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Project Exports from India: Tapping Potential amid Changing Dynamics

The economic fallout of the Covid-19 pandemic is compelling governments around the world to launch the largest round of infrastructure investment since the post-2008 financial crisis stimulus measures. With growing impetus being given for infrastructure projects across most countries, and multilateral financial institutions scaling up investments across various infrastructure segments, the scale of opportunities in project exports is expected to grow manifold. Project exports include exports of engineering goods on deferred payment terms and execution of turnkey projects and civil construction contracts abroad. Indian companies are well placed to leverage the emerging opportunities for project exports.

PROJECT EXPORTS FROM INDIA

Projects are financed through a variety of routes, including funding by sovereigns, multilateral development banks (MDBs), development financing institutions (DFIs), as also by the governments and/ or government backed institutions in other countries. Uniform and comparable data pertaining to project exports is currently unavailable at both the global and India level. In the absence of comprehensive data on project exports, the Study attempts to tie in and integrate several disparate sources of data to provide insights on the performance of project exports from the country.

According to data from the Project Exports Promotion Council (PEPC), project exports from India registered a y-o-y growth of 10.6% to reach US$ 4.3 billion in 2019-20. The project exports moderated to US$ 1.8 billion in 2020-21, recovering thereafter in 2021-22 to reach US$ 2.7 billion. It may be noted that this value of project exports reported by the PEPC is only based on data reported voluntarily by the PEPC members, and the actual value of project exports could be higher. As per PEPC data, Middle East is among the top markets for project exports from India, with Saudi Arabia being the topmost destination for Indian project exporters, accounting for 20.6% of the total value of contracts secured by Indian project exporters cumulatively during 2016-17 to 2021-22.

MDB funded projects represent a significant part of the total project exports undertaken across the globe. During 2017-2021, the overall value of contracts awarded in projects financed by the major MDBs, viz. the World Bank (WB), the Asian Development Bank (ADB), the African Development Bank Group (AfDB), the Inter-American Development Bank (IDB) and the European Bank for Reconstruction and Development (EBRD) cumulatively amounted to nearly US$ 191.0 billion. During the same period, Indian companies secured contracts valued at US$ 26.1 billion in the projects funded by WB, ADB, AfDB and EBRD. A significant share of the projects have been secured through International Competitive Bidding.

In the MDB funded projects, India is among the top supplier countries in the regions of South Asia, Sub-Saharan Africa, and Middle East and North Africa. Indian contractors specialize in energy, transport, and water supply/ sanitation sectors across all the regions in MDB funded projects, but they also face fierce competition in each of these sectors, particularly from China.

Construction services are one of the largest areas of opportunities for project exporters in terms of value. India's share in global construction services exports has steadily increased from 0.8% in 2011 to 3.3% in 2020, indicative of the growing prowess of Indian companies.

The Government of India's (GOI) support to developing partner countries through the Lines of Credit (LOC) programme has been pivotal in creating mutually beneficial partnerships with other developing countries and creates opportunities for Indian project exporters. In the period from FY19 to FY22, 210 contracts valued at US$ 4.6 billion were approved under the LOC funded projects, which helped Indian project exporters in making significant headway in various sectors and markets. Besides, a robust institutional structure for medium-to long-term financing has also played an important role in promoting project exports from India.

IMPACT OF COVID-19 ON PROJECT EXPORTS

While global infrastructure projects announced during 2020 witnessed a y-o-y increase of 5.5%, monthly data reveals that the number and value of infrastructure projects announced witnessed intermittent periods of growth and decline during 2020, as the investment sentiments changed in response to the ebb and flow of Covid-19 cases across geographies. Meanwhile, global construction services exports also witnessed intermittent periods of steep decline and growth during 2020 and H1-2021. On account of their countercyclical function, for all MDBs, except the EBRD, there was an increase in procurement opportunities during 2020, either in volume or value terms, or both. In 2021, however, contract award opportunities reduced across several MDBs, even though the need for multilateral financing for development remained pronounced.

India's construction services exports were also impacted due to the pandemic, registering a y-o-y decline of (-)

3.9% during 2020; witnessing steep decline in Q2 and Q3 of 2020, and recovering slowly thereafter. In Q2 2021, exports of construction services from India were again severely impacted, owing to the disruptions caused by the second wave of the pandemic in the country, but there was a sharp recovery thereafter in Q3 2021.

The value of contracts secured by the Indian companies in projects funded by the WB, the EBRD and the ADB witnessed an increase during 2020, but it declined for projects funded by the AfDB. India's stronghold in MDB funded projects in the South Asian region continued, and Indian companies were also able to secure contracts in lesser explored geographies such as Turkmenistan. In 2021, value of contracts secured by Indian companies in the WB and ADB funded projects declined, but there was a strong recovery in contracts secured in the AfDB funded projects

The Covid-19 pandemic also led several governments to turn to their Export Credit Agencies (ECAs) as part of their toolkit for addressing the economic challenges. The Study discusses the changes in the trajectory of ECA support during 2020, and the policy measures adopted by various ECAs to mitigate the adverse impact of Covid-19.

STRATEGIES

There is a need to develop sectoral capabilities where presence of Indian companies is currently limited vis-à-vis other top competitors such as China. There is also a need to diversify the markets for project exports and tap relatively lesser explored geographies in Latin America and the Caribbean (LAC), East Asia and Pacific, and Central Asia. Other than these, there is need for across-the-board engagement in several other areas delineated hereunder.

Strengthening Export Credit Agencies

Providing competitive finance is one of the key factors in success of project exports. In fact, according to the Report to the U.S. Congress on Global Export Credit Competition, foreign buyers rarely approach financing as an afterthought. Rather, financing is regularly a core component of evaluating bids and identifying sourcing—complete with weighing scales on relative financing terms. Given the important role of ECAs in providing low-interest, long-tenor financing support for projects, there is a need to strengthen these institutions in India.

Regulatory Easing and Borrowing Support

India Exim Bank's borrowing limit is pegged to 10 times of its Net Owned Funds, at par with commercial banks in India. However, such a leverage rule is not followed by other key ECAs across the globe. Therefore, enhancing the leverage ratio to 20 times may be considered, with suitable Board level safeguards, wherever necessary. Further, as a niche institution, India Exim Bank must necessarily have a higher degree of concentration of exposures. In this context, relaxing the prudential limits on exposure to Single Borrower and Borrower Group could be considered. The RBI's IRAC norms could also be relaxed for India Exim Bank's Buyer's Credit under the National Export Insurance Account (BC-NEIA). Further, India Exim Bank could be exempt from income tax like other ECAs such as those in the US, Canada and Japan, which may enable it to plough back its entire profits into its operations and facilitate the up-scaling of credit volumes.

India Exim Bank's access to funds is constrained by the commercial rates applicable on its domestic borrowing as also the incidence of withholding tax on overseas borrowings, which in turn restricts the Bank's ability to offer internationally competitive credit packages. The GOI could consider waiving off the withholding tax on India Exim Bank's overseas borrowings. The GOI guarantees on borrowings as available to the recently set up National Bank for Financing Infrastructure and Development could also be considered for India Exim Bank on its overseas borrowings.

Widening the Scope of Concessional Lending

Developing countries, especially the least developed countries (LDCs), need loans structured in concessional terms, with longer tenor and greater moratorium. In some cases, especially for the highly indebted poor countries (HIPCs), IMF debt sustainability framework mandates the countries to borrow only on concessional terms with a minimum concessionality level of 35%. While majority of the LOC programme meets the IMF concessionality requirement, the interest rates in other programmes such as the BC-NEIA and Concessional Financing Scheme are linked to floating interest rates and do not satisfy the minimum grant element mandated by the IMF/ WB for LDCs/ HIPCs, and thus cannot be classified as concessional lending. Widening the coverage of concessional lending through these programmes would project India as a partner for aid cooperation. Besides, such a move would support project exports and encourage Indian companies to gain experience in various countries, thereby enabling them to qualify and bid for projects funded by MDBs and on commercial terms.

To enhance the scope of concessionality, the GOI could consider providing an interest subvention for project exports supported under the Buyer's Credit programme of India Exim Bank. Such support would improve price competitiveness of project exporters in different markets, including the middle-income countries that cannot be accessed through the support provided under LOC.

Risk Mitigating Instruments in Foreign Currency

ECGC Ltd., as per norms of the Insurance Regulatory and Development Authority of India (IRDAI), is not allowed to extend cover in foreign currency. Insurance cover in foreign currency can significantly reduce the transaction costs for exporters. Thus, insurance cover should also be available in foreign currency. Special dispensation needs to be accorded by the IRDAI to ECGC Ltd. for providing cover in foreign currency under BC-NEIA. Regulatory supervision for such foreign currency cover can be provided by the RBI, which is also the regulator for export credit in the country.

Reviewing Minimum Local Content Requirement

India Exim Bank's survey responses indicate that many Indian project exporters believe that meeting the minimum content requirement stipulated under the LOCs could be a challenge, especially in faraway markets, particularly in civil construction projects. While relaxing the minimum national content requirement may not be prudent; in line with best practices adopted by some ECAs, a value-added approach for calculation of minimum content requirement could be considered, in certain segments of project exports, and in select geographies. Further, in context of civil construction projects, relaxation of domestic content requirement could be considered by GOI, with the condition that the key raw materials be sourced locally from the project country itself to the extent of the relaxation provided, with strict restrictions on imports of raw materials from any third country.

Encouraging Local Presence, JVs and Consortium Approach in Project Markets

India Exim Bank's survey of Indian project exporters indicates that all respondents are open to the idea of collaborating through joint ventures (JVs) in project countries. In fact, nearly 60% of the respondents have already entered into such collaborations in the past, mostly in the regions of Middle East, Africa and South Asia. Indian companies need to be supported and encouraged to form JVs in the opportunity markets. Having a local presence in the country of the project significantly enhances the probability of success in securing a contract. Local presence also helps companies in bidding for contracts under National Competitive Bidding.

Moreover, Indian companies should also be encouraged to adopt consortium approach to bid for multiregional and multisector opportunities. Such opportunities are expected to increase in the African continent on account of the newly formed African Continental Free Trade Area.

Considering Project Exports in FTA/RTA Negotiations and Countertrade Mechanism

Prospects of project exports should also be considered while negotiating FTAs/RTAs with other countries. Non-tariff barriers such as high visa fees and non-issuance of multi-entry visa of longer periods to project implementation and commissioning professionals in some markets are a major concern. FTA/RTA negotiations should strive towards facilitating greater ease in movement of natural persons to execute the projects abroad. The possibility of including award of visa for workmen and officials of Indian contractor executing the projects on priority basis in such agreements with partner countries could also be considered. Further, the visa fees and duration could also be as per the general rule of reciprocity in this regard.

Countertrade can also serve as an effective market diversification strategy for Indian project exporters in untapped geographies with rich resources, that face restrictions in outward remittances. It also presents an effective way of mitigating risks associated with financing developmental projects in countries at risk of debt distress. A countertrade strategy would also be worth considering from the viewpoint of recovery of dues or securing future repayments in the developmental partnership programs of the GOI.

Membership with the IDB

Projects funded by IDB could provide opportunities for Indian project exporters to penetrate the LAC market for project exports. In the past, India took memberships in MDBs in other regions, such as the AfDB, which has led to substantial increment in the number of contract awards secured by Indian contractors, and also led to substantial political goodwill for the country. The GOI is already considering taking up membership in the IDB. The membership could be taken on priority basis.

Addressing Data Related Issues

Consolidated data on project exports is currently unavailable on a timely basis. To facilitate compilation of consolidated data on project exports on an all-India basis, AD Category-I banks were advised by the RBI to send a copy of post award approvals for project export contracts/ supply contracts to India Exim Bank as and when such approvals are accorded. However, the reporting of the data has been a challenge. There is need for the RBI to mandate AD Category-1 banks/ India Exim Bank to submit data on post award approvals at regular intervals in a structured format. The RBI could then serve as a source point for data on project exports. Further, detailed procurement data covering Indian participation in projects funded by MDBs, including important aspects such as bid conversion ratio, also need to be collated with the help of the office of various MDBs in India, and ED (India)'s office in MDBs. Currently, such data is not disseminated through publicly available data sources of major MDBs, with exception in the case of the EBRD.

Creating Awareness about Procurement Opportunities

There is need for organizing detailed awareness programs and workshops for preparing Indian exporters to tap the opportunities arising in MDB funded projects. These workshops could train exporters in preparing responsive bids, apprise them about the specific requirements (standards, regulations, technical features, etc.) in the project countries, and encourage a more collaborative approach towards bidding for projects. India Exim Bank already organizes such programmes in collaboration with MDBs. More such programs can be conducted by the Department of Commerce, in consultation with industry associations, India Exim Bank, resident missions of MDBs, and other key stakeholders.

Co-Financing / Parallel Financing

There is a need to promote co-financing / parallel financing of infrastructure projects with other international funding agencies such as MDBs, ECAs, and national DFIs. Such collaboration can substantially enhance the project financing capabilities, while also meeting the growing infrastructure requirements. Bridging funding gaps in projects funded by India Exim Bank through co-financing by MDBs and other ECAs could be considered. GOI support may also be required to make the co-financing / parallel financing approach effective, by aligning the differences in funding structures and cost of fund between MDBs and India Exim Bank.

Knowledge Sharing for Encouraging Private Participation

India's enabling environment for Public Private Partnerships (PPPs) has a strong focus on project preparation and capacity building, and India is at the right place to offer technical assistance and cooperation in development of PPP projects in other developing countries. India could increase its efforts towards sharing best practices for development of PPP regimes, particularly in Africa. This will not only create better financing environments in developing countries, but also create greater opportunities for Indian companies to invest and execute contracts in these countries.

Developing Project Preparation Facilities for Creating Bankable Projects

Issue of bankability of projects has long been one of the key bottlenecks in attracting private capital to meet the investment gap in infrastructure. Comprehensive approaches to develop project preparation facilities are required to increase the bankability of projects. While India has taken several steps towards creating bankable projects, India's engagement in project preparation facilities is mostly limited to early stages of project development activities. More facilities are required to also engage in post-preparation activities and concentrate on implementation and post-implementation stages as well.

Greater Emphasis on Sustainable/ Renewable Sector

There has been a growing focus on renewable energy projects globally. While the GOI had earmarked concessional LOCs worth US$ 2 billion for solar projects in Africa during India-Africa Forum Summit (IAFS)-III, the uptake of such LOCs by partner countries has been relatively low. Improving cost competitiveness in the renewable energy sector would be critical as financing alone would not be a panacea for growth in project exports from this segment. The GOI has introduced several programmes over the recent years to strengthen domestic solar manufacturing capabilities, including a production linked incentive scheme for solar PV manufacturing. Nevertheless, given the extent of competition faced by Indian companies from Chinese firms, there is a need to enhance the quantum of support provided by GOI to the domestic solar PV manufacturers. This would also enhance the capabilities of Indian project exporters in the renewable energy segment.

Sub-Contracting Approach for Smaller Players

Companies of small and medium size could also consider the possibility of engaging in project exports by way of securing sub-contracts from major European/ American/ Japanese companies. To encourage this, the office of MDBs in India, ED (India)'s office in MDBs, together with Indian Missions abroad could send out alerts advising the project exporters of such opportunities in advance. Gaining exposure to international projects through these subcontracting opportunities can help strengthen capacities and allow companies to bid independently over time.

Push/ Pull Programs for Enhancing Participation of Smaller Companies

Push/ pull programs are untied financing programmes, wherein countries aim to "push" or "pull" future sourcing of goods and services towards their country, by offering financing support to major multinational manufacturers, in return for their commitment to source from smaller domestic companies in the future. These programmes also pair financing with matchmaking between domestic suppliers and foreign buyers. Several ECAs, including EDC (Canada) and SACE (Italy) have successfully implemented such a strategy. A similar programme could be developed for India, which could be used to incentivize sub-contracting to smaller players from major companies in project export contracts.

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