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The World Bank

Report No: ICR00003745

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-76130, TF-96466)

ON A

GRANT

IN THE AMOUNT OF US$1.38 MILLION

AND A

LOAN

IN THE AMOUNT OF US$1,195 MILLION
(RESTRUCTURED TO 195 MILLION)

TO THE

INDIA INFRASTRUCTURE FINANCE COMPANY LIMITED (IIFCL)

WITH A GUARANTEE OF THE REPUBLIC OF INDIA

FOR A PROJECT ON

FINANCING PUBLIC-PRIVATE PARTNERSHIPS IN INFRASTRUCTURE

THROUGH SUPPORT TO THE INDIA INFRASTRUCTURE FINANCE COMPANY

LIMITED

April 18, 2016

Finance and Markets Global Practice
South Asia Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective April 18, 2016)
Currency Unit = Indian Rupees (INR)
INR 66.55 = US$1

FISCAL YEAR
April 1 – March 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
CSR	Corporate Social Responsibility
DFID	U.K. Department for International Development
DEA	Department of Economic Affairs
E&S	Environmental and Social
EIB	European Investment Bank
EMP	Environmental Management Plan
ESDDR	Environmental and Social Due Diligence Report
ESMU	Environment and Social Management Unit
ESSF	Environmental and Social Safeguards Framework
FIL	Financial Intermediary Loan
FM	Financial Management
GoI	Government of India
HR	Human Resources
ICB	International Competitive Bidding
ICR	Implementation Completion and Results Report
IDF	Institutional Development Fund
IFC	International Finance Corporation
IOI	Intermediate Outcome Indicator
IIFCL	India Infrastructure Finance Company Limited
IRMS	Integrated Risk Management System
ISO	International Standards Organization
ISR	Implementation Status and Results Report
KfW	Kreditanstalt für Wiederaufbau
LOC	Letter of Credit
M&E	Monitoring and Evaluation
MTR	Midterm Review
PAD	Project Appraisal Document
PDO	Project Development Objective
PPIAF	Public Private Infrastructure Advisory Facility
PPP	Public-Private Partnership
SIFTI	Scheme for Financing Viable Infrastructure Projects
SNTA	Subnational Technical Assistance

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A. Basic Information

Country:	India	Project Name:	IIFCL: India Infrastructure Finance Co. Ltd.
Project ID:	P102771	L/C Number:	
ICR Date:	Mar 18 2016	ICR Type:	Core ICR
Lending Instrument:	Financial Intermediary Loan	Borrower:	IIFCL: India Infrastructure Finance Co. Ltd.
Original Total Commitment:	US$1.195 billion	Disbursed Amount:	US$0.195 billion
Revised Amount:	US$0.195 billion		

Environmental Category: Financial Intermediary Assessment (FI)

Implementing Agency: IIFCL: India Infrastructure Finance Co. Ltd.

Cofinanciers and Other External Partners:

TF-96466 in the amount of US$ 1.38 M funded through DFID, March 2010 and March 2016
TF-96852 in the amount of US$ 0.13 M funded through PPIAF, May 2010 and July 2011
TF-97250 in the amount of US$ 0.02 M funded through PPIAF, June 2010 and September 2011
TF-56585 in the amount of US$ 0.34 M funded through PHRD, October 2006 and September 2008
TF-97567 in the amount of US$ 0.09 M funded through PPIAF, October 2006 and March 2013
TF-95760 in the amount of US$ 0.08 M funded through IDF, April 2010 and March 2013

B. Key Dates

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Note:	Mar 20 2007	Effectiveness:	Nov 5 2009	
Appraisal:	Aug 27 2009	Restructuring Approved:	Dec 12 2013	
Approval:	Sep 22 2009	Midterm Review:	May to Jul 2013	
		Closing:	Sep 30 2015	

C. Ratings Summary

C.1 Performance Rating by ICR

Overall Outcome:	Moderately Unsatisfactory
Risk to Development Outcome:	Substantial
Bank Performance:	Unsatisfactory
Borrower Performance:	Moderately Unsatisfactory

C.2 Detailed Ratings of Bank and Borrower Performance by ICR

Bank	Ratings	Borrower	Ratings
Quality at Entry:	Unsatisfactory	Government:	Moderately Satisfactory
Quality of Supervision:	Moderately Unsatisfactory	Implementing Agency:	Moderately Unsatisfactory
Overall Bank Performance:	Unsatisfactory	**Overall Borrower Performance:**	Moderately Unsatisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating**
Potential Problem Project at any time (Yes/No):	Yes	Quality at Entry (QEA):	n.a.
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	n.a.
DO rating before Closing/Inactive status:	Moderately Unsatisfactory		

D. Sector and Theme Codes		
	Original	**Actual**
Sector Code (as % of total Bank financing)		
Capital Markets	20	20
General Energy	25	25
General Finance	30	30
General Transport	25	25
Theme Code (as % of total Bank financing)		
Infrastructure Services for Private Sector Development	50	50
Other Financial Sector Development	25	25
Other Private Sector Development	25	25

E. Bank Staff		
Positions	**At ICR**	**At Approval**
Vice President:	Annette Dixon	Isabel Guerrero
Country Director:	Onno Ruhl	N. Roberto Zagha
Practise/Sector Manager:	Niraj Verma	Kiatchai Sophastienphong (Acting)
Project Team Leader(s):	Sabin Raj Shrestha/P. S. Srinivas	Priya Basu & Varsha Marathe
ICR Team Leader(s):	Sabin Raj Shrestha/P. S. Srinivas	
ICR Primary Author:	Lloyd R. Kenward	

F. Results Framework Analysis

Project Development Objective (PDO):
To increase the availability of long-term financing for infrastructure public-private partnerships (PPP) projects in India.

Revised Project Development Objective:
To strengthen IIFCL's capacity for infrastructure public-private partnership (PPP) financing through piloting new instruments and implementation approaches.

(a) Original PDO Indicators

Indicator	Baseline Value	Original Target Values	Formally Revised Target Values	Actual Value Achieved at Completion
Indicator 1:	Increase in the number of PPPs achieving financial closure through partial long-term debt financing from the IIFCL over the life of the project.			
Number	47	150	–	233
Date achieved	March 3, 2007	September 9, 2015	–	March 31, 2013
Comments	*Achieved.*			
Indicator 2:	Increase in the amount of private capital (including long-term debt and equity) available for infrastructure projects over the life of the project.			
Value in US$ billions	13.1	52	–	85.7
Date achieved	March 3, 2007	September 9, 2015	–	March 31, 2013
Comments	*Achieved.* Baseline is INR 618.31 billion, equivalent; target is fourfold increase.			

(b) Original Intermediate Outcome Indicators

Indicator	Baseline Value	Original Target Values	Formally Revised Target Values	Actual Value Achieved at Restructuring
Indicator 1:	Number (and percentage) of eligible infrastructure projects that receive Bank funding support through the IIFCL.			
Number	0	30	–	1
Date achieved	–	–	–	March 31, 2013
Comments	*Not Achieved by restructuring; major shortfall.* Target date Sep 30 2015			
Indicator 2:	Value (and percentage) of the line of credit disbursed through the IIFCL to selected infrastructure projects.			
Value in US$ millions	0	1195	–	23
Date achieved	–	–	–	March 31, 2013
Comments	*Not achieved by restructuring; major shortfall.*			
Indicator 3:	Adoption of enhanced Environment and Social Safeguards Framework (ESSF) by the IIFCL and internalizing the IIFCL 's capacity to manage safeguards			
Yes/No	No	Yes	–	No
Date achieved	–	–	–	March 31, 2013
Comments	*Not achieved by restructuring.* Enhanced ESSF to be adopted and a well-functioning ESMU in place by September 30, 2015			

(c) *Revised* PDO Indicators

Indicator	Baseline Value	Original Target Values	Formally Revised Target Values	Actual Value Achieved at Completion
Indicator 1:	Total size of subprojects (project costs) supported by the IIFCL under the project			
Value in US$ millions	140	650	650	1,618.95
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	June 30, 2015
Comments	*Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015; Project support ended when last funds were disbursed on June 30, 2015; IIFCL separately reports 1,662 on September 30, 2015.			
Indicator 2 :	Cumulative amount of Take Out financing provided by the IIFCL			
Value in US$ billions.	1310	1700	1700	1,695.45
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	September 30, 2015
Comments	*Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015.			
Indicator 3:	The IIFCL's fiduciary management capacity is enhanced			
Text	Moderate	Strong fiduciary management capacity	Strong fiduciary management capacity	Moderately Satisfactory
Date Achieved	March 31, 2013	September 30, 2015	September 30, 2015	September 30, 2015
Comments	*Partially Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015.			
Indicator 4:	The IIFCL's safeguards management capacity is enhanced			
Text	Sufficient only for Category B and C	Strong safeguards management capacity	Strong safeguards management capacity	Sufficient only for Categories B and C
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	September 15, 2015
Comments	*Not Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015.			

(d) *Revised* Intermediate Outcome Indicators

Indicator	Baseline Value	Original Target Values	Formally Revised Target Values	Actual Value Achieved at Completion
Indicator 1:	Number of eligible infrastructure projects that receive Bank funding support through the IIFCL			
Number	1	9	9	9
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	September 30, 2015
Comments	*Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015.			
Indicator 2:	Percentage of the loan disbursed through the IIFCL to selected infrastructure sub-projects			
Percentage	2	100	100	100
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	June 30, 2015
Comments	*Achieved well before project closing.*			

	Baseline value at March 31, 2013 in relation to original loan amount. Target Date: September 30, 2015.			
Indicator 3:	Percentage of subprojects under Take Out that benefit from at least 50 basis points cost efficiency Application of interest rate rebate of 50 bps is being done on a retroactive basis.			
Percentage	0	60	60	100
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	June 30, 2015
Comments	*Achieved well before project closing.* Baseline date: March 31, 2013. Target Date: September 30, 2015.			
Indicator 4:	Increase in the amount of private capital available for infrastructure projects			
Value in USD b.	66.4	85	85	99.42
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	September 30, 2015
Comments	*Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015.			
Indicator 5:	Development and implementation of IPL business plan.			
Text	No IPL Business Plan	Implementation of business plan launched	Implementation of business plan launched	Approved by Board of Directors Jul 2015; currently under implementation
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	July 31, 2015
Comments	*Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015.			
Indicator 6:	Implementation of Integrated Risk Management System (IRMS)			
Text	Integrate Risk Management plan approved	Integrated Risk Management implementation plan beyond year 1 activities initiated	Integrated Risk Management implementation plan beyond year 1 activities initiated	IRMS approved and under implementation. Likely to be completed in FY16
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	August 31, 2015
Comments	*Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015.			
Indicator 7:	Implementation of human resources (HR) strategy and policy manual			
Text	HR strategy and policy manual approved	HR strategy and policy manual fully implemented	HR strategy and policy manual fully implemented	HR strategy implemented
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	August 31, 2015
Comments	*Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015.			
Indicator 8:	Safeguards approach for Take Out financing adopted and implemented by the IIFCL			
Text	None	Implemented with due diligence exercises completed for two Take Out cases (one prior review and one post review)	Implemented with due diligence exercises completed for two Take Out cases (one prior review and one post review)	Implemented with due diligence exercises completed for two Take Out cases—one was a prior review followed by another which was on a post review basis
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	September 15, 2015

Comments	*Partially Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015. During Implementation Completion and Results Report (ICR) preparation, the Safeguards Team reports additional details, namely that the original target was two prior review cases (one each in road and port terminal sectors) and no target was set for post review cases. In the event, one prior review was carried out in roads sector, and the post review of due diligence in the port terminal sector found shortcomings.			
Indicator 9:	Procurement approach adopted and implemented by the IIFCL			
Text	None	Yes	Yes	Yes
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	September 15, 2015
Comments	*Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015.			
Indicator 10:	Size of IIFCL's safeguards team (regular staff)			
Number	2	5	5	4
Date achieved	March 31, 2013	September 30, 2015	September 30, 2015	September 15, 2015
Comments	*Partially Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015.			
Indicator 11:	Number of IIFCL person-days participated in training and capacity-building events.			
Number	0	200	200	166
Date achieved	March 31, 2013	– September 30, 2015	March 31, 2016	September 30, 2015
Comments	*Partially Achieved.* Baseline date: March 31, 2013. Target Date: September 30, 2015. Trust Fund closes March 31, 2016; expected to be achieved or a very small shortfall.			

G. Ratings of Project Performance in ISRs

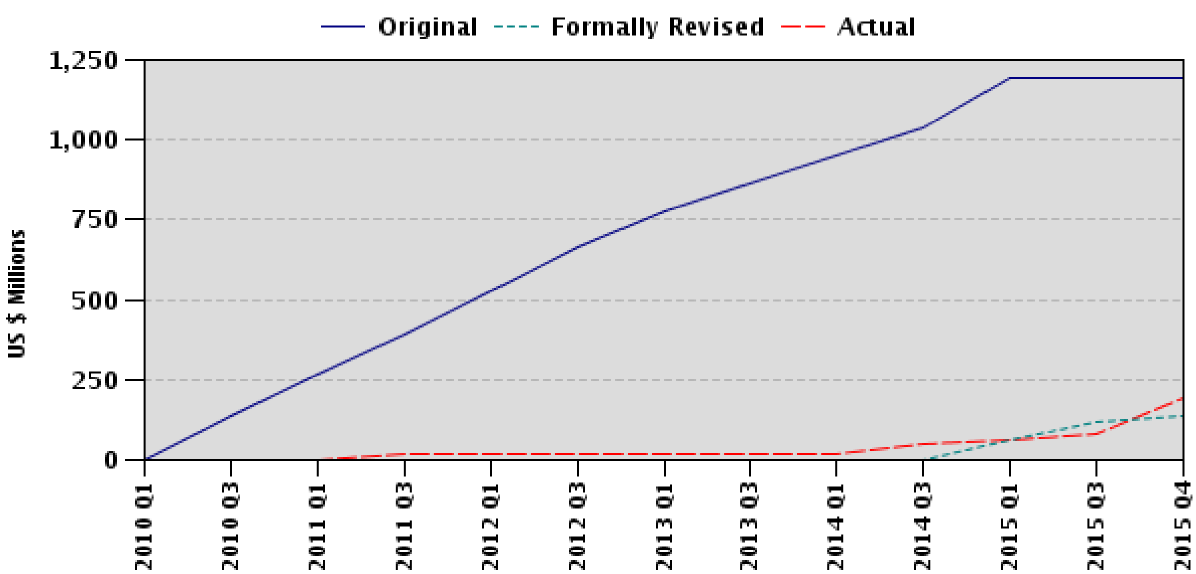
No.	Date ISR Archived	DO	IP	Actual Disbursements (US$, millions)
1	Apr 26, 2010	Satisfactory	Moderately Satisfactory	Zero
2	Oct 29, 2010	Moderately Satisfactory	Moderately Satisfactory	Zero
3	Jun 22, 2011	Moderately Satisfactory	Moderately Unsatisfactory	16.6
4	Apr 12, 2012	Unsatisfactory	Moderately Unsatisfactory	22.9
5	Nov 17, 2012	Unsatisfactory	Moderately Unsatisfactory	22.9
6	Jul 4, 2013	Unsatisfactory	Unsatisfactory	22.9
7	Feb 3, 2014	Moderately Satisfactory	Moderately Unsatisfactory	35.6
8	Sep 13, 2014	Moderately Satisfactory	Moderately Satisfactory	65.4
9	Oct 29, 2014	Moderately Satisfactory	Moderately Satisfactory	65.4
10	May 5, 2015	Moderately Satisfactory	Moderately Unsatisfactory	86.6
11	Sep 30, 2015	Moderately Unsatisfactory	Moderately Unsatisfactory	195

H. Restructuring

Restructuring Date(s)		ISR Ratings at Restructuring	Amount Disbursed at	Reason for Restructuring & Key Changes Made

	Board Approved PDO Change	DO	IP	Restructuring in US$, millions	
Feb 19, 2014	Dec 12, 2013	U	U	35.6	After 4 years of implementation only 2% was disbursed due to divergence between the project's guidelines on procurement and safeguards in relation to current practices in India, especially for Category A subprojects. The key changes were: (i) a reduction of the loan size to US$195 million; (ii) a revision of the PDO; (iii) focus on more ready subprojects, on Category B and C direct financing subprojects and on Take Out financing; and (iv) enhanced reliance on the IIFCL's fiduciary and safeguards capacity.

I. Disbursement Profile



1. Project Context, Development Objectives, and Design

1.1 Context at Appraisal

1. **Country Background.** India is the world's second most populous country and is the world's largest democracy and its ninth largest economy. During the nearly seven decades since independence, the country has experienced a landmark agricultural revolution; life expectancy has more than doubled; literacy rates have quadrupled; health conditions have improved; and a sizeable middle class has emerged. India is now home to globally recognized companies and has a growing voice on the international stage.

2. **The local economic context at appraisal (August 2009).** After growing by an average of 4.6 percent per year from 1991–2007, India's economic growth peaked at 9.7 percent in FY2006/07. By the last quarter of FY2008/09, it had slipped to 5.8 percent, mainly driven by the impact of the global crisis of 2008/09. Overall investment spending contributed to this slowdown, having peaked around 2005. For its part, total investment in infrastructure held up well in India, but, as documented in the Project Appraisal Document (PAD; p. 1), by late 2008 there were signs that the private component of investment in infrastructure was coming under stress. Newer projects were running into delays caused by problems in securing the necessary financing, and private investment in infrastructure registered an outright decline in the third quarter of FY2008/09. Magnifying these concerns, the global financial crisis was affecting private participation in infrastructure around the world (box 1 in the PAD).

3. The Indian authorities reacted promptly and effectively to the threat of an economic slowdown stemming from the international financial crisis. A series of fiscal packages were announced in 2009 accompanied by monetary measures to inject liquidity and support pre-emptive capitalization and credit growth through the banking system. In addition, there was a widespread recognition that an expanded[1] program of investment in infrastructure was the appropriate response to the risk of slowing growth. One of the means to this end was to be a major, fourfold increase in private investment in infrastructure, including through public-private partnerships (PPPs). The government accorded the India Infrastructure Finance Company Limited (IIFCL), established in 2006, a central role in helping to meet this challenge.

4. **Rationale for World Bank Group involvement.** The PAD made the case that the World Bank and IFC were uniquely positioned to provide IIFCL with the support it required to fulfill its mandate. The Bank's project would support the IIFCL in a number of ways, by:

(a) providing long tenor, fixed-interest financing to the IIFCL for on-lending to infrastructure projects, which would also help the IIFCL manage asset-liability mismatches on its balance sheet;

(b) supporting the IIFCL's efforts over the medium term to tap domestic and, subsequently, international capital markets for longer-tenor financing;

[1] India's infrastructure investment program was anchored in the Government of India's (GoI) 11th Five-Year Plan (2007–12). It had already called for an ambitious, near-doubling of infrastructure spending.

(c) helping strengthen IIFCL's institutional capacity in areas such as risk management, internal controls, financial reporting, and financial product development; these were seen as especially important as the IIFCL takes on the role of a catalyst in spurring innovations in the infrastructure finance market; and

(d) helping ensure the adoption of sound policies and procedures by the IIFCL in areas like: enhanced safeguards, procurement, financial management (FM) and reporting, and monitoring and evaluation (M&E) arrangements; and reducing the transactions costs for IIFCL in dealing with its various international development partners.

5. For its part, the International Finance Corporation (IFC), through its direct lending to private project development companies, could leverage its substantial in-house industry and technical expertise in appraising greenfield and expansion infrastructure projects worldwide. Also, IIFCL might work with IFC in identifying and selecting good projects for investment, for which IFC could carry out thorough due diligence.

1.2 Project Development Objective and Key Indicators

6. As formulated originally (that is, before restructuring; see section 2.2), the Project Development Objective (PDO) was: to increase the availability of long-term financing for infrastructure public-private partnerships (PPP) projects in India.[2] This statement of the PDO is simple and clear, and it is fully consistent with the Bank's Country Partnership Strategies and GoI's development priorities.

7. The project's original key indicators are presented immediately below. Their design features and implications for implementation are discussed in section 2.1.

- **Project Outcome Indicators:**
  - (a) Increase in the number of PPPs achieving financial closure through long-term debt financing from the IIFCL over the life of the project; and
  - (b) Increase in the amount of private capital (including long-term debt and equity) available for infrastructure projects over the life of the project.

- **Intermediate Outcome Indicators (IOIs):**[3]

  For Component 1: Evidence of timely and satisfactory progress toward the delivery of Component 1 outputs, as planned, including the following specific measures:

  - (a) Number (and percentage) of eligible infrastructure projects that receive Bank funding support through the IIFCL.
  - (b) Value (and percentage) of the line of credit disbursed through the IIFCL to selected infrastructure projects.

[2] This is the wording in the Loan Agreement (p. 5). For all practical purposes, the wording in the PAD (p. 8) is identical, namely: to increase the availability of long-term financing for infrastructure PPP projects in India. The shorter, PAD version is used in most project documentation.

[3] In the PAD (p. 55), the IOIs are referred to as 'Output Indicators'.

For Component 2: Evidence of timely and satisfactory progress toward the delivery of Component 2 outputs, as planned, including the following specific measures:

(a) Number of training and capacity-building events held in the areas of treasury; credit origination and review; risk management; information technology; HR management; ESS compliance and audit; asset and liability management; legal; accounting; and procurement and procurement supervision.
(b) Number of IIFCL staff who participated in training and capacity-building events.
(c) Establishment of new procedures policies/frameworks for quality assurance (ISO 9000); HR; and procurement compliance.
(d) Adoption by the IIFCL Board of an enhanced Environmental and Social Safeguards Framework (ESSF) and improving IIFCL's capacity to manage safeguards.
(e) Number of new products developed and introduced.

1.3 Main Beneficiaries

8. This project did not specifically identify its main beneficiaries. Nonetheless, the intention was clear. The primary beneficiary was to be the new institution, IIFCL, to be assisted through long-term finance and institutional development. Beyond this, the secondary beneficiaries were to be project developers (including construction companies) and the downstream users of general infrastructure development in India. The former covered a sizable portion of India's private sector that created jobs and delivered infrastructure, having benefited from IIFCL's financing; the latter encompassed a wide spectrum of Indian society, including lower-income persons. Understandably, they could not be specifically identified in the PAD because the sub-projects were not known with any certainty at design. Some financial sector development was also envisaged to be accomplished indirectly through nurturing India's long-term, local currency bond market.

1.4 Project Components

9. As designed, this project had two components:

Component 1: Long-Term Finance for Infrastructure Projects (IBRD US$1.195 billion)

10. This component would provide long-term funds to the IIFCL for on-lending to PPP-based infrastructure projects (the sub-projects) and/or specific sub-project contracts, based on agreed eligibility criteria.

Component 2: Capacity Building (Recipient-executed grant financing US$5 million)

11. This component would include support for the two broad areas:

- Strengthening IIFCL's organizational needs.[4]

[4] Namely: quality assurance; strengthening and mainstreaming IIFCL's ESSF; human resources (HR) strategy development and implementation; risk management and research support for IIFCL's treasury; development of IIFCL staff skills through training; developing business plans for the IIFCL and its subsidiaries; and financial product development.

- Implementing and monitoring the project.[5]

12. The financing for Component 2 was to come from a package of IIFCL-executed grant funds, which would be provided in parallel with the loan. The bulk of the financing came from TF-96466 (annex 2, table 2.2),[6] which is a formal part of this ICR. For further details on developments of this Component and TF-96466 during implementation, see section 2.2; for results, see sections 3.2 and 3.3.

13. The subsequent restructuring (see section 2.2) changed Component 1 in a substantive way.

1.5 Other Significant Changes

14. **Procurement arrangements.** Shortly before the midterm review (MTR), a change to Bank policies modified the procurement guidelines applicable to PPPs. This was an important step that is discussed in section 2.2.

15. **Restructuring.** Four years after effectiveness and as part of the MTR, this project was subjected to a Level 1 restructuring. Its main features are described section 2.2.

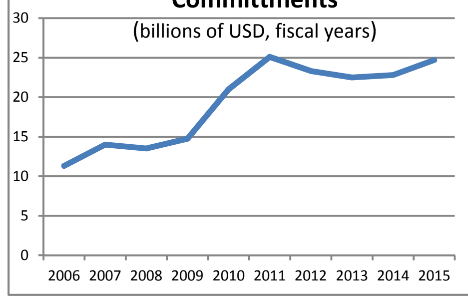
2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design, and Quality at Entry

16. **Project preparation.** This project was prepared against the backdrop of a significant expansion in Bank lending to India (see Figure 1), owing in part to the Bank's response to the global financial crisis of 2008/09. At a relatively late stage in project preparation, the size of this loan, which was originally expected to be US$600 million, was doubled in size on the GoI's request.

Figure 1: India Portfolio, Net Committments

(billions of USD, fiscal years)



17. The PAD reports that, during project preparation, considerable attention was paid to lessons incorporated from previous Bank activities.[7] By way of examples:

- The importance of a good pipeline of sub-projects prepared and procured in accordance with the Bank's safeguard and procurement policies.

- Bank analytical and advisory assistance on financial and capital markets development and infrastructure financing that pointed to a shortage in the supply of longer-term local currency debt for PPP-based infrastructure projects.

[5] This would include support to the IIFCL for the day-to-day implementation of the project, covering all aspects of the Operations Manual, including FM monitoring and reporting; procurement; safeguards review, monitoring, and implementation; overall results monitoring; and efforts to ensure governance accountability and transparency.

[6] The grant for 'Building Capacity and Strengthening Monitoring and Implementation Capability of IIFCL' was under the Bank-managed DFID-WB Strategic Partnership for India – III Trust Fund (TF071225).

[7] See p. 10 and 11 in the PAD.

- Similar infrastructure financing projects financed by the Bank in India and elsewhere (annex 2 of the PAD).

- An Independent Evaluation Group review of Letter of Credit operations, which found that noncompliance with OP Directive 8.30 (covering Financial Intermediary Lending) was the main reason for poor performance.

- Other reviews such as (a) the Detailed Implementation Review of five health-sector projects in the India portfolio; (b) the South Asia Governance and Accountability Strategy (2007); and (c) the Bank's Anticorruption Guidelines (2006).

18. Documentation also indicates that various other options were considered and rejected during project preparation. The main consideration in selecting this project's approach of working through IIFCL, a financial intermediary appears to have been the fact that the GoI viewed the IIFCL as the key institution that would facilitate long-term financing for infrastructure PPPs over the medium term both at the national and state levels. Also, the IIFCL had been established with the specific objective of complementing other commercial sources by financing, which meant that the IIFCL's operations were expected to 'crowd-in' private investment.

19. **General design issues.** Notwithstanding these efforts during project preparation, there were several design flaws in this project. Most importantly, complexities posed in ensuring a strong pipeline of sub-projects were not fully appreciated in the local context. This is pursued immediately below.

20. **Procurement design issues.** The procurement section of the PAD proposed to follow standard Bank policies applicable at the time (p. 27 and 28 of the PAD), having noted in the PAD's risk matrix that the relevant information might not be available. This is an important aspect of the design,[8] because key information was not available in many cases, and the proposed mitigation measure (suspending disbursements) has limits to its effectiveness. This design feature was the basis for much of the project's poor performance in the early years.

21. **Safeguard design issues.** The PAD appeared to cover safeguard issues well (p. 29 and annex 10 of the PAD). It recognized that sub-projects were likely to trigger operational policies (see section 2.2); it reported (p. 29) that a rapid safeguards environmental and social (E&S) risk assessment of a sample of sub-projects in IIFCL's pipeline had revealed significant E&S risks in many sub-projects;[9] and it recognized that many such sub-projects would not be eligible for Bank funding. Mitigation measures were anchored in plans for a time bound Environment and Social Safeguards Framework (ESSF) for the IIFCL and in institutional capacity building for the IIFCL.[10]

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[8] Figure 1 in the PAD (p. 13) foresaw the IIFCL conducting its own sub-project due diligence (and submitting the proposal to the Bank for consideration) at an early stage of the sub-project approval process, namely before the IIFCL joined the financial consortium. In reality, the IIFCL typically joined consortiums at a relatively late stage. Also, early in the project's lifetime the IIFCL did not have a strong internal capacity for sub-project appraisal.

[9] The reason advanced in the PAD (p. 29) was that the IIFCL had made funding commitments to these sub-projects at a time when in-country efforts to upgrade E&S policies and standards had not gathered momentum and the IIFCL had not begun developing its ESSF. Implicitly, the design assumed that national standards would soon be in line with Bank standards.

[10] Most notably the plan included the adoption and disclosure by the IIFCL of an enhanced ESSF, within nine months from the date of signing of legal agreement, that fully incorporates the Bank's policies and requirements.

Sub-projects that could not be made compliant with the Bank's safeguards policies were not to be included in the Bank's pipeline of projects to be financed (PAD, p. 121). As was the case for procurement, these mitigation measures proved ineffective.

22. **The pipeline issue.** As mentioned, the PAD recognized the importance of a good pipeline of sub-projects prepared and procured in accordance with the Bank's safeguard and procurement policies. However, this pipeline turned out to be very thin, notwithstanding a review that had indicated a sufficient number of projects in the existing pipeline to comfortably absorb the proposed Bank loan (see "Assessment of Risks", below). Essentially, the design overestimated two things:

(a) The Bank's and the IIFCL's access to information for determining eligibility under procurement and safeguards policies.

(b) The Bank's and the IIFCL's leverage for convincing private sector developers to meet the Bank's procurement and safeguards standards.

23. In the case of procurement, these issues were resolved relatively early (see section 2.2). By contrast, safeguards were a continuing problem right through the project's closing date (section 2.2).

24. **M&E design and implementation.** As originally designed, this project's M&E system was clear and straightforward. Also, the PDO indicators and IOIs flow logically from the PDO, and the targeted market failure was clear, namely, to increase the amount of infrastructure financing whose tenor and interest rate structure match the relatively long payback period of infrastructure projects; this would substitute for the shorter-term, variable interest rate financing available from Indian banks. Moreover, there was provision for monitoring safeguards and tracking capacity building at the IIFCL. One weakness is notable, namely that the highest-level PDO indicators were for PPP success overall in India; they were not closely linked to the Bank's project, potentially leaving a problem of attribution.

25. Specifically concerning the IOIs, they look to have been under-utilized. The PAD included seven IOIs (section 1.2), but Implementation Status and Results Reports (ISRs) only report against three;[11] no tracking of the other four was evident. All four concerned Component 2.

26. **Assessment of risks.** The main body of the PAD (p. 19–22) included a comprehensive general risk and mitigation analysis, as well as specifics for financial management (FM) (p. 85–87) and procurement (p. 97–98). Nonetheless, some important risks were misread; some mitigation

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Other commitments included: (a) the E&S sections of the Operations Manual would be updated to the enhanced ESSF; (b) establishing and staffing an environmental and social safeguards management unit (ESMU) in the IIFCL; (c) establishing a management information tracking system for the effective management of E&S safeguards; (d) training programs for stakeholders; and (e) building the IIFCL's internal capacity to mainstream the ESSF into its credit review process and post-sanction monitoring of sub-projects.

[11] ISRs were deficient on reporting in another regard. Namely, early Bank documentation (confirmed in annex 7) indicates that four trust funds were used to support Component #2. Nevertheless, ISRs track disbursements from only two, and it was difficult to obtain some of the financing data reported in table 2.2 of annex 2.

measures were unclear;[12] and the value of some mitigation measures was overstated.[13] By way of examples:

- The impact of the global financial crisis and the resulting risk posed to the robustness of the pipeline of projects was seen as Substantial, but reduced to Moderate by mitigation measures. These main measures were: (a) a "pipeline review that indicates…a sufficient number of financially closed projects in the IIFCL's existing pipeline that can comfortably absorb the proposed Bank loan.." and (b) "…GoI and a number of state governments…have successfully developed a shelf of good PPP projects with world-class standards in procurement, environment and social safeguards."
- General procurement risks were rated High but reduced to Significant by: (a) the IIFCL's HR plan that includes the designation of at least one staff member with procurement experience and familiar with Bank guidelines and engagement of a procurement consultant; (b) confirmation by the Bank of the IIFCL's review of the procurement process for each sub-project; and (c) for Component 1 sub-projects with international competitive bidding (ICB), the IIFCL would be required "to submit all relevant documentation on concessionaire financing before the project is considered for Bank financing."
- The risk of using a line-of-credit as the lending instrument was Substantial, but reduced to Moderate, partly because "Risk factors for Letters of Credit…..have been closely examined and all relevant lessons have been factored in."
- The Procurement-specific risk assessment saw the following as High risk: "Neither the IIFCL nor the Bank may have access to information regarding the process of selection of the concessionaire/entrepreneur". This risk would be reduced to Significant for ICB by "making best efforts to obtain such information and documentation before a sub-project is considered for Bank financing…".

27. This final observation is especially important, especially for the early years of the project. The wording is not clear as to what would happen if "best efforts" failed, but certainly implied there would be no disbursement for the sub-project in question. Enforcing this mitigation measure proved unsustainable in the medium run (see Procurement, in section 2.2).

28. Ironically, the main risk was seen as reputational for the Bank,[14] stemming from sub-projects that it does not finance. The TA component was seen as adequate for minimizing risks related to E&S issues.

2.2 Implementation

29. Implementation challenges set in very early in this project. It took a year and a half before the first disbursement (of US$16.6 million) for one sub-project, and this sub-project would remain the only one for another, almost three years. One year into implementation, the staff warned of problems due to slow uptake and downgraded implementation progress; six months later, the

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[12] For example in the second bulleted point, the IIFCL's HR plan *designated* (emphasis added) at least one staff member with procurement experience, and so on. The meaning of this statement is unclear to this review.

[13] The overall risk rating was High, but reduced to Significant after mitigation measures.

[14] See paragraph 55 in the PAD.

implementation support team presented a major restructuring plan to begin immediately. However, progress on the restructuring was slow due to factors described in the next subsection and in section 5.1. In the face of unsatisfactory ratings and 2 percent disbursements after four years of implementation, a major restructuring was undertaken under the auspices of a mid-term review (MTR).

30. **Timing of the MTR cum restructuring.** The MTR of this project took place a bit late, namely three years and eight months into a six-year project, but this does not look like an important issue affecting the project. The larger issue for the project is why it took so long to affect the restructuring, noting that the Bank's field-based staff had put forward a substantive restructuring proposal in March 2011, which was only a year and a half into implementation.

31. Discussions during the review indicate that three factors made for a slow restructuring. First, the GoI was reluctant to undertake a restructuring because of India's major infrastructure needs. Second, Bank management was concerned about relationship issues with a major client. Third, an issue arose concerning applicability of the front-end fee for the cancelled proportion of this large loan. Resolving these issues—and negotiating the details with the GoI—took considerable time and entailed extensive discussions among many groups within the Bank, noting that the front-end fee issue was almost without precedent and it had potential implications for other borrowers.

32. **Substance of the restructuring.** After extended discussions, the project was subjected to a Level 1 restructuring, including cancellation of US$1 billion, thereby enabling the freed up headroom to be allocated to other infrastructure projects in the India program. Given the importance of PPPs in India, the balance amount of US$195 million would remain with the IIFCL. This would enable funding to PPPs alongside a mutual learning process on financial, fiduciary and safeguards aspects for the Bank and the IIFCL. On December 12, 2013, the Bank's Executive Board formally approved the restructuring, including with a revised PDO (see below).

33. The project components remained as before.[15] The key changes were the following:

(a) US$1 billion cancelled from Component 1, reducing the loan size to US$195 million.
(b) PDO revised to reflect a proposed piloting and learning approach, namely: to strengthen IIFCL's capacity for infrastructure PPP financing through piloting new instruments and implementation approaches.[16]
(c) A focus on identification of more ready sub-projects, on Category B and C direct financing sub-projects and on Take Out financing.[17]

[15] In the Restructuring Paper (p. 9), the US$5 million financing for Component #2 (that is, the TA component), was changed to read 'up to US$5 million'. However, the Letter of Amendment to the Loan Agreement (para. 2) left the amount at US$5 million with a commitment from the Bank to 'raise' such an amount versus a previous commitment to 'provide' such an amount.

[16] The wording is identical in the Letter of Amendment to the Loan Agreement (Attachment 1) and in the Board Restructuring Paper (Annex 1).

[17] This is a loan book re-assignment (at the post construction stage) between a commercial bank lending to a PPP sub-project and the IIFCL. It helps the developer access longer-term funding at a lower cost, reflective of the lower post-construction risks, thereby improving sub-project viability. It also provides more 'head space' for banks that may, for example, be up against lending limits, either by sector or by borrower.

(d) Enhanced reliance on the IIFCL's fiduciary and safeguards capacity.

34. The revised PDO indicators were (Board Restructuring Paper, p. 14-16):

(a) Total size of sub-project (project costs) supported by the IIFCL under the project.
(b) Cumulative amount of Take Out financing provided by the IIFCL.
(c) The IIFCL's safeguards management capacity is enhanced.
(d) The IIFCL's fiduciary management capacity is enhanced.

- **Revised IOIs for Component 1:**
  (a) Number of eligible infrastructure projects that receive Bank funding support through the IIFCL.
  (b) Size of the IIFCL's safeguards team (regular staff).
  (c) Percentage of the loan disbursed through the IIFCL to selected infrastructure sub-projects.
  (d) Percentage of sub-projects under Take Out that benefit from at least 25 basis points cost efficiency.[18]
  (e) Increase in the amount of private capital available for infrastructure projects.

- **Revised IOIs for Component 2:**
  (a) Number of IIFCL person-days participated in training and capacity-building events.
  (b) Development and implementation of an integrated planning (IPL) business plan.
  (c) Implementation of Integrated Risk Management System (IRMS).
  (d) Implementation of HR strategy and policy manual.
  (e) Safeguards approach for Take Out financing adopted and implemented by the IIFCL.
  (f) Procurement approach adopted and implemented by the IIFCL.

35. The revised PDO has a number of advantages. It is clear and simple, and it is appropriately less ambitious than the original. Also, it introduced a new element, effectively through intermediate PDOs, namely "piloting new instruments and implementation approaches". This placed the project in a learning context and gave the project more flexibility during the remainder of its lifetime.

36. **The revised M&E system.** The M&E system, as mentioned above also changed significantly at restructuring. There were now four PDO indicators, evenly split between the IIFCL's financial performance and its management capacity. This is in line with the new PDO which stressed institutional development. Also, the financial indicators were tied more tightly to the PDO than were the original indicators. For their part, the management capacity indicators were qualitative and somewhat soft (for example, "…management capacity is enhanced"), but they were backed by specific IOIs, which covered wider ground than the original indicators.

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[18] Bank documentation is conflicting on the exact target for this indicator. Attachment I (Performance Monitoring Indicators) to the Letter of Amendment to the Legal Agreement cites 75 basis points, whereas Attachment II (E&S Safeguards Management) says 25. In the event, project staff accepted Attachment II as authoritative because the indicator concerns Safeguards and safeguards is the subject of Attachment II, including with an explanation of the indicator (para 4 of that Attachment).

37. Further regarding the IOIs, there were nine organized by project component. These nine indicators covered important territory, but they provided no direct linkages to the operational part of the PDO, namely "…through piloting new instruments and implementation approaches." For the purposes of this review, this gap in the revised M&E system is filled in section 3.2 and annex 10, using data that were well known by Bank staff and collected over the course of this review without any difficulty.

38. In implementation of the new M&E system, documentation indicates good tracking of the revised indicators, and experience in the field provides evidence that the IIFCL was following the data closely. Also, IIFCL staff were quick to provide updates upon request. Overall, the project's M&E system was adequate to the task, and gaps—such as they were—were easily filled during this review.

39. **Safeguards.** The PAD design (p. 30) anticipated that the IIFCL's sub-projects were likely to trigger safeguard policies in three areas, namely, Environmental Assessment; Involuntary Resettlement; and Indigenous Peoples.[19] Throughout implementation, there was one important, ongoing safeguard issue, namely repeated delays in the IIFCL disclosing its Safeguards Framework (see section 3.5). Apart from this, there were few sub-project-specific safeguard issues early in implementation, essentially because sub-projects were slow to get moving. However, by 2013, issues began to accumulate—especially social safeguard issues—and they were an ongoing problem during the rest of the project, as discussed below.

40. **Social safeguard issues.**[20] Issues in this area arose essentially because Bank standards had differences relative to national standards; because the Concessioning Authority (and developers) often saw limited value in the Bank standards; and because the IIFCL had limited leverage to force the issue. The main issues during implementation are reported below. At closing of this project, several of these issues remained unresolved, and at drafting of this Implementation Completion and Results Report (ICR) there were limited near-term prospects for resolution of most of them. Social safeguards (especially Involuntary Resettlement) were rated Moderately Unsatisfactory or lower for the last year or so of the project.[21]

41. **Environmental safeguard issues.** The difference was less between Bank and national environmental safeguard standards, so fewer problems were encountered for environmental than social safeguards. Nevertheless, environment ratings began to deteriorate in early 2015 and were rated Unsatisfactory at closing.

[19] Of these, Indigenous Peoples never arose as an issue.

[20] The difference between Bank and local standards narrowed somewhat with the passing of a new national law called Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013. However, at drafting of this ICR, issues remained in areas such as land compensation and non-titleholders, and some implementing regulations for PPPs were still outstanding.

[21] In 2014/15, the Bank's Internal Audit Department conducted an internal audit of Financial Intermediary Loan (FIL) operations within the Bank portfolio. The objective of the audit was to assess the adequacy of risk management processes in consideration of the unique characteristics of FIL projects, with focus on the effectiveness of the ESSF to identify, assess, and monitor E&S risk in FIL projects. As pointed out by a peer reviewer of this project, this audit was effective in helping another large country to resolve inconsistencies between certain legal agreement provisions and the practicalities of monitoring all aspects of FIL sub-projects. The IIFCL's operations might have benefitted from some of the lessons learned from this audit.

42. The outstanding safeguards issues mainly concern sub-projects in the following areas with status of project closing provided in brackets where applicable:

(a) Safeguards Framework: There were considerable delays in disclosing the framework, including under the restructuring project. An enhanced ESSF was cleared by the Bank in September 2010 but it was not adopted by the IIFCL for implementation prior to restructuring. Disclosure was finally done via posting on its website June 19, 2015 with an addendum in July 2015. In substance, disclosure was done, but the form was not as envisaged in the restructuring paper, namely provisioning of the addendum were not incorporated into the existing version of the framework.

(b) Solar Power: Some delays in implementing action plans, but overall progress was satisfactory.

(C) Transmission: Loan prepaid (but no closure report prepared on safeguards implementation).

(d) Roads: All action plans inadequate and subject to excessive delays in part as many sub-projects were delayed. Slow to undertake semi-annual supervision and no IIFCL supervisory reports provided although quarterly progress reports submitted with delay. For all four sub-projects, long delays in sharing action plan with villagers in local language; delays in identification of displaced non-title holders in two other sub-projects; delays in implementation of community activities proposed in lieu of direct assistance to affected land owners.

(e) Ports[22]: One (prior review) Take Out financing sub-project proceeding well (only a few actions pending at closure while all were completed in the drafting of this ICR); For one (post review) Take Out project, due diligence report not disclosed and action plan not prepared. (at the closing the IIFCL intended to agree on action and monitoring pans with the developer on the pending issues). For the container terminal, a safety and health management plan was not in place, environmental management update overdue and there is no updated confirmation on the progress made (this is a non-performing exposure owing to construction delays and renewal issues with the concessional authorities).

(f) Capacity building plan: Two of the three proposed staff recruited, no capacity building measures initiated, limited participation in workshop for exposure on E&S issues.

43. **Procurement.** Procurement issues were similar—but ultimately less severe—than the issues for safeguards. However, they arose early in implementation, for three interrelated reasons:

(a) Bank procurement processes that were then in effect, required that concessions/sub-projects be selected in a way acceptable to the Bank. However, the IIFCL generally became involved with sub-projects at a late stage, usually well after the concessions were awarded. This made it impossible for the Bank to evaluate the selection process employed.

[22] For one port, a re-bidding looked in store. For another port, issues were ones of disclosure and outstanding approvals/clearances. The third port had no such issues.

(b) The contracts between the concessionaire and his subcontractors were typically agreements between private companies, which entailed proprietary information; the Bank did not have any formal right to access the details.[23]

(c) The IIFCL was normally a relatively small member of the sub-project's bank consortium. It had little leverage to force safeguard and procurement issues, especially when other members of the consortium, including the lead bank (which did have some leverage over the developer) often had little interest in the Bank's standards.

44. Consequently, Bank processes expected access to documentation of processes that had happened before the IIFCL was involved, and often this was not possible, notwithstanding best efforts on the part of the GoI and Bank staff. Moreover, "retrofitting" of sub-projects was further complicated by standard procurement practices in India differing from those of the Bank.

45. To be sure, the risk of poor information was clearly identified at design (p. 98 of the PAD) and rated High. Unfortunately, the envisaged mitigation measure (implicitly, suspending disbursements, which was to reduce the risk to Significant) proved ineffective in resolving the issue.

46. Reflecting these various difficulties in ISRs, procurement was rated Moderately Unsatisfactory from late 2010 to late 2012.

47. These issues were overcome in May 2013 through the introduction of a risk-based procurement policy for FIL operations.[24] Effectively, this project was a pilot for the Bank to explore this new approach to procurement. Also, the IIFCL's capacity on procurement had strengthened to the point where the Bank was comfortable with relying upon the IIFCL's due diligence to confirm consistency of the concessionaires' procedures and underlying transactions with applicable Bank procurement guidelines. This was confirmed by a procurement review of several sub-projects.

48. After the Bank took this important step, there was only one notable procurement issue. In early 2015, possible irregularities came to light in the procurement process for one of the Take Out financing sub-projects financed by the Bank in March 2015.[25] This issue was resolved to the satisfaction of the Bank when it was confirmed that the procurement result would have been the same, if strict procurement processes had been followed. When this issue arose, the project's

[23] In a few cases (for example, roads and power projects), some access to documentation was provided on the basis of goodwill.

[24] This would be executed by the IIFCL at two levels: (a) a Procurement Risk Assessment of the Concessioning Authority; and (b) a checklist-based approach for the sub-project. The IIFCL would then submit to the Bank a request for release of Bank funds, confirming to the Bank that the sub-project or batch of sub-projects submitted for release of funds have been cleared by the IIFCL according to the agreed due diligence. The Bank would conduct a prior review for the first project in each category/sector. Beyond this, the Bank would not carry out any prior reviews of sub-projects or prior reviews of the IIFCL's due diligence, although it did retain the right of certain fiduciary safeguards, including the option to declare mis-procurement.

[25] An audit (carried out between December 2011 and March 2012) by the Comptroller and Auditor General of India alleged shortcomings in a procurement process carried out in the 1990s. The IIFCL was not involved in the alleged irregularity, but did not highlight this issue when the sub-project eligibility checklist was submitted to the Bank.

procurement rating was downgraded to Moderately Unsatisfactory, but was restored to Satisfactory by September 2015, after this issue was resolved.

49. **On Component 2 and TF-96466.** One positive area during the early years of implementation was Component 2. This was broadly on track as the IIFCL built up its specialized staff and slowly developed its capacity in areas like procurement, safeguards, HR and FM. But even here, the available Trust Funds were initially used slowly, reflecting the broader challenges encountered by the project on Component 1, which consumed most time and attention. As a consequence, the closing date of March 2012 for TF-96466 was extended in stepwise fashion through March 2016, and an additional US$0.4 million was approved in 2014 in order to support implementation of the restructured project (for outcomes, see section 3.2 and annex 2.). Progress on Component 2 picked up momentum, and in particular the TF and Component 2 activities enabled substantive capacity enhancement of IIFCL in procurement, helped build up a safeguards team, and also helped in review and strengthening of business plans, HR plans, project finance capacity all of which were core to helping IIFCL beyond the boundaries of the project activities.

50. **Audit and FM.** There were no notable issues in this area for Component 1. Bank staff believe that the main success factors were the following:

- The Bank aligned its project-level FM requirements with IIFCL's existing system, which was deemed to be of acceptable quality.
- As a financial institution, the IIFCL already understood the importance of strong FM systems.
- FM for this project entailed a relatively small number of large payments.

51. As for Component 2, there were some minor slippages in timely submission of interim financial reports. These slippages mainly stemmed from the Bank's request that the IIFCL's auditors examine some sub-projects' audit reports, which entailed delays until those audit reports were available.

52. FM was consistently rated Moderately Satisfactory during this project's lifetime.

2.3 Post-completion Operation/Next Phase

53. The general relationship between the GoI and the Bank is supportive of a follow-on operation (section 3.5); private suppliers of infrastructure are in a weakened position to undertake new investments;[26] and the GoI is interested in exploring all possible sources of financing for infrastructure development. Also, there is a strong demand for the Take Out financial product. Clearly, there could be a role of the Bank in any similar, follow-on operation. However, in light of the experience of this project, any such follow-on operation would need a significantly different structure, especially with regard to E&S standards.

[26] At project closing, many domestic sponsors and developers had become highly leveraged and were not in a position to undertake new projects. For their part, foreign banks and foreign project sponsors still have a small presence in the Indian project finance landscape whereas institutional investors and other specialized financial institutions with the appetite and expertise in infrastructure are still quite limited.

3. Assessment of Outcomes

54. An important methodological point is notable at the beginning of this section. In rating an operation with a change in PDO (like this one), ICR Guidelines require outcome ratings before and after restructuring, and the overall outcome rating is determined by a weighted average of the two.[27] Critically, the individual outcome ratings are weighted in proportion to the share of actual loan/credit disbursements made in the periods before and after approval of the revision.[28] On this basis, the weights for this project are 0.12 and 0.88 for pre- and post-restructuring, respectively (table 1).

Table 1. Aggregation Weights

Disbursements (US$, millions)	
Pre-restructuring	35.6
Post-restructuring	159.4
Total	195.0
Weights	
Pre-restructuring	0.18
Post-restructuring	0.82
Total	1.00

3.1 Relevance of Objectives, Design, and Implementation

55. **Relevance of the objectives.** This project's original and restructured PDOs were clear and fully in line with India's development priorities[29] and with the Bank's Country Partnership Strategy. This continues to be the case at drafting of this ICR. Interviews during this review indicate an unstated, original objective, too, namely to support an important client in the face of possible contagion from a major international crisis, which speaks well of the Bank's intention to be responsive to client needs.

56. **Relevance of the objective is rated High for both pre- and post-restructuring** (also see the summary in table 2 below).

57. **Relevance of the pre-restructuring design.** As designed originally, this project was too ambitious; it underestimated the difficulties of working in a complex area with a young institution; it overestimated the quality of the project pipeline; it misjudged the leverage of the Bank and the IIFCL to access information from the private sector and to reconcile local safeguard and procurement standards with those of the Bank; and it misread the effectiveness of several risk mitigation measures. Also, it was a questionable instrument for trying to achieve the unstated objective, just mentioned, when the context called for some form of fast-disbursing assistance.

58. **Relevance of the pre-restructuring design is rated Negligible** (table 2 below).

59. **Relevance of pre-restructuring implementation.** The implementation support team struggled to make the design of this project work, but could get virtually no traction. After a challenging year and a half, they proposed a major restructuring,[30] which was a timely and proactive response. But execution of the restructuring dragged on for two and a half years for

[27] See, for instance, Appendix B of 'Implementation Completion and Results Report Guidelines', OPCS, August 2006, last updated on July 2, 2014.
[28] As explained in the ICR Guidelines, this system is simple and transparent, and it rewards early restructurings.
[29] Including as articulated in India's 11th Five-Year Development Plan (2007–2012), published in December 2007.
[30] Technically, the restructuring was a corrective restructuring (as opposed to an 'adaptive' or 'opportunistic' restructuring). It was occasioned by the need to correct design faults; it was not a response to meet changing needs in the context.

reasons discussed in sections 2.2 and 5.1. Such an extended period reflects poorly on the institution's capacity for making timely decisions on complex issues arising during implementation, and it detracts significantly from subsequent successes. During most of this time, this project was problematic for all parties.

60. Notwithstanding the strong implementation efforts of Bank staff, **the relevance of pre-restructuring implementation is rated Negligible** (table 2).

61. Aggregating these components to determine a rating for overall relevance pre-restructuring (below and table 2) is problematic, because there is such a wide divergence between relevance of objective and relevance of design and implementation (High versus Negligible and Negligible). In making a judgement, this review places greatest weight on design, because that drives the pre-restructuring record on efficacy, discussed in the following section. For these reasons, overall relevance prior to restructuring is rated Negligible.

Overall relevance prior to restructuring:
Rating: Negligible

62. **Relevance of the Redesign.** The redesign changed this project in a major way. The revised PDO was formulated at a more appropriate level of ambition, and effectively turned the project into an institutional development operation backed by a "piloting" dimension that provided valuable flexibility for experimenting with new approaches and financing instruments. Additional helpful elements were: a focus on "low-risk" projects[31] (that is, categories B and C); and relying more upon the IIFCL's due diligence for screening projects. Also, the new size (US$195 million) was more suitable to the sub-project pipeline and the two years remaining in the project's lifetime. Still, the redesign was not a complete success because a focus on "low-risk" projects was not sufficient to meet safeguard requirements.

63. Balancing these factors, **relevance of redesign merits a Substantial rating** (table 2).

64. **Relevance of post-restructuring implementation.** After restructuring, implementation proceeded more smoothly, including an effective response to a procurement issue concerning the newly introduced Take Out product (section 2.2). However, the project was unable to adjust to emerging safeguards issues and problems in this area began to accumulate late in the project's lifetime. During the final six months or so of this project, the overall safeguards rating was Unsatisfactory and some issues remained unresolved at closing (see para 42). Performance on safeguards is the main consideration in **rating the relevance of post-restructuring implementation as Modest** (table 2).

65. Consolidating these components (table 2) yields a rating of Substantial for overall relevance, post-restructuring.

Overall relevance of implementation post-restructuring:
Rating: Substantial

[31] Documentation indicates that any divergence between Bank safeguards and country practices were likely to be lower in these types of projects.

3.2 Achievement of Project Development Objectives (Efficacy)

66. **Pre-restructuring efficacy.** Ironically in the light of the project's difficulties at the time, both original PDO indicators (the total number of PPPs financed by the borrower and total amount of private capital for infrastructure) performed strongly during the early years of this project. By restructuring, both had exceeded their respective targets by a wide margin (see section F(a) in the data sheet).[32]

67. By contrast, performance of three IOIs, which were tied directly to the project's performance was problematic. After 70 percent of the project's lifetime, only one sub-project had received Bank support versus a target of 30; disbursed funds were US$23 million versus a target of US$1,195 million. The third IOI concerned adoption and internalization of an enhanced ESSF, which had not been delivered.

68. This wide difference in the indicators' readings casts doubt upon the value of the PDO indicators. As mentioned in section 2.1, these were not tied well to the Bank's inputs, and they exposed a problem of attribution. Namely, the strong performance in relation to the PDO indicators was being driven by the large volume of PPP business being done by the IIFCL without Bank financing. There may have been some modest attribution to the project through the TA component, but it is difficult to judge with any assurance because there was limited tracking of progress against IOIs for Component 2 (section 2.1).

69. **Efficacy pre-restructuring is rated as Negligible** (table 2).

Efficacy pre-restructuring:
Rating: Negligible

70. **Post-restructuring efficacy according to outcome indicators.** Four post-restructuring outcome indicators (section F(c) of the datasheet) gauge achievement of the project's PDO, but from two different directions: operational success and institutional development. Of the four indicators, two were exceeded by a considerable margin; one missed by a tiny margin (one-quarter of 1 percent); and the fourth was not accomplished (section F(c)). The one that was not accomplished was related to safeguards, and it drags down the other successful outcomes, including those reported immediately below.

71. **Post-restructuring efficacy according to IOIs.** The IIFCL performed well on IOIs, all of which addressed lower-level aspects of institutional and operational development of the IIFCL. Of the eleven IOIs (section F(d)), eight met or exceeded their targets and three were partially achieved. Of these three, one (the size of the safeguards team) missed by a narrow margin, and one other

[32] The Indian corporate bond market roughly doubled in size between 2009 and 2013 when it peaked at US$60 billion, mostly through private placements. The IIFCL, which has a local AAA rating, contributed noticeably to this expansion. At end-March 2015, the IIFCL had some US$3 billion (equivalent) outstanding in local currency bonds, of which almost half had been issued since 2009. This expansion in India's bond market (which was a side objective of this project; section 1.3) is noted as a matter of record; it cannot be attributed to this project, except in a very modest, indirect way through institution-building at the IIFCL, owing to the project's limited disbursements during this period.

(the number of person-days of training) fell short by a considerable margin at project closing.[33] However, the underlying Trust Fund (TF-96466; which was financing IIFCL training) still had six months left before its closing. During this period, the IIFCL was able to drawdown the remaining funds for further training, and overall disbursements (US$1.38 million) on the TF (funded by DFID) were impressive with only US$20,000 not used (which IIFCL requested be cancelled).

72. **Post-restructuring efficacy according to additional IOIs.** As discussed in section 2.2, the post-restructuring indicators did not cover an important part of the revised PDO, namely "….piloting new instruments and implementation approaches." To fill this gap, project outcomes in this area are reported separately in annex 10, and the successes are striking in both areas. Moreover, they are directly linked to "new instruments" and to "new approaches" as indicated by the structure of the table in annex 10. To summarize, the outcomes from piloting new instruments include: confirmation that Take Out financing and interest rate rebates are feasible options for Bank sub-projects; and confidence and innovation demonstrated by the IIFCL in its experimentation with the pricing and structure of interest rate rebate incentives. The outcomes from piloting new implementation approaches include confirmation that post reviews and "low-risk" projects are preferred options going forward; and demonstration that the IIFCL now has the capacity to act as lead bank in a financing consortium.

73. **Efficacy specific to Component 2 and TF.** Outcomes in this area are reported separately (see table 2.2 in annex 2) because they are additional to the ground covered by the outcome indicators and the IOIs. The following are particularly notable:

- An IIFCL procurement capacity that provides sufficient comfort for the Bank to rely on its due diligence to confirm consistency between Concessioning Authority procedures and underlying transactions with applicable Bank procurement guidelines.

- The IIFCL has internalized an E&S management unit (ESMU), including for Take Out financing.

- The Procurement and ESMU Departments have helped the IIFCL access funds from other international agencies (for example, Asian Development Bank, Kreditanstalt für Wiederaufbau (KfW), and European Investment Bank (EIB)). This has reduced the IIFCL's cost of funds (section 3.3), thereby improving the IIFCL's competitiveness in the market place.

- The specialized capacity building has helped the IIFCL be more selective on assessing project viability, which has contributed to better quality assets in its portfolio.[34]

74. As specifically concerns TF-96466, most of these outcomes have clear linkages to support from that Trust Fund (Annex 2). Especially notable are Results related to procurement

[33] Performance of the third (the safeguards approach for take out financing) is debatable, because the exact criterion is somewhat unclear. For example, annex 1 to the revised loan agreement provides few details whereas ISRs are similarly vague. Bank safeguards staff provided their interpretation of intentions during this review and, on this basis, the indicator is judged as 'Partially Achieved'. See section F (d) of the datasheet.

[34] In FY2014/15, the IIFCL's non-performing assets were down to 2.5 percent of outstanding advances, versus 3.8 percent the year before (IIFCL Annual Report for 2014–15, p. 4).

and savings on IIFCL's cost of funds. Also see the borrower's comments towards the end of section 3 in annex 7.

75. **Attribution issues.** The wide ground covered by the many indicators reported above, combined with their clear line-of-sight to the PDO, leave limited room for some issues of attribution. The one exception is outcome indicator 1, that is, total sub-project costs supported by the IIFCL under the project. In this case, the extent of over-performance (150 percent) suggests that much of the IIFCL's overall operational success reflects factors other than Bank financing, as was the case pre-restructuring.

76. **Summary of post-restructuring efficacy.** The post-restructuring successes of this project are striking. The only significant negative factor during this period concerned safeguards, which pulls down an otherwise strong performance. On balance—and bearing in mind the relative importance of safeguards—this review takes the view that the project made only a Modest contribution to the revised PDO (table 2).

Efficacy post-restructuring:
Rating: Modest

3.3 Efficiency

77. **Efficiency prior to restructuring.** The pre-restructuring costs of this project—including management and implementation support costs—were high whereas the benefits were very low. This review takes it as self-evident that pre-restructuring efficiency was Negligible.

Efficiency pre-restructuring:
Rating: Negligible

78. **Efficiency post-restructuring.** The data were not available to do any formal efficiency assessment (for example, a cost-benefit analysis) of this project post-restructuring. Such an undertaking for this FIL and capacity-building pilot operation would be quite complex, especially considering the several, widely diverse sub-projects. However, many points are notable and these provide some grounds for judging efficiency, as follows.

79. As a capacity-building exercise for the IIFCL, this was a relatively low-cost exercise that has already yielded financial benefits. At a cost of some US$2 million (mainly financed from TF-96466; see annex 2), the IIFCL has reduced its cost of funds. As indicated in annexes 2 and 10, the IIFCL now has access to more low-cost funds from other multi-lateral/bilateral agencies, thanks to its Procurement and ESMU Departments, which were set up under this project. Under conservative assumptions,[35] this one-time cost of approximately US$2 million is less than the IIFCL's annual savings in interest costs.

80. Looking more broadly at the operation, this project had nine sub-projects of which two are clear successes, and would have high economic rates of return under any formal efficiency

[35] The IIFCL has long-term credit lines totaling the equivalent of some US$2.3 billion (including ¥5 billion from JICA, which was under discussion at drafting). Savings of just 10 basis points on these borrowings (excluding from the Bank), represents a cost reduction of more than US$2 million per year.

analysis. These two projects, which represent about one-fifth of the project's portfolio, have both achieved high rates of return on conventional financial indicators, for example, internal rates of return estimated at 17–24 percent by the IIFCL. More to the point for judging efficiency, both would have appreciably higher economic rates of return because:

- Both are compliant with the Bank's safeguard standards,[36] which would reduce the economic costs in, for example, any formal cost-benefit analysis; and
- Both pay 2 percent as a corporate social responsibility (CSR) obligation.[37] Indeed, one of them currently overpays its CSR obligations by about 40 percent.

81. On the basis of these considerations, a formal efficiency analysis would probably raise these sub-projects' respective economic rates of return into the 25–30 percent range.

82. Among the other sub-projects, a few did deliver some well-functioning physical infrastructure, but faced implementation challenges mainly for safeguard reasons. One of these (a port and the Bank's largest sub-project), as Bank staff note, had outstanding safeguards issues, mainly concerning disclosure (para 42). However, the IIFCL points out that the sub-project is up and running without significant operational issues; relations with local advocacy groups are not problematic; and information requested under the Bank's disclosure requirements is already in the public domain.

83. Finally in this regard, the restructured project was a pilot for new approaches and operations, and these were pursued in the context of screening new sub-projects, which was a sensible, low-cost methodology. The two Take Out financing sub-projects (which exhausted the project's financing) are an excellent example of experimenting with pilots. Both were port operations along the east coast of India, and both were Take Out financing.[38] However, they were not equally successful, which provides excellent comparators for lessons learned (annexes 3 and 10).

84. **Summary of post-restructuring efficiency**. There is evidence that this project has delivered some infrastructure with efficiency, and that the post-restructuring record is a definite improvement from pre-restructuring. Nonetheless, only a relatively low rating of Modest is justified (table 2), owing to the small proportion of the portfolio that has delivered identifiable, strong results, and to the narrow analytical basis for this assessment.

Efficiency post-restructuring:
Rating: Modest

3.4 Justification of overall outcome rating

85. The ratings from the three previous sub-sections are summarized in table 2 and aggregated to obtain the overall outcome ratings for pre-restructuring and post-restructuring. The two overall

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36 Both qualified for the interest rate rebate.
37 The CSR obligation is effectively a 2% tax on corporate profits (averaged over the past 3 years), earmarked for local social development and payable in either cash or equipment.
38 One was a prior review, the other a post review.

outcomes are then averaged using the weights of table 1 and standard ICR methodology. On this basis, the overall outcome rating for the project is Moderately Unsatisfactory.

Table 2. Summary of Overall Outcome Rating

	Relevance of:			Overall Relevance	Efficacy	Efficiency	Overall Outcome
	Objective	**Design**	**Implementation**				
Pre-Restructuring	High	Negligible	Negligible	Negligible	Negligible	Negligible	Highly Unsatisfactory
Post-Restructuring	High	Substantial	Modest	Substantial	Modest	Modest	Moderately Unsatisfactory
Overall Outcome Rating							**Moderately Unsatisfactory**

3.5 Overarching Themes, Other Outcomes and Impacts

86. **The turnaround on procurement issues.** Early on in this project's implementation phase, procurement issues were of concern. However, this matter was addressed shortly before restructuring by an innovative solution, namely by making the IIFCL a pilot for prospective, new Bank policies regarding risk-based procurements by FIL operations.

87. **On safeguards**. Bank staff report that safeguard issues were difficult, beginning early in the project. As more projects came online, the challenges mounted and safeguards became the main stumbling block for the project. As reported in annex 6, two areas were especially difficult: disclosure issues; and roads (see following paragraph).

88. Regarding disclosure issues, there were repeated delays in the IIFCL's disclosure of the overall framework (which was a legal covenant, originally due nine months after loan effectiveness and repeated in the restructuring's Amendment Letter). Very late in the project's lifetime,[39] the IIFCL met, in substance, the objective of disclosing revisions to its overall framework. However, compliance was not as envisaged in the Restructuring Paper on the interpretation of the Bank's safeguards staff and as indicated in Bank documentation.[40] Similar issues arose at one of the (post-review) ports projects, where a developer indicated concerns that disclosure might have detrimental consequences for his operations. As for roads, all four projects encountered excessive delays in implementation of Bank- and IIFCL-approved action plans. At loan closure, there were no signs of further progress in part as sub-projects were significantly delayed in implementation.

89. At drafting of this ICR, only two of the Bank's nine sub-projects had met E&S requirements (one other was still under consideration; table 2.1) and the overall safeguard rating was Unsatisfactory which dragged down the overall, post-restructuring rating of this project.

90. **The infrastructure finance market and the IIFCL.** On conventional financial indicators (table 3), the IIFCL has performed well, notwithstanding its entry into this market during a period

[39] The contents of an addendum (posted on its website in July 2015) were never incorporated in the main framework (posted on its website a month earlier).
[40] Namely, to integrate and incorporate provisions of the addendum into the current 2013 version of the framework.

of wide swings in local market developments. This provides evidence on one important aspect of the IIFCL's institutional development.

Table 3. Financial Highlights of IIFCL
(Stocks in INR, lac; flows in INR, crore)

	Near Appraisal (Mar 2009)	**Near Closing** (Mar 2015)
Total assets	1,585,569	3,906,412
Total liabilities	1,442,174	3,226,793
Provisions	7,475	56,935
as % of assets	0.5%	1.5%
Equity	143,395	679,618
Total income	635	4,062
of which income from ops.	626	4,007
Total expenses	485	2,845
of which finance costs	468	2,493
Before tax profits	151	1,217
Return on Equity	10.5%	17.9%
Return on Assets	1.0%	3.1%

Sources: IIFCL Annual Reports for 2008-09 and 2014-15.

91. After a slow start in the 1990s, the India infrastructure finance market expanded rapidly after 2005. It peaked at US$55 billion in 2010 (26 percent of the world project finance market) before falling steeply in the following years. In 2014, financial closings, at US$11 billion, were back to their 2007 level.

92. Despite these fluctuations and the overall performance of this project, the IIFCL's financial accounts have fared well over the course of this project (table 3). Total assets have increased at an average annual rate of more than 16 percent; provisions (as a percent of assets) have trebled; and profitability (measured in relation to equity or assets) has jumped appreciably.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

93. There were no beneficiary surveys or workshops to assist with evaluation of this project.

4. Assessment of Risk to Development Outcome

Rating: Substantial

94. The GoI is strongly committed to the future of the IIFCL and there appears to be a continuing strong demand for PPPs. For its part, the IIFCL is well on the way to establishing itself as a credible institution, anchored in a profitable, rapidly growing portfolio. Also, the staff numbers and capacity have been enhanced and consequently IIFCL has an expanded skills set, including in specialized areas like procurement; financial management; acting as lead bank in a financial consortium; and, to a lesser extent, environmental safeguards. Furthermore, a new financial instrument, Take Out financing, has become widely accepted. These factors bode well for further expansion of the PPP business in India, and the IIFCL is technically well positioned to provide more financial support. In light of the capacity development that has already taken place in the IIFCL, it seems unlikely that there will be any significant slippage in the project's hard-won development outcomes to date.

95. **Contextual and economic risks.** The most likely risks to this project's development outcomes appear to arise from the broader context. For example, India's private market for the provision of infrastructure depends in substantial part upon the country's overall macro situation. At the drafting of this ICR, India's economy continued to perform well, but the macro outlook faced risks on both the international and domestic sides. For instance, the outlook for the international economy has been notched downward by several prominent forecasters. Also on the domestic side, there are well-known structural weaknesses in India's banking sector, which could limit its appetite for financing infrastructure projects.

96. The likelihood of these risks eventuating is only moderate, but if they were to occur their impact would be high.

97. **Institutional risks.** One of the recurring themes of this project has been the challenges of implementing the Bank's safeguard policies in the local context, driven essentially by differences between the Bank's and GoI's standards. To be sure, there has been some convergence since project implementation began, but differences remained at project closing, and the IIFCL was in the process of adopting safeguard standards consistent with GoI requirements for its future operations. On the side of the Bank, an extensive review of its safeguard policies was still in process at the drafting of this ICR, and the final result was still to be determined.

98. Against the background of these uncertain developments, this review foresees the possibility that differences between the two standards may persist for some time. If this happens, the gains to date in achieving this project's development outcome are not likely to be eroded in any significant way, because of the commitment of successful sub-projects to meeting international standards for safeguards. Nevertheless, the pace of further progress could be limited for some time.

99. The likelihood of these events looks significant; if they were to occur, their impact would be significant.

100. **Conclusion on risk.** At design, overall project risk was rated as Substantial after mitigation measures, but it rose during the difficult implementation years, before easing back to Substantial by project closing. The risk analysis of this section gives, on balance, some reason for more optimism, but not enough to lower the risk rating. Consequently, the rating of risk to development outcome by this review remains Substantial.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

Rating: Unsatisfactory

(a) Bank Performance in Ensuring Quality at Entry

Rating: Unsatisfactory

101. This project was in the final stages of preparation when the 2008/09 global financial crisis erupted. Interviews during this review indicate a strong desire on the part of the Bank to support a major client, India, in the face of potential threat of contagion. But in making the IIFCL part of this effort, the Bank made a series of missteps that turned the IIFCL effort counterproductive:

- The external context possibly called for some form of fast-disbursing assistance, not an oversized FIL operation that risked encountering difficult procurement and safeguards issues.
- The project's context called for moderation in exposure, because the borrower was a relatively new institution, with limited resources at start-up and no established market presence, working in a complex area. Instead, an already large amount of money (US$600 million) was doubled late in project preparation.
- Notwithstanding analysis to the contrary, the pipeline of projects turned out to be very thin, mainly for reasons related to procurement and safeguards issues.
- The design overestimated the leverage of the Bank and IIFCL to resolve these procurement and safeguard issues.
- Project design misread the effectiveness of key risk mitigation measures.

These were all design flaws that the Bank should reasonably have anticipated.

(b) Bank Performance in Quality of Supervision

Rating: Moderately Unsatisfactory

102. Issues in this section are reviewed by key topic, as raised by various interviewees in the course of the review.

103. **Did the implementation support team try hard enough to make this project work?** During this review, all stakeholders agreed that the Bank staff put forward more than a "best effort" to make this project work. By way of hard evidence in this regard, during the first year of this project, ISRs, apart from the first,[41] provide a candid assessment of the problems. One year into the project, the second ISR downgraded implementation progress to Moderately Unsatisfactory, and reported slow uptake owing to procurement and safeguards issues, which turned out to be exactly the right diagnosis. Management responded by acknowledging "valient efforts" on "a very

[41] The first ISR gave off mixed signals because it emphasized capacity issues at IIFCL and its ratings were relatively up-beat (Satisfactory or Moderately Satisfactory). At the same time, it brought to management's attention 'Increased Project Risk Rating and Possible Delayed Implementation.'

challenging project", which is clear evidence of the staff's strenuous efforts to make the project work.

104. **Did the implementation support team ring the alarm bells early enough?** As just noted, the implementation support staff were clearly warning of problems one year into implementation. In the third ISR (less than 1.5 years into implementation), the implementation support team went much further; it presented a major two-step restructuring proposal that included a significant downsizing; it would begin June 30, 2011 and be completed by December 2011. This ICR finds this to be striking evidence of a proactive implementation support team, and Bank management appears to have been supportive and approached the GoI with the proposal in May 2011.

105. **Why did the restructuring take so long?** GoI's initial response to the restructuring proposal was negative. In a meeting called by the Department of Economic Affairs (DEA) in June 2011, the Bank's proposal was effectively rejected and the IIFCL raised the issue of a refund on the front-end fee already paid on the full amount. Discussions of this issue internal to the Bank— and negotiations on the terms with the GoI— took another two years; an additional six months were needed to prepare the restructuring documents for the Bank's Executive Board approval in mid-December 2013.

106. To summarize these details, the implementation support staff rang alarm bells early and they were proactive in seeking a solution. But, there were long delays in restructuring that stemmed from internal institutional complexities of the Bank occasioned by the front-end fee issue and from negotiations of the details with the GoI. On balance, this is a Moderately Unsatisfactory supervision performance by the Bank.

(c) Justification of Rating for Overall Bank Performance

107. Aggregating these two components, this review places greater weight upon the Quality at Entry component, because that was the more fundamental reason for the project's early, unsatisfactory performance. Consequently, the rating for overall Bank performance was Unsatisfactory.

5.2 Borrower Performance

(a) Government Performance

Rating: Moderately Satisfactory

108. Government performance showed considerable variability over the lifetime of this project. As examples of a positive contribution by the GoI: the emphasis on IIFCL's institutional strengthening and broader development of infrastructure financing was evidenced in many policies and actions; further the quality and relevance of discussions was high at the DEA's Tri-partite Portfolio Review Meetings, which, among others, highlighted the project's problems at an early stage and struggled along with Bank staff to find solutions. However, project documentation indicates that the GoI requested a doubling of the original, loan, which was already oversized for the circumstances, and the GoI should bear some responsibility for this design fault.

109. There were no important issues with the availability of counterpart funds.

110. Overall, this merits a Moderately Satisfactory rating.

(b) Implementing Agency Performance
Rating: Moderately Unsatisfactory

111. Several points are notable in this discussion.[42] First, the IIFCL began this project from a relatively weak starting point. At loan effectiveness, the IIFCL was still quite a new entity (established in 2006), with resource shortages in terms of both skills and numbers of staff, and it faced the challenge of finding the right staff at market salaries. Also, the founding Chairman and Managing Director of the IIFCL retired in April 2010, which occasioned a management change within six months of effectiveness. Clearly, the IIFCL was on a steep learning curve initially, including adapting diverse backgrounds to working with the Bank (including recipient-executed trust funds); three other quite diverse international institutions; and the private sector.

112. Second, the project faced special challenges during implementation, most notably compliance with loan covenants. One especially difficult area was IIFCL's ESSF. As discussed, an enhanced framework was originally due nine months after loan signing, but it was only delivered a few months before project closing. Even then, there were residual issues regarding the partial nature of the public disclosure (para 42).[43] Overall, more was needed to meet the terms of the project's legal agreement.

113. Third, multiple safeguard issues arose during implementation and some were still outstanding at project closing (para 42). The most important included poor implementation of action plans; missing IIFCL supervision reports on sub-projects; and shortfalls in disclosure requirements and in implementation of the safeguards capacity-building plan.

114. Fourth, in the course of this review, several interviewees expressed the view that the IIFCL could have done more to overcome some of these safeguard issues by pushing harder with sub-project developers and inside the GoI. In contrast, and as explained to the review team, the IIFCL sees itself as an advocate for strong safeguards standards within the GoI, and believes that it has done much by way of awareness raising.

115. Looking back over the entire history of the project, this ICR rates the implementing agency's performance as Moderately Unsatisfactory.

(c) Justification of Rating for Overall Borrower Performance
Rating: Moderately Unsatisfactory

116. In rating the two components of borrower performance (Moderately Satisfactory and Moderately Unsatisfactory for government and implementing agency, respectively), it is not entirely clear to the ICR team where the institutional responsibility should fall for some of the project's shortcomings. That said, this ICR consigns the balance of responsibility to the implementing agency, because it is the signatory to the loan agreement.

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[42] There were no significant issues concerning audit and FM.
[43] IIFCL defends this by pointing out their need to come up with a completely new framework because other provisions also needed to be revised and they did not want to re-work the framework on a piecemeal basis. Still, they were not able to provide Bank staff with a time line within which it could be completed.

117. Averaging these two components entails some judgment and the review team leans toward the lower rating because the IIFCL was the more important agency over the entire course of this project and because most shortcomings were the responsibility of the implementing agency, not the Government per se. Consequently, overall borrower performance is rated as Moderately Unsatisfactory.

6. Lessons Learned

118. The project experience suggests several key lessons:

- **Preparation of infrastructure finance projects requires intensive effort on pipeline assessment and a conservative approach**: At design, for infrastructure finance projects it is particularly difficult to assess the quality of the sub-project pipeline because detailed sub-project assessments are in short supply, especially on procurement and safeguards issues. This calls for a conservative approach to project sizing and also for developing an approach that emphasizes detailed assessment of potential pipeline by applying proposed project implementation arrangements on fiduciary and safeguards aspects on a representative sample of existing sub-projects, and a detailed pipeline analysis.

- **Investing upfront on capacity building is critical**: Generous amounts of TA—and Bank staff time—are needed up-front in an operation like this, especially in support of institutional capacity development for risk assessment and safeguard issues. When working in a difficult new area, it would be better to design a series of projects, starting with the smallest (to gain experience) and heavily supported at the outset by TA for institution building, including for scoping the risk of sub-projects.

- **Start small, build in incentives and innovate on implementation arrangements**: The best options for any similar, future operation are small or "low-risk" projects; incentivizing safeguards with interest rate rebates; Take Out financing; phased, conditional disbursements; and post-reviews.

- **A sector specific implementation approach can help identify risks and opportunities**: A sector or product specific implementation approach jointly agreed with the client can have high pay offs – for instance the approach on Take Out financing or the approach to focus on sector specific sub-projects (eg. Power transmission projects appeared to have lower risks of deviations on safeguards). The first few sub-projects could comprise sector-by-sector pilots for the implementing agency to gain broad experience before deeper commitment to any particular sector.

- **Need for more ICR guidance on financial intermediation operations**: In assessment, ICR ratings criteria for efficiency are difficult to address analytically for FIL operations, because a formal efficiency assessment is a complex, time-consuming exercise across several diverse sub-projects, some of which are incomplete.

7. Comments on Issues Raised by Implementing Agency

119. The implementing agency's evaluation of this project is presented in annex 10, and the ICR team has no substantive disagreements. Indeed, it takes note of the three lessons learned, especially the conclusion that "Bank's Policy [related to safeguards] needs to be different for Financial Intermediary from the Policy which is meant for Executing Agency/Concessioning Authority."

120. The implementing agency provided one substantive comment, very promptly, on the draft ICR that the overall outcome rating be raised from Moderately Unsatisfactory to Moderately Satisfactory. The ICR team gratefully acknowledges the feedback, but thinks, for the reasons mentioned above, that the existing rating should be maintained.

Annex 1. Project Costs and Financing

Original Project Costs and Financing

Project Cost, by Component	Local US$, millions	Foreign US$, millions	Total US$, millions
Long Term Finance for Infrastructure Projects of which IBRD	0 0	1,195 1,195	1,195 1,195
Capacity Building of which Recipient-executed Grant Funding	4 4	1 1	5 5
Total Baseline Cost	4	1,196	1,200
Physical Contingencies	0	0	0
Price Contingencies	0	0	0
Total Project Costs	4	1,196	1,200

Restructured Project Costs and Financing

Project Cost, by Component	Local US$, millions	Foreign US$, millions	Total US$, millions
Long Term Finance for Infrastructure Project of which IBRD	0 0	195 195	195 195
Capacity Building of which Recipient-executed Grant Funding	4 4	1 1	5 5
Total Baseline Cost	4	196	200
Physical Contingencies	0	0	0
Price Contingencies	0	0	0
Total Project Costs	4	196	200

Annex 2. Outputs by Component

Outputs for Component #1, by Product (INR, million)

Sector	Disbursement	Disbursement date (first tranche)	Balance	0.25% /0.50% incentive paid/Date
Power Transmission	22.9	03/11	Since prepaid	
Renewable Energy	795.3	11/13	4.7	August 2014
Roads	316.65	03/14	3.35	No
Roads	243.98	03/14	3.62	No
Roads	214.73	03/14	45.27	No
Roads	140	03/14	0	No
Port Terminal	960	05/14	640	No
Port Terminal	1,420	03/15	0	Fully expected to be paid by end of March 2016, retroactive one year
Port Terminal	7,262	05/15	0	At ICR, still pending compliance with outstanding issues

Note: Shaded area denotes disbursement post-restructuring.

Outputs and Outcomes for Component #2

Trust Fund	Approximate Financing	Objective	Outputs and Outcomes
DFID (TF-96466)	US$1.4 million	To strengthen the institutional capacity of the IIFCL with an emphasis on environmental, social, procurement, and sub-project monitoring areas.	**Outputs:** Various consultancies to augment IIFCL's capacity, with an increasing emphasis on capacity building of IIFCL's staff. Other functional areas for training include credit; risk; E&S safeguards; procurement; HR; legal; accounts; and audit. **Outcomes:** IIFCL's procurement capacity now provides sufficient comfort for the Bank to rely on its due diligence to confirm consistency of the Concessioning Authority procedures and underlying transactions with applicable Bank procurement guidelines. The IIFCL has internalized a functional ESMU, including for Take Out financing. The procurement and ESMU departments in the IIFCL were set up to comply with the Bank's requirements. However, they have helped develop capacity to access funds from various multilateral/bilateral agencies (for example, ADB, KfW, and EIB). This has resulted in substantially reducing IIFCL's cost of funds, thereby improving IIFCL's competitiveness in the marketplace.

PPIAF	US$0.1 million	To prepare a business plan for the IIFCL.	**Output:** A contract in FY2010-11 to KPMG, which yielded recommendations in designing new products like the Take Out finance scheme and credit enhancement. **Outcome:** Introduction of these new products has strengthened IIFCL's position in the market and improved its competitiveness.
SNTA	US$0.1 million	To design and implement an IRMS at the IIFCL.	**Output:** Consultancy for design and implementation of an IRMS for credit, market, asset-liability management, and operational risks. **Outcome:** System expected to be rolled out by July 2016. Implementation of the IRMS will help the IIFCL adopt a more scientific and transparent approach toward risk rating of IIFCL's sub-projects.
IDF	US$0.5 million	To assist with M&E activities, audit, and review.	**Output:** Consultancy for preparation of HR policy for the IIFCL, including awareness-raising workshops. **Outcomes:** Substantial recommendations by the consultant accepted by the IIFCL. The workshops were well received by the stakeholders (for example, project authorities, lenders, and project developers). Helped to sensitize the developers to the Bank's Safeguards Framework.

Note: DFID = U.K. Department for International Development; IDF = Institutional Development Fund; PPIAF = Public Private Infrastructure Advisory Facility; SNTA = Subnational Technical Assistance.

Annex 3. Economic and Financial Analysis

There was no economic and financial analysis for this project.

Annex 4. Implementation Support

(a) Task Team members

Names	Title	Unit
Lending Preparation		
Priya Basu	TTL	CFPMI
Varsha Marathe	Sr. Financial Specialist & Co-TTL	SASPF
Clive Harris	Lead Infrastructure Specialist	SASDO
Gennady Pilch	Sr. Counsel	LEGES
Alexandra Bezeredi	Sr. Operations Officer	OPCQC
Frederick Edmund Brusberg	Lead Social Development Specialist	SARDE
Sanjay Srivastava	Sr. Environmental Specialist	SARDE
Mehnaz Safavian	Sr. PSD Specialist	SASPF
Dhruba Purkayastha	Sr. PSD Specialist	SASPF
Gabi George Afram	Financial Specialist	SASPF
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Sakm Abdul Hye	Program Assistant	SASPF
Vinod Satpathy	Program Assistant	SASPF
Manoj Jain	Sr. Financial Management Specialist	SARFM
Priya Goel	Sr. Financial Management Specialist	SARFM
Ramola Bhuyan	FM Consultant	SARFM
Ashish Bhateja	Sr. Procurement Specialist	SARPS
Elzbieta Sieminska	Sr. Procurement Specialist	SARPS
IUB Reddy	Sr. Social Development Specialist	SASDI
Satya Mishra	Sr. Social Development Specialist	SASDI
A. Sita Ramakrishna	Environmental Specialist	SASDI
Mohan Nagarajan	Sr. Economist	SASPF
Sudip Mozumder	Communications Adviser	SAREX
Vikram Menon	Sr. Governance Specialist	SASPF
Sameer Singh	Environmental Specialist	CESI2
A.S. Harinath	Environmental Specialist	SASDI
Srikumar Tadimalla	Sr. PPP Specialist	SASDT
Raghuveer Sharma	Lead Financial Analyst	ECSSD
Anita Maragoly George	Director	CINSA
Rajesh Sinha	Sr. Investment Officer	CSFDR
Inderbir Singh Dhingra	Investment Officer	CGFP6
Vikram Kumar	Assoc. Investment Officer	CSAR1
Implementation Support/ICR		

Names	Title	Unit
Varsha Marathe	Sr Financial Sector Spec.	SASFP
Frederick P. Kranz	Consultant	SARPS
Ivan Rossignol	Sector Manager	SASFP
I. U. B. Reddy	Senior Social Development Spec.	SASDS/GSURR
Michael Markels	Lead Financial Sector Specialist	SASFP/GENDR
Syed Abul Kamal Md Abdul Hye	Senior Program Assistant	–
Abduljabbar Hasan Al Qathab	Lead Procurement Specialist	SARPS/GGODR
Sita Ramakrishna Addepalli	Senior Environmental Specialist	SASDI/GENDR
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(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of Staff Weeks	US$, thousands (including Travel and Consultant Costs)
Lending	**197.03**	**718,840.61**
Implementation Support/ICR	**311.89**	**1,308,827.86**
Total:	**508.92**	**2,027,668.47**

Annex 5. Beneficiary Survey Results

Not applicable.

Annex 6. Stakeholder Workshop Report and Results

Not applicable.

Annex 7. Borrower's Evaluation

INDIA INFRASTRUCTURE FINANCE COMPANY LIMITED

EVALUATION SUMMARY

1. Background and Project Objective:

In 2006, the Government of India established IIFCL, a wholly government-owned financial institution, to catalyze long-term debt for PPP infrastructure projects. IIFCL's activities are governed by a Scheme for Financing Viable Infrastructure Projects (SIFTI), approved by the Cabinet in 2006.

It was envisaged that through this project, the World Bank would be able to support the IIFCL in a number of ways:

(i) by providing long tenor, fixed-interest financing to the IIFCL for on-lending to infrastructure projects, which will also help the IIFCL manage asset-liability mismatches on its balance sheet through lengthening the maturity of both its asset and liability profiles;

(ii) by supporting the IIFCL's efforts over the medium term to tap domestic and, subsequently, international capital markets for longer-tenor financing through, perhaps, issuing a series of 10-, 15- and 20-year bonds that could help establish a benchmark yield curve for infrastructure borrowing; in this context, a risk-sharing facility, and possible credit enhancement structures to enable IIFCL to raise long-term funds in the domestic/international capital markets, can be explored in the near future;

(iii) by helping to strengthen IIFCL's institutional capacity in areas such as risk management, internal controls, financial reporting, and financial product development, which will become particularly relevant as the IIFCL begins to play the role of a catalyst in spurring innovations in the infrastructure finance market; and

(iv) by helping to ensure the adoption of sound policies and procedures by the IIFCL, enhance safeguards, procurement, financial management (FM) and reporting, and monitoring and evaluation (M&E) arrangements; and reduce the transactions costs for IIFCL in dealing with its various international development partners.

The project's objective is to increase the availability of long-term financing for infrastructure PPP projects in India. This will be achieved through supporting the IIFCL in its role to catalyse private financing for infrastructure PPPs and stimulate the development of a long-term local currency debt financing market for infrastructure in India. Key performance indicators will include, inter alia, the following outcomes: (i) an increase in the number of PPPs achieving financial close through long-term debt financing from the IIFCL (at least 150 new PPPs will achieve financial close through IIFCL's support over the life of the project); and (ii) an increase in the amount of private capital (including long-term debt and equity) available for infrastructure projects (a targeted four-fold increase in private capital for infrastructure projects over the life of the project.

2. Project Components

The project has the following two components:

➢ **Component I. Long-Term Finance to Infrastructure Projects (IBRD financing: US$1.195 billion)**

This component will provide long-term funds to the IIFCL for on-lending to PPP-based infrastructure projects (the 'Sub-projects') and/or specific Sub-project contracts, based on agreed eligibility criteria. The Bank's team carried out a pipeline review to identify projects eligible for financing through the IBRD loan. Based on the review, which was updated to factor in the impact of the recent global financial crisis on Indian infrastructure, the team believed that there would be a sufficient number of good Sub-projects for the IIFCL to support through the proposed IBRD loan. The pipeline of Sub-projects being considered included selected power, roads, and ports projects.

The Sub-projects, to be posed for Bank financing, were to be selected by IIFCL based on the agreed eligibility criteria. The following projects were candidates for IBRD financing through IIFCL during the first 18 to 24 months of project implementation. First, a set of six toll-based PPP projects is currently being developed as part of the expansion of state highway networks in Andhra Pradesh and Orissa. The estimated total cost of these projects is US$982 million. These projects were likely to approach IIFCL for financing, and the IIFCL's share in these projects was estimated to be around US$130 million. Second, a set of three power generation, two power transmission, and two ports projects i. (from the IIFCL's existing project pipeline) have reached financial close. The estimated total cost of these projects is US$2.72 billion, and the IIFCL's contribution (to be financed wholly or partly by the Bank) is US$360 million. Additionally, over the medium-term, six other projects, with total projects costs of US$7.4 billion, and for which IIFCL's contribution (to be financed wholly or partly by the Bank) would be around US$739 million, would be ready to begin absorbing funds in the outer years of project implementation. Further, the pipeline of PPP projects in the National Highways sector was expected to grow significantly, with over 38 projects and total project costs of about US$4 billion, which were expected to be bid out as part of the NHDP Phase III.

➢ **Component II. Capacity Building (Recipient-executed grant financing US$ 5 million)**

This component includes support for the two broad areas:

❖ Strengthening IIFCL's organizational needs in the following areas:

- Quality assurance, to cover the task of implementation of ISO 9000 quality standards.
- Strengthening and mainstreaming IIFCL's environmental and social safeguards framework (ESSF) into its credit review process and post-sanction monitoring of Sub-projects.
- Human resource strategy development and implementation.
- New financial product development.
- Risk management and research support for IIFCL's treasury.
- Development of IIFCL staff skills through training.
- Developing business plans for the IIFCL and its subsidiaries.

❖ Implementing and monitoring the project:

This will include support to the IIFCL for the day-to-day implementation of the project, covering all aspects of the operations manual (OM), including FM monitoring and reporting; procurement; safeguards review, monitoring, and implementation; overall results monitoring; and efforts to ensure governance accountability and transparency.

3. Project Implementation

➢ **Component I**

The Loan was signed in October 2009 and became effective in November 2009. The close date of the Loan was 30th September 2015. IIFCL engaged Consultants in the area of Procurement, Environment and Social safeguards in the last two quarters of FY 2009-10 to operationalize the Line. Further, IIFCL established an in house Environment and Social Management Unit and recruited Manager, Procurement in April 2010.

An entire team of IIFCL officials and Consultants was operationalized to take care of Procurement, Environment and Social Safeguard requirements under the line of credit. The process of preparation of due diligence reports was undertaken for the identified Sub-projects during the Project Appraisal done by the Bank's team. In the initial period of 12- 18 months of Project Implementation , due diligence reports for a total of eleven Sub-projects (three in transmission sector , two in Ports , two in Hydro and four in Road sector) including the Sub-projects identified by the Bank's team during appraisal were posed to the World Bank for their consideration.

However, due to the unavailability of certain documents (primarily the Bid Evaluation Reports/ relevant Minutes of the Meeting of the evaluation process) from the Concessioning Authorities in the highway and port sector, the procurement due diligence report could not assess the procurement process as per the eligibility criteria norms. In case of Hydro Projects, there were Riparian Rights issues and technical issues like dam safety due to which Projects identified during appraisal by the Bank could not be funded. There were other challenges in terms of commitment by Project Developers towards acceptance of higher safeguard standards as per the Bank's Safeguard Policy and their implementation since the Project developers are expected to follow the National Standards.

Moreover, IIFCL's exposure to a sub-project is in the range of 10-15% of Project Cost funding in the Consortium. The other lenders do not insist on higher safeguard standards and are not required to seek information / documents related to award of concession by the Concessioning Authority. Therefore, only two Sub-projects in the transmission sector were sanctioned by the Bank resulting in a drawdown of ~ USD 20 million from the line. IIFCL was, thus, not able to effectively utilize the Line.

The Bank's team was able to appreciate the practical difficulties faced by IIFCL (Some of these issues were highlighted during negotiation stage as well), however due to their own internal policies and procedures an immediate resolution to the issues faced in the initial phase of implementation were not possible.

These issues were discussed in TPRMs and the progress was monitored by DFS and DEA. IIFCL requested the Bank to convert substantial loan into equity infusion since the line was not being effectively utilized.

The Bank initiated restructuring process for the line of credit in April / May 2013. A restructuring mission was fielded by the Bank and after a series of discussions with all the stakeholders it was agreed that the Bank would consider low risk projects with respect to safeguards in the state highway road sector and port sector. Projects sanctioned under Takeout Finance Scheme would also be eligible for Bank funding. In case of projects sanctioned under the Takeout Scheme, the due diligence report for the initial Project i.e. one each in National Highway and Port Sector were to be prepared by third party (Consulting Firm) and to be prior approved by the Bank. Thereafter, E&S due diligence to be carried out by IIFCL team and audit by the Bank shall be on post review basis.

In the meantime, the Bank changed its approach from the existing Procurement Due Diligence Framework to Procurement Risk based assessment done by IIFCL at two levels, i) Procurement Risk Assessment of the Concessioning Authority and ii) A checklist based approach for the said Sub-project. Under the restructuring arrangement, the Procurement Risk Assessment Report and checklist was to be prepared by individual Consultant already engaged by IIFCL and audit by the Bank shall be on post review basis.

The Line was restructured in November /December 2013, incorporating learnings from the previous experience of project implementation and designing of a new framework for Takeout

Finance Scheme. The line was reduced from US$1.195 billion to US$195 million to test the new framework and its results in the second phase of implementation of the line.

In the second phase, the line was fully utilized with implementation under the restructured framework well within the close date i.e. 30th September 2015. A total of nine Sub-projects were funded under the Project, one in Transmission Sector, three Ports , four Road up gradation Projects and one Solar Project with an aggregate project cost for these 9 projects amounting to ~ USD 1662 million.

- **Component II**

Under the US$5 million, Capacity Building and Project Implementation through recipient executed grant funds component, almost US$2 million had been raised initially through four trust funds viz. DFID Trust Fund, PPIAF, SNTA, and IDF and an additional US$0.4 million was raised under DFID TF in January 2014.

PPIAF and SNTA Trust Funds were earmarked for a single activity, which was procured and substantially implemented in IIFCL.

The IDF Trust Fund was focused on M&E activities , Audit and review , however due to ineffective utilization of the Line during the first phase of the Project , most of the activities could not be undertaken.

With regard to DFID Trust Fund, IIFCL has hugely benefitted across functional areas. The Grant was taken with the objective of strengthening the institutional capacity of IIFCL with an emphasis on environment, social, procurement and sub-project monitoring areas. Various Consultants have been hired to augment IIFCL’s capacity, with an increasing emphasis on capacity building of IIFCL’s staff. IIFCL’s procurement capacity now provides sufficient comfort for the World Bank to rely on its due diligence to confirm consistency of the Concessioning Authority procedures and underlying transactions with applicable World Bank procurement guidelines. The Grant has also supported substantial training of IIFCL staff. A firm has been hired to conduct compliance reviews of sub-projects with environment, social and procurement arrangements in accordance with guidelines/documents mentioned in the Project’s Loan Agreement. Another firm has developed a Management Information System (MIS) for monitoring safeguards risks and the software has been rolled out. A Consultancy firm was also engaged by IIFCL to do the environmental and social due diligence for sub projects under the Takeout Finance Scheme – a new product for which the Bank has extended financing for the first time. Overall, the Grant has led to substantial capacity development of IIFCL in the Procurement, Environment & Social Safeguards areas and the grant objectives have been amply achieved.

4. Overall Objectives

IIFCL has sanctioned over 450 projects in Infrastructure Sector catalyzing private sector investment of US$100 billion. Out of the sanctioned projects, 104 Projects have achieved COD (83 road projects, 20 power projects and 1 port project). The project objective of providing long tenor loans to at least 150 new projects in infrastructure sector with a fourfold increase in private capital has been achieved over the life of the project. IIFCL has sanctioned over 300 plus projects with a seven fold increase in private capital over the project life.

IIFCL has been able to bring awareness in critical areas of safeguards and procurements amongst various stakeholders. IIFCL has internalized and adopted E&S Framework and has been able to build capacities in areas of procurement, environment and social with Bank's engagement and the TA program administered by the Bank.

There has been substantial capacity development in IIFCL in the Procurement & ESMU Domains. While two officers exclusively look after the Procurement Function, an ESMU Section with strength of 4 officials (including a GM) has been fully equipped to carry out ESDDR related work.

IIFCL is able to carry out due diligence in Procurements and E&S areas for sub-projects in addition to the credit appraisal. The Procurement, Environment & Social Due Diligence reports prepared by IIFCL staff are now accepted routinely by other Multilateral / Bilateral Institutions like ADB and EIB. There has thus been substantial capacity development in the safeguards domain.

IIFCL decentralised the Procurement process across departments and various departments such as Risk, ESMU etc. did their own procurement under guidance of the procurement staff. This has helped greatly in sensitising a large number of officers across the organisation to the Procurement Guidelines of the Bank.

5. Lessons Learned

1. The Key lesson learnt is that IIFCL being a Financial Intermediary is not engaged at the Project Level. IIFCL does not have contractual agreement with the Executing Agency which engages with the Project Developers. Moreover, IIFCL's exposure to a sub-project is in the range of 10-15% of Project Cost funding in the Consortium. The other lenders do not insist on higher safeguard standards and are not required to seek information / documents related to award of concession by the Concessioning Authority.

Therefore, Bank's Policy needs to be different for Financial Intermediary from the Policy which is meant for Executing Agency/Concessioning Authority.

2. As per extant practice in India, the Concessioning Authority bids out the PPP project and the developer is invariably given 180 days thereafter to achieve financial closure. The developer approaches the Banks at this stage for financing of the project. Till recently, IIFCL was not permitted by SIFTI to assume to role of a lead lender. Further, the SIFTI places restrictions on the extent to which exposure can be taken by IIFCL. The commercial banks which are engaged in doing project financing in the country and which assume the role of a Lead Banker are not required to comply with the Procurement, Environment and Social Safeguards Framework . It is, invariably, left to the Concessioning Authority to comply with the national laws in this respect. Further, IIFCL has a small share of the total project loan. The ability of IIFCL, therefore, to enforce the Developer / Concessioning Authority to follow a particular Safeguards Framework is virtually nil. This particular aspect was not factored in while designing the Bank's Line in 2008 and was the most significant factor for drawdowns not happening from the line. The design of the line was deficient to this extent.

3. Another key Take Away is that the new risk based procurement approach under the restructured Line was practical and resulted in positive outcomes, likewise a similar approach may be taken in safeguard related areas.

Annex 8. Borrower's Comments on Draft ICR

Covered in the main text, section 7.

Annex 9. Comments of Cofinanciers and Other Partners/Stakeholders

Not applicable.

Annex 10. Outcomes from Piloting New Approaches

Additional Project Outcomes

Revised PDO: **To strengthen IIFCL's capacity for infrastructure public-private partnership (PPP) financing through piloting new instruments and implementation approaches.**	
Outcomes from Piloting New Instruments: i) Take Out Financing • Verified that there is a substantial demand for this type of financial product in India. • Demonstrated the need for a different safeguards approach than that used for direct investments. • Clearly identified the strengths and weaknesses of this instrument. • Approximately US$130 million in financing extended during this project. • On balance, this was identified as a viable option for any follow-on operation and other Bank projects. ii) Financial Incentives for Safeguards • Better understanding of when the interest rate rebate appeals to sub-projects. • Vulnerabilities of the approach identified. • Confidence and innovation demonstrated by the IIFCL, as indicated by their experimenting with pricing and structure of the rebate. • Single-rate structure not appropriate for all sub-projects. • Two projects (totaling some US$33 million) met Bank standards and qualified for the rebate; a third (US$109 million) was still under consideration at the drafting of this ICR. • Well worth considering (in a modified format) for a follow-on operation.	**Outcomes from Piloting New Implementation Approaches:** i) Post-reviews • Proven workable and superior to pre-reviews in working with the private sector. • Strengths and weaknesses demonstrated. • Next logical step in delegating more authority to the IIFCL. • Shifts onus for decision-making to the client, which makes for post-project sustainability. ii) Low-risk Sub-projects • Extent of risk reduction now well understood. • Vulnerabilities of approach clarified. • Identified as a preferred option in any follow-on operation. iii) IIFCL as Lead Bank • The IIFCL has taken on the role of lead bank in two consortiums. • Strong evidence of the capacity that has been built at the IIFCL. • Provides the IIFCL with more authority compared with other banks in the consortium. • Provides the IIFCL with more leverage over the sub-project developer. • May have merit for addressing safeguards issues in the medium term if certain other issues can be addressed.

Annex 11. Lessons Learned from IIFCL's Piloting of New Instruments and Approaches

1. At the restructuring of this project, the PDO was changed significantly, including specific reference (essentially in the form of an intermediate objective; see section 2.2) to IIFCL's piloting new instruments and approaches to financing PPPs. Outcomes, by pilot instrument and approach, were reported in annex 10. This annex presents more details, because they are an important aspect of lessons learned from the piloting aspects this project.

2. **The experience with financial incentives.** As part of the restructuring, the IIFCL introduced an incentive rebate for sub-projects that comply with Bank E&S safeguards. In November 2014, IIFCL's board of directors increased the rebate from 25 to 50 basis points on the initiative of the IIFCL. This was an effort to incentivize developers, while back-loading the payment to ensure compliance.

3. This rebate program was an innovative experiment—including back-loading, to ensure compliance—and all interviewees agreed that the rebate was attractive and meaningful. However, at the drafting of this ICR, only two of the Bank's nine sub-projects had qualified (a third was still pending; annex 2), and it is important to understand why success was limited. Discussions during this review indicate the following:

- In some cases, the IIFCL reports that sub-projects were non-performing for financial—not safeguard—reasons and the IIFCL was not prepared to de-link the financial issues from the safeguards issues.

- Based upon IIFCL's experience, the rebate was most successful when safeguard obligations entailed relatively well-defined boundaries, for example, equipment needed for pollution abatement or effluent containment.

- The rebate was less interesting for sub-projects that faced relatively open-ended, social obligations, either because the costs were too difficult to price or because the obligations entailed unwanted public disclosure.

- In other cases, relatively small sub-projects (and correspondingly small rebates) entailed obligations in relation to only a few affected parties. But once a compensation initiative was launched, multiple parties will come forward, demanding equal treatment. Settling such cases proved expensive and time-consuming, which discouraged similar sub-projects from following the same course.

- In some cases, details of the interest rebate were not clearly communicated sufficiently upfront for the developer to compare against the cost of complying with E&S standards.

- Back-loading the interest rebate may have been useful for the IIFCL to ensure compliance, but it also reduced the net present value of the incentive to developers and increased their uncertainty regarding cash flow.

4. **The experience with Take Out financing.** Another innovation piloted by the IIFCL post-restructuring was the introduction of Take Out financing. As part of this arrangement, the IIFCL will carry out due diligence on the sub-projects to confirm that there were no outstanding issues in relation to safeguards or procurement and submit the sub-projects to the Bank for financing. Experience with this operation indicates the following:

- There is a substantial demand for this type of financial product in India, partly because Indian banks have high levels of non-performing infrastructure loans and are keen to improve the quality of their portfolios, including by reducing their maturity mismatch.

- In light of the previous bulleted point, it is important that IIFCL's due diligence include a strong assessment of borrower creditworthiness.

- This product leaves the early years (that is, the pre-operational stage) of a project's development to commercial banks. This is the banks' comparative advantage for two reasons. First, the initial few years are typically the most risky for a project, and banks know their customers' capacity for carrying risk better than the IIFCL. Second, the maturity of a bank loan (typically, three to five years) matches the length of a typical project's pre-operational phase. In contrast, IIFCL's longer-term maturities fit well with the longer, operational phase of a project.

- There are indirect benefits from this kind of operation, namely, this kind of operation increases the likelihood of sub-projects' sustainability by reducing their interest costs; improves the maturity match on banks' balance sheets; and incentivizes banks to select and monitor their projects well.

- On the downside, mistakes can still slip through IIFCL's due diligence process. Such "legacy" issues are difficult to detect because information on many of them—and possibly the more serious ones—will not be in the public domain, owing to their sensitive nature.

- As a mitigation measure, the safeguards due diligence process could be integrated into the technical and legal due diligence processes, at least for large projects.

- Safeguards need to be communicated clearly and up front to sub-borrowers to be clear on the terms for rebate qualification.

- The willingness of sub-borrowers to participate in secondary E&S due diligence should also be obtained up front.

- Experience indicates that Category B sub-projects can transform into Category A when it becomes public knowledge that the Bank is involved with a sub-project.

- Finally, the additionality for infrastructure development is not assured by Take Out operations. For example, it cannot be taken for granted that the taken-out banks will use the additional 'headroom' to finance additional infrastructure.[44]

5. **The experience with 'low-risk' sub-projects.** As one part of the restructuring package, this project focused on Categories B and C (that is, "low-risk") sub-projects. In principle, this would ease safeguards issues, but experience in this area has been highly mixed. On the positive side, an adequate number of candidate projects were referred to the Bank by the IIFCL, and the available financing was fully disbursed comfortably before project closing. Also, one of these projects was fully compliant with safeguards at the drafting of this ICR, including qualifying for IIFCL's interest rate rebate (a second was still pending at the drafting of this ICR; annex 2).

6. However, experience also indicates that unexpected hurdles may also arise, for instance, seemingly low-risk projects may turn organically into high-risk ones. For example, in roads rehabilitation projects—an area that looks like it should be low-risk—the IIFCL finds that new Project Affected People come forward, demanding equitable treatment, sometimes with doubtful claims, which is consistent with the views of project staff. This exposes the Bank to reputational risk, whereas dispute settlement can become very costly for the concessionaire in a vocal democracy like India.

7. Overall, this experience has provided a better understanding of the advantages and disadvantages of working on the so-called "low-risk" projects. On balance, they look like the best way forward for the Bank, but safeguard-related issues may still be difficult.

8. **The experience with pre- and post-reviews.** As designed, the project was to review all sub-projects prior to disbursement of funds (that is, a pre-review). The intention, according to safeguards staff, was to move to post-reviews as soon as the IIFCL adopted an enhanced ESSF, which was very slow to happen (para 42). Effectively, this meant that the Bank would be pre-screening the details of every candidate sub-project for eligibility, which proved unworkable, and made for very little local institutional development. As part of the restructuring, the Bank was to rely more on IIFCL's fiduciary and safeguards capacity. In practice, this meant that the IIFCL would screen candidate sub-projects and make recommendations to the Bank for financing. The Bank would assist with IIFCL's due diligence initially (say, one sub-project per sector), then move to sampling of sub-projects post-disbursement (that is, a Post Review).

9. Experience with post-reviews has provided the project with a robust view of the strengths and weaknesses of the approach. As for the strengths:

- Pre-reviews are not well adapted to the Bank's working with the private sector, especially if there is a difference between Bank and national safeguards standards.

[44] The IIFCL responds to this point by noting the sectoral (and single-borrower) lending limits on banks in India, which limits possibilities for substituting other types of lending in the face of newly created infrastructure headroom. Consequently, additional headroom in the infrastructure sector will tend to be refilled with additional lending to infrastructure.

- Phased post-reviews provide a workable option, especially if backed by strong technical assistance for, for example, risk assessment.

- Post-reviews put the onus on the client, which is an important step toward the end of a project.

- Post-reviews encourage sustainability of safeguards standards after the project closes.

10. As for the weaknesses:

- Even with pre-agreed criteria, there is room for different perceptions of risks, and risks can change over time.

- Some mistakes can slip through the due diligence process.

- The Bank's leverage is reduced with post-reviews; phased, conditional transfers are probably the best option.

11. **Issues surrounding the 'lead bank.'** The so-called 'lead bank' (within the consortium of financial institutions financing a sub-project) has considerable authority for matters like independent credit assessments and decisions on loan disbursements. In the course of this review, some observers suggested that project outcomes might have been appreciably different if the IIFCL had taken on the role of lead bank in financing some sub-projects. In this context, they suggested that one forward-looking solution for better outcomes was for the IIFCL to take on the role of consortiums' lead bank.[45]

12. Further discussions during this review indicated divergent views on the issue. For example, the Ministry of Finance (which is IIFCL's shareholder and the major shareholder in India's entire banking system) did not see this as IIFCL's role. By contrast, other GoI agencies, including the IIFCL, see themselves as a wider player in the future and have been the lead bank a few times recently.

13. This review concludes that this option may have some merit in the longer term, if a wider consensus is reached within the GoI on IIFCL's role. But a more important issue would remain for the Bank—namely, a potentially troublesome residual difference between GoI's safeguard standards and the Bank's. The IIFCL has announced its intention is to put in place a new framework in line with India's national standards, and these are to form the basis for IIFCL's future engagements with creditors going forward.

14. **Other relevant matters.** A peer reviewer drew attention to recent Bank thinking that highlights the following success factors for development finance operations. They are noted here because they are fully consistent with the experience of this project.

(a) Specific market gaps need to be identified.

[45] Indeed, the IIFCL has been the lead bank on a couple of recent occasions, having received cabinet authorization to take on that role.

(b) Tailored and pro-market instruments need to be designed to close market gaps.

(c) Careful evaluation of governance arrangements is needed to ensure sustainability of the institution without multilateral support once the project closes.