

## Project Summary Information (PSI)

Project No.: 000030

Project Name	National Investment and Infrastructure Fund Phase I
Country	Republic of India
Sector	Multi-Sector
Project No.	000030
Environmental and Social Category	Category FI
Date PSI prepared or updated	21 June 2018
Estimated Date of Board Consideration	24 June 2018
Concept Decision	28 April 2017
Appraisal Decision	31 May 2018

### I. Introduction

India is the world's seventh-largest economy, measured by nominal Gross Domestic Product (GDP) (USD2.264 trillion).<sup>1</sup> With 1.3 billion people, it has 17 percent of the global population. Recently, India has emerged as one of the fastest growing large economies, with an average GDP growth rate of 7.46 percent over the last three years,<sup>2</sup> and a per capita GDP of USD1,824 in 2016.<sup>3</sup> The International Monetary Fund estimates that the economy will grow 7.4 percent in 2018 and 7.8 percent in 2019.<sup>4</sup> The World Bank forecasts similar growth rates.

Currently ranked 100th on the World Bank scale for ease of doing business, India has been taking incremental reform steps (up 42 spots from rank 142 in 2015). The recent macroeconomic and policy changes have had a positive impact on the investment climate; the Bloomberg Bain Private Equity Survey 2017 indicates that 60 percent of investors are optimistic about India. As per the India Private Equity Report 2017 (Bain and Company, March 2017), funds allocated to India by global private equity investors were estimated at USD9 billion in the year 2016 (an increase of 8 percent over the previous year).

The National Infrastructure Investment Fund (NIIF) has been set up by the Government of India to address the significant infrastructure financing gap in the country, particularly on the equity front. While the domestic debt market has been fairly vibrant, there still exists a challenge in identifying equity capital, in particular long-term, patient capital. NIIF is envisaged to be developed as a platform that can attract national and international investors keen on investing in commercially viable Indian infrastructure projects.

NIIF has three investment platforms, namely the Master Fund, Fund of Funds (FoF) and Strategic Investments Fund. The Asian Infrastructure Investment Bank (AIIB) is considering participation as an investor in the FoF. The FoF carries a unique and strong position to provide fillip to the funds dedicated to infrastructure and related sectors in India. The FoF will deploy investments into Portfolio (or Sub)-Funds dedicated to Indian infrastructure and related sectors, which will enable the committed capital to be diversified into the most attractive areas of those sectors.

The FoF will undertake its investments pursuant to an investment strategy and guidelines to be agreed with its key investors. With the Bank's contribution to the FoF, the Fund Manager is undertaking to

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<sup>1</sup> World Bank. July 2017. World Development Indicators. Washington, DC.

<sup>2</sup> Organization for Economic Co-operation and Development (OECD). August 2017. Country Statistical Profile, India 2017. Paris.

<sup>3</sup> Asian Development Bank (ADB). September 2017. Key Indicators for Asia and the Pacific 2017. Manila.

<sup>4</sup> International Monetary Fund. January 2018. World Economic Outlook. Washington, DC.

adopt Investment Guidelines, to be applied in the context of investments into Sub-Funds and indirect investments into Sub-Funds' Portfolio Companies. These Investment Guidelines incorporate the Bank's policy requirements with respect to the Environmental and Social Policy, Policy on Prohibited Practices, Procurement Policy, Sanctions, Energy Sector Strategy: Sustainable Energy for Asia and other requirements.

## **II. Objectives and Expected Results**

The Project objective is to support private capital mobilization from institutional investors to reduce the equity financing gap in the infrastructure sector in India by investing in the FoF.

The objective of the FoF is to invest its net investible corpus in Alternative Investment Funds registered with the Securities and Exchange Board of India. The FoF will seek to achieve attractive risk-adjusted returns over the long term by investing in funds oriented to infrastructure and infrastructure-related productive sectors on a commercial basis and managed by professional Fund Managers. The FoF will contribute to investment diversification across various infrastructure-related sectors and in companies at various stages of growth.

## **III. Fund Description**

The Government of India views investment in infrastructure as one of the key drivers of development of the Indian economy. Since infrastructure investments require long-term, patient capital, the Government announced the establishment of NIIF in the annual budget in February 2015. The target size of NIIF across all its investment strategies is INR400 billion (approximately USD6 billion), with the Government of India investing 49 percent, or INR200 billion (approximately USD3 billion). NIIF's mandate is to raise third-party capital for the remaining INR200 billion from international as well as domestic institutional investors, such as sovereign wealth funds, multilateral institutions, insurance and pension funds, endowments, etc. The target size of the FoF in which AIIB will be investing is INR650 billion (approximately USD1 billion).

NIIF Limited (NIIFL) is the Investment Manager for all NIIF Funds, including the FoF, Master Fund and Strategic Investments Fund. The Investment Manager will be responsible for the day-to-day operations of the FoF, including the power to make investment and divestment decisions of the FoF in accordance with the FoF documents.

## **IV. Environmental and Social**

AIIB's Environmental and Social Policy (ESP) is applicable to the Bank's participation in the FoF. The Project has been placed in Category FI, because the financing structure involves the provision of funds through a Financial Intermediary (FI). The AIIB delegates to the FoF the decision-making on the use of Bank funds, including the selection, appraisal, approval and monitoring of Sub-Funds and the oversight of their respective investments in Portfolio Companies. The AIIB will continuously review the selection of further investments by the FoF against the defined Investment Guidelines which are being prepared and shall be agreed between the Bank and NIIFL. The Investment Guidelines will reflect the AIIB's ESP, Environmental and Social Exclusion List, where relevant the Environmental and Social Standards (ESS) and the Bank's Energy Sector Strategy: Sustainable Energy for Asia.

NIIFL has prepared an Environmental and Social Policy (E&S Policy), now approved by its Board and disclosed on its website (weblink <https://niifindia.in/about-us/>). NIIFL is currently developing procedures, guidance notes and tools that will comprise a comprehensive Environmental and Social Management System (ESMS) to be applicable to all Funds under NIIFL's management, to Sub-Funds and to Portfolio Companies in which those Sub-Funds invest. The Bank has confirmed that NIIFL's E&S Policy and ESMS structure constitute an appropriate system for screening and categorizing, reviewing, conducting due diligence on, managing and monitoring the environmental and social risks and impacts associated with investments funded under the FoF. NIIFL's E&S Policy and ESMS provide

for the use of good international industry practice to address significant environmental and social risks in a manner aligned with the requirements of the Bank’s ESP, including the ESS where applicable, throughout the investment cycle and down the chain of investments.

NIIFL will disclose the FoF’s investments in Sub-Funds on its website, indicating the name, location and target sector(s) of each Sub-Fund, with an indication of the sector(s)’ environmental and social risks. The FoF will ensure that Sub-Funds require each Portfolio Company to have completed all environmental and social permitting processes as per NIIFL’s E&S Policy. For high-risk aspects of their projects or business activities, Sub-Funds will require each Portfolio Company to complete environmental and social instruments in line with good international industry practice, which reflect the AIIB’s ESSs requirements.

The FoF will also ensure that Sub-Funds: (a) require all Portfolio Companies to disclose and consult on environmental and social documentation with stakeholders, including project-affected people, before finalizing environmental and social instruments; and (b) establish a Grievance Redress Mechanism for all projects or business activities financed using AIIB’s proceeds. Respective Fund Managers will be required to develop and maintain capacity to address inquiries from external stakeholders about their Portfolio Companies’ environmental and social performance.

NIIFL has committed to support the Portfolio Funds’ Managers in the establishment of ESMSs and capacity building, and to require from them environmental and social monitoring reports on a scheduled basis. AIIB plans on conducting semi-annual supervision of implementation of NIIFL’s E&S Policy across the FoF and alongside NIIFL on its Sub-Funds, as well as selective assessment of the implementation of applicable standards by the Portfolio Companies. These steps are in acknowledgement of the risk ensuing from its indirect investments in Sub-Funds and on to their Portfolio Companies.

## V. Estimated Fund Size (in USD million)

### For Initial Closing of FoF:

Target Fund Size	600	Total AIIB Financing (Phase I):	100
<b>For Equity</b>			<b>Amount</b>
Government of India			500
AIIB (Phase I)			100
Total			600

## VI. Implementation

The Initial Closing of the FoF is planned at INR390 billion (approximately USD600 million) with the Bank’s contribution of USD100 million (Phase I). The Bank is also considering a further investment of USD100 million in the FoF Final Closing (Phase II), which may be presented for Board approval at a later date.

NIIFL will monitor the activities of the Fund Manager of each of the Sub-Funds to ensure that their respective portfolio and investing strategy are in alignment with the respective Fund’s founding investment strategy, the FoF Environmental and Social Policy and the FoF Investment Guidelines. The Sub-Fund Manager will be responsible for managing the respective Sub-Fund investments and operations, following the respective investment approval process and complying with the applicable requirements.

Consistent with the Bank's Procurement Policy as it relates to private sector entities, the Bank will rely on the due diligence conducted by the Sub-Fund's investment team during its evaluation of investments to ensure that sound commercial private sector practices related to procurement will be applied by the investees, and in the case of Concessions that the applicable criteria are met.

Expected implementation period (Start Date and End Date):

Start Date: July 2018

End Date: July 2033

Contact Point

**Asian Infrastructure Investment Bank (AIIB):**

Mr. Kishlaya Misra

Project Team Leader

B-9 Financial Street, Xicheng District,

Beijing, P.R. China 100033

Phone: +86 10 8358 0208

Email: [kishlaya.misra@aiib.org](mailto:kishlaya.misra@aiib.org)

Website: [www.aiib.org](http://www.aiib.org)

**National Investment and Infrastructure Fund (NIIF)**

Mr. Anand Unnikrishnan

Head – Fund of Funds

National Investment and Infrastructure Fund Limited

4th Floor, UTI Tower, GN Block, Bandra Kurla Complex,

Bandra East, Mumbai, India 400051

Phone: +91 22 6264 6628

Email: [Anand.Unnikrishnan@niifindia.in](mailto:Anand.Unnikrishnan@niifindia.in)

Website: [www.niifindia.in](http://www.niifindia.in)