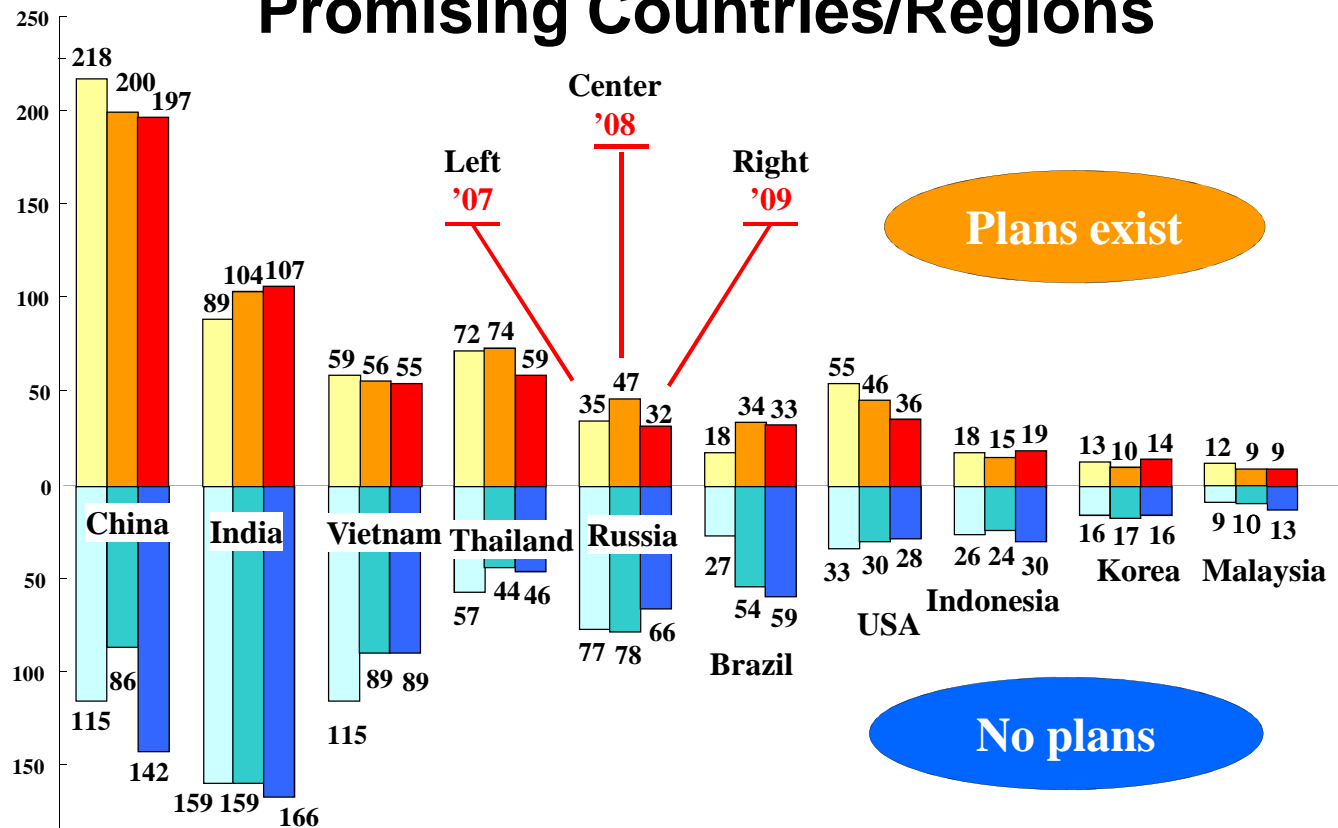
2. Japanese Investors' View (3)

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

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

(Total number of respondent companies: 275)

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

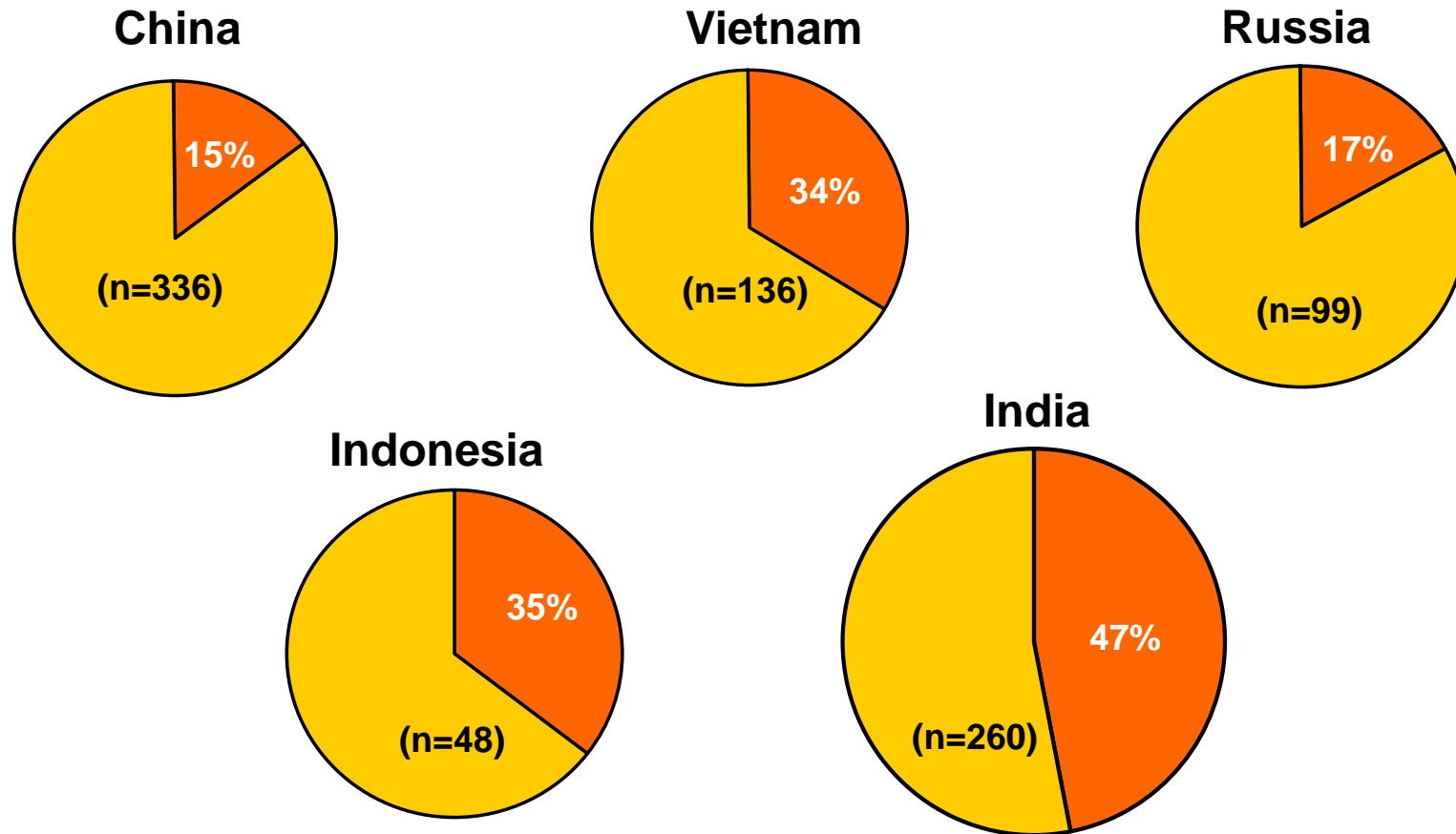
(Total number of respondent companies: 260)

■ 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)

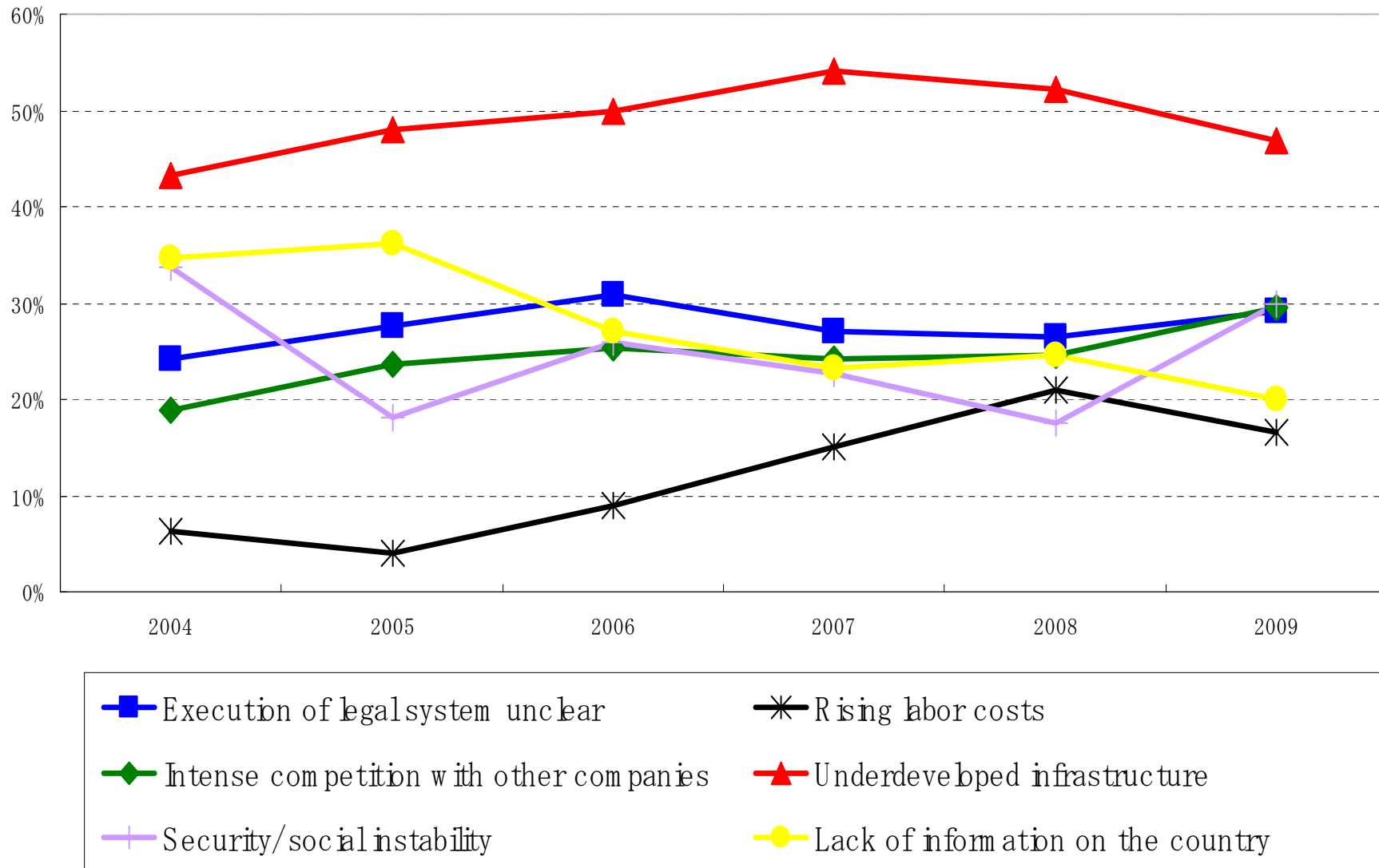


<Many infrastructure issues cited for India, Indonesia and Vietnam>

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



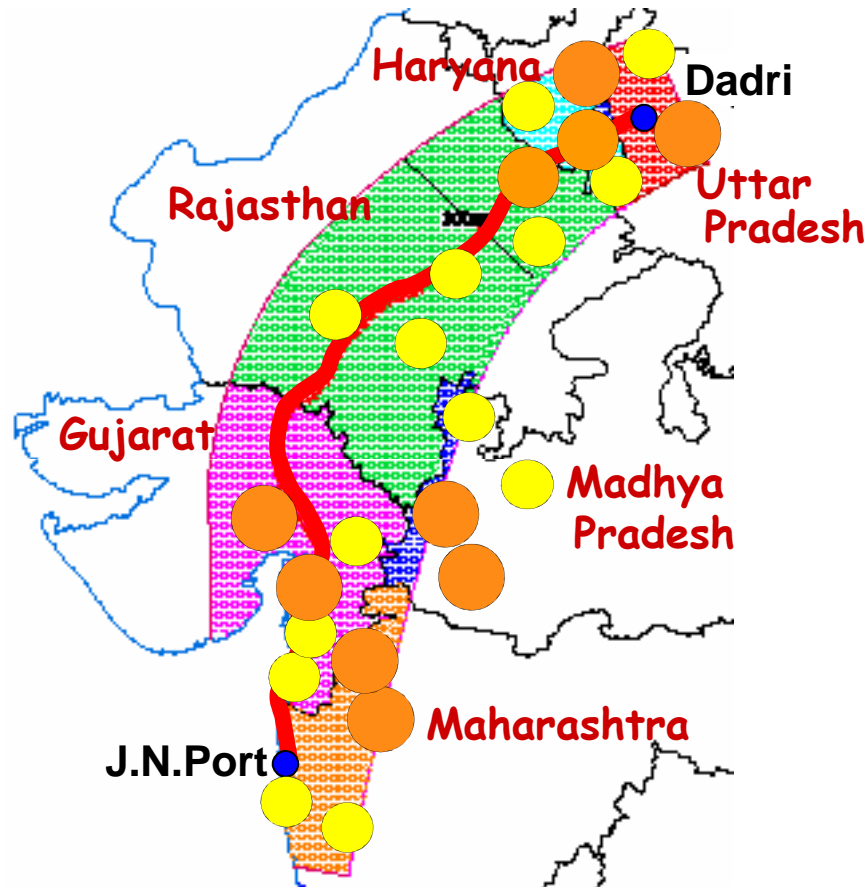
3. JBIC's Challenges

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)

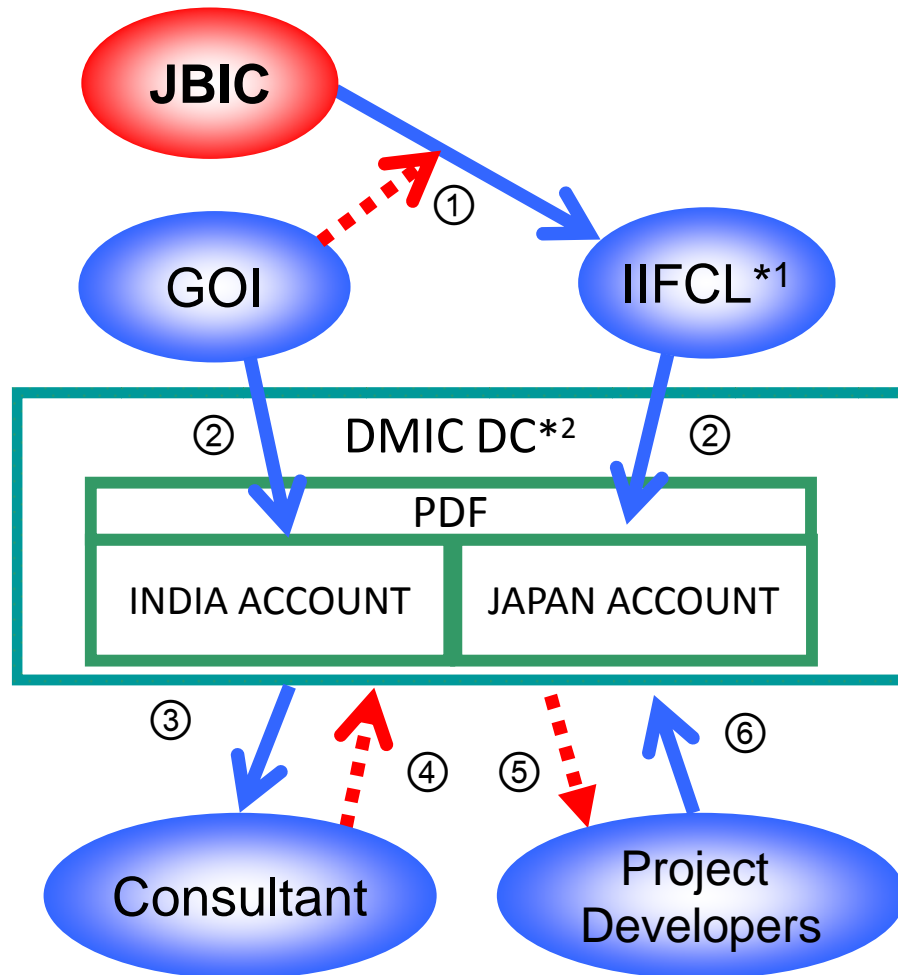


- Dedicated Freight Corridor
- Investment Region (minimum 200 km²)
- Industrial Area (minimum 100 km²)

- 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.

→ Flow of Funds
- - - → Other Flows (Services or Rights)

*1: India Infrastructure Finance Company Limited

*2: Delhi Mumbai Industrial Corridor Development Corporation Limited

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.**



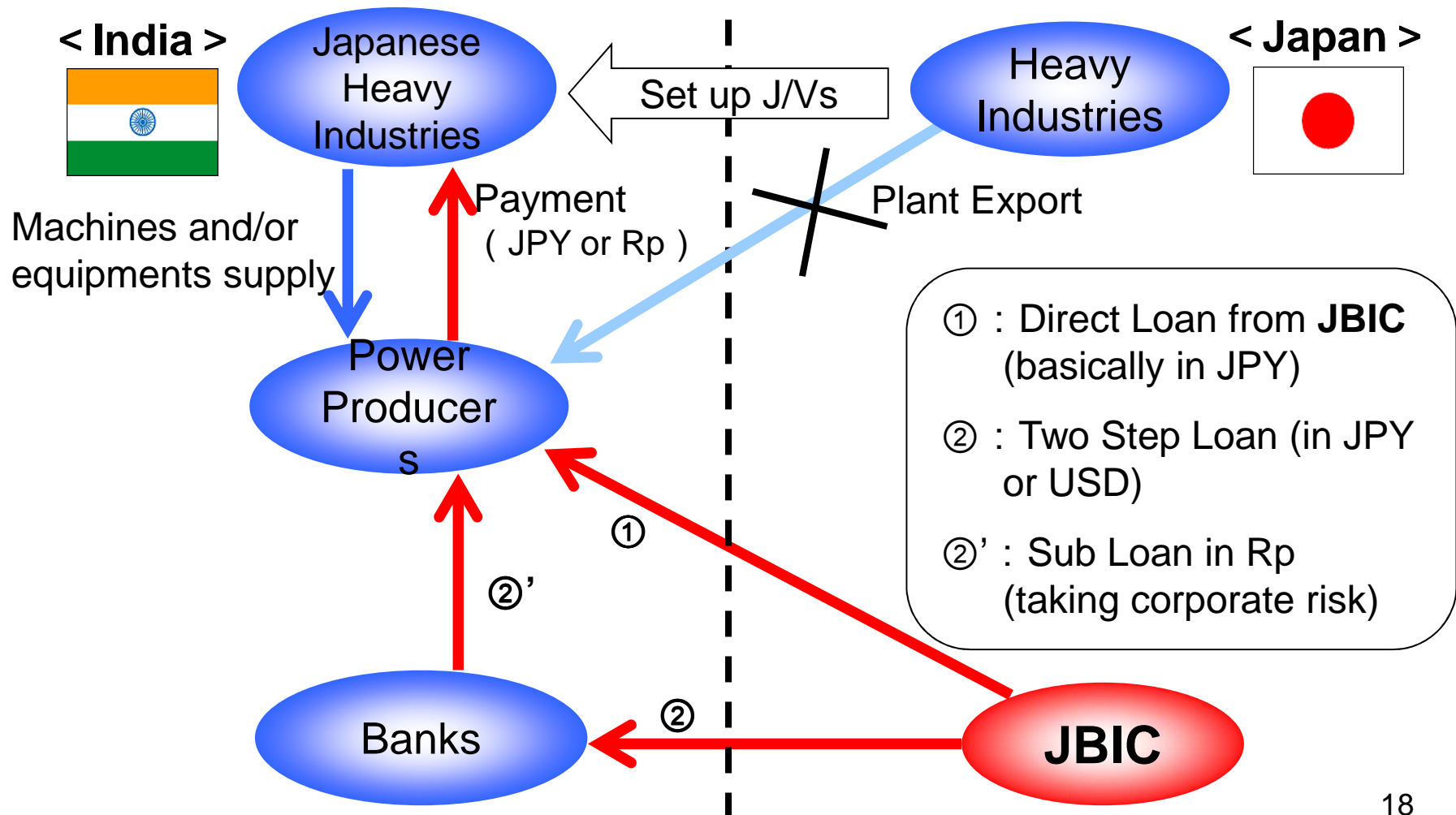
Improvement of Investment Climate

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.

3. JBIC's Challenge (2-2)

Now considering support for locally manufactured heavy equipments

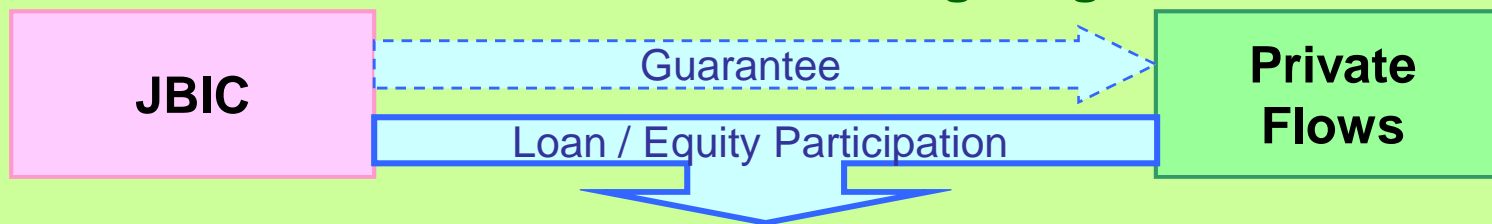


3. JBIC's Challenge (3)

GREEN

(Global action for Reconciling Economic growth and Environmental preservation)

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



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

Ryuta SUZUKI (Mr.)

Deputy Division Chief, Division 1 & 4,
Asia and Oceania Finance Department

Japan Bank for International Cooperation

TEL : +81-3-5218 - 3058

FAX : +81-3-5218 - 3963

e-mail: r-suzuki@jbic.go.jp

CONTENTS

1. Introduction of JBIC

2. Japanese Investors' View

3. JBIC's Challenges

CONTENTS

1. Introduction of **JBIC**

2. Japanese Investors' View

3. JBIC's Challenges

CONTENTS

1. Introduction of **JBIC**
2. Japanese Investors' View
- 3. JBIC's Challenges**

Eligible Projects for GREEN

Approach	Sector	Type of Investment
<u>Energy Efficiency</u>	Industry	<ul style="list-style-type: none"> • New investment with energy efficient equipment and technology • Rehabilitation • Waste heat and gas recovery • Recycle of materials
	Power generation	<ul style="list-style-type: none"> • Highly efficient coal-fired power • Gas fired power • Co-generation • Fuel switching
	Transmission and distribution	<ul style="list-style-type: none"> • Smart grid • Grid management system • Highly efficient transformer
	Transport	<ul style="list-style-type: none"> • Urban Mass Transport
	Building utilities and appliances	<ul style="list-style-type: none"> • ESCO (Energy Saving Company) • Energy saving appliances
<u>Renewable</u>		<ul style="list-style-type: none"> • Solar power • Wind power • Hydro energy • Geothermal energy • Biomass energy
<u>Others</u>		<ul style="list-style-type: none"> • Methane capture • REDD - Carbon Capture and Storage

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