



# The Economic Investment Vehicle

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# Foreword

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India is one of the most rapidly urbanising countries of the world, with even the most conservative assessments predicting that over the next 15 years, nearly half of the country's population will be living in urban settlements. Creating sustainable and resilient urban infrastructure, sensible urban planning and providing essential public goods like clean water, transport, energy and sewerage are vital imperatives, for attaining India's SDG goals and for providing a decent quality of living.

Given the nature of the need, significant public resources and energies have been focused on the urban sector, especially recently, with flagship programmes like Smart Cities and AMRUT. While many of these programmes envisage significant private sector participation, there is a need to ramp up private sector focus and spending on urban infrastructure and services. Much more needs to be done around creating a sound and stable policy and regulatory environment. This includes designing a fair allocation of risks and rewards between government and the private sector, designing stable contracts, a quicker adjudication process, as well as the establishment of impactful instruments for providing finance to private investors.

The EIV concept has been designed precisely with these ends in view and to enable some order and certainty. There is the need to create an enabling framework of accountable governance and transparent processes, to allow for project viability testing, in developing bankable projects which also delivers with impact. Urban and rural challenges are connected and as such, we need a connected service approach, with partners working collaboratively in unblocking development obstacles. We are confident that it will meet a much-needed demand and provide a framework for meaningful action, to marry public and private sector competencies for the betterment of the sector. This approach will hopefully prove particularly useful to city administrators, urban policy makers and other key stakeholders not just in India, but across the globe, where there are urban and rural challenges of the same scale.

The Economic Investment Vehicle is the first step towards aligning the thinking of policy makers, private investors and other stakeholders in the urban and rural sectors around commonly agreed outcomes. We welcome discussions to see how we can tailor the Economic Investment Vehicle to meet your needs and in ensuring through collaboration, the delivery of major projects that achieve lasting impact.

**Elias George**

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Infrastructure, Government & Healthcare

## The India context

### The infrastructure challenge

To achieve a GDP of USD5 trillion by 2025, India plans to spend around USD1.4 trillion<sup>1</sup> on infrastructure over these years. As much as a quarter of this spending is expected to come from private investment. Creating certainty and confidence in investment opportunities, therefore, is key to achieving this goal, particularly in the wake of the slowdown in the global economy.

Against this backdrop, the Economic Investment Vehicle (EIV) emerges as an innovative model to attract domestic and foreign capital through a strong accountable public and private governance framework, as well as transparent project tools in testing project viability and prioritisation.

India's ranking in the World Bank ease of doing business index improved 14 places to 63 out of 190 countries in 2019<sup>2</sup> as a result of economic reform. Improving the ease of doing business as well as creating a transparent and enabling framework in India must remain a strategic priority, aligning with the Prime Minister Narendra Modi's vision of a new India.<sup>3</sup>

## The scale of the capital challenge

It is estimated that USD94 trillion of infrastructure will be needed by 2040 globally<sup>4</sup> and 54 per cent of this will be needed in emerging markets. The UN has stated that USD2.5 trillion is required to deliver the Sustainable Development Goals (SDGs)<sup>5</sup>. The challenge, therefore, lies in identifying the right policy levers that foster innovation, and that also help unlock capital and catalyse collaboration.

## Delivering cities of tomorrow

### the scale of the global challenge and the need for a connected approach within India

World's population is expected to grow to almost 10 billion by 2050, from the current eight billion<sup>6</sup>. Of which, close to 70 percent will live in urban areas<sup>7</sup>. As of 2008, the world officially became more urbanised<sup>8</sup> – the UN forecasts that in 10 years, 43 cities will house over 10 million residents, and 662 cities over 1 million residents<sup>9</sup>.

Cities are recognised as centres of economic growth. It is estimated that the top 100 cities will contribute 35 per cent of GDP growth by 2025; and the top 600 will generate 60 per cent of global GDP growth<sup>10</sup>. Despite rapid growth, cities face challenges of limited resources and uncertainty with estimates suggesting that 60 per cent of the world's population still face persistent inequality<sup>11</sup> and poverty. We are already seeing rapid demographic changes and challenges across urban and rural areas in India.

To be a truly sustainable economy, India must adapt to the fourth industrial revolution including embracing the smart cities concept to deliver better public services. This also includes developing new forms of public-private collaboration. Such joint investment opportunities through new innovative approaches would help deliver much-needed infrastructure. Limited public funds cannot alone meet the challenge; and investor confidence in projects is key to securing private capital of USD 1.5trillion by 2025

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3. PM's address on 'Ease of doing business', Press Information Bureau, Government of India, November 2018
4. Global Infrastructure Outlook, <https://outlook.gihub.org/>
5. World Investment Report 2014 Investing in the SDGs: An Action Plan, UNCTAD, 2014
6. World population projected to reach 9.8 billion in 2050, and 11.2 billion in 2100, United Nations, 21 June 2017

7. 68% of the world population projected to live in urban areas by 2050, says UN, United Nations, 16 May 2018
8. United Nations, Department of Economic and Social Affairs, Population Division (2019). World Urbanisation Prospects: The 2018 Revision (ST/ESA/SER.A/420). New York: United Nations.
9. United Nations, Department of Economic and Social Affairs, Population Division (2018). The World's Cities in 2018—Data Booklet (ST/ESA/SER.A/417)
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11. Global Wealth Databook 2018, Credit Suisse, 3 October 2018

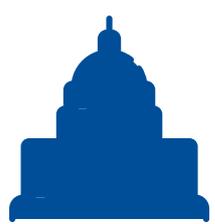
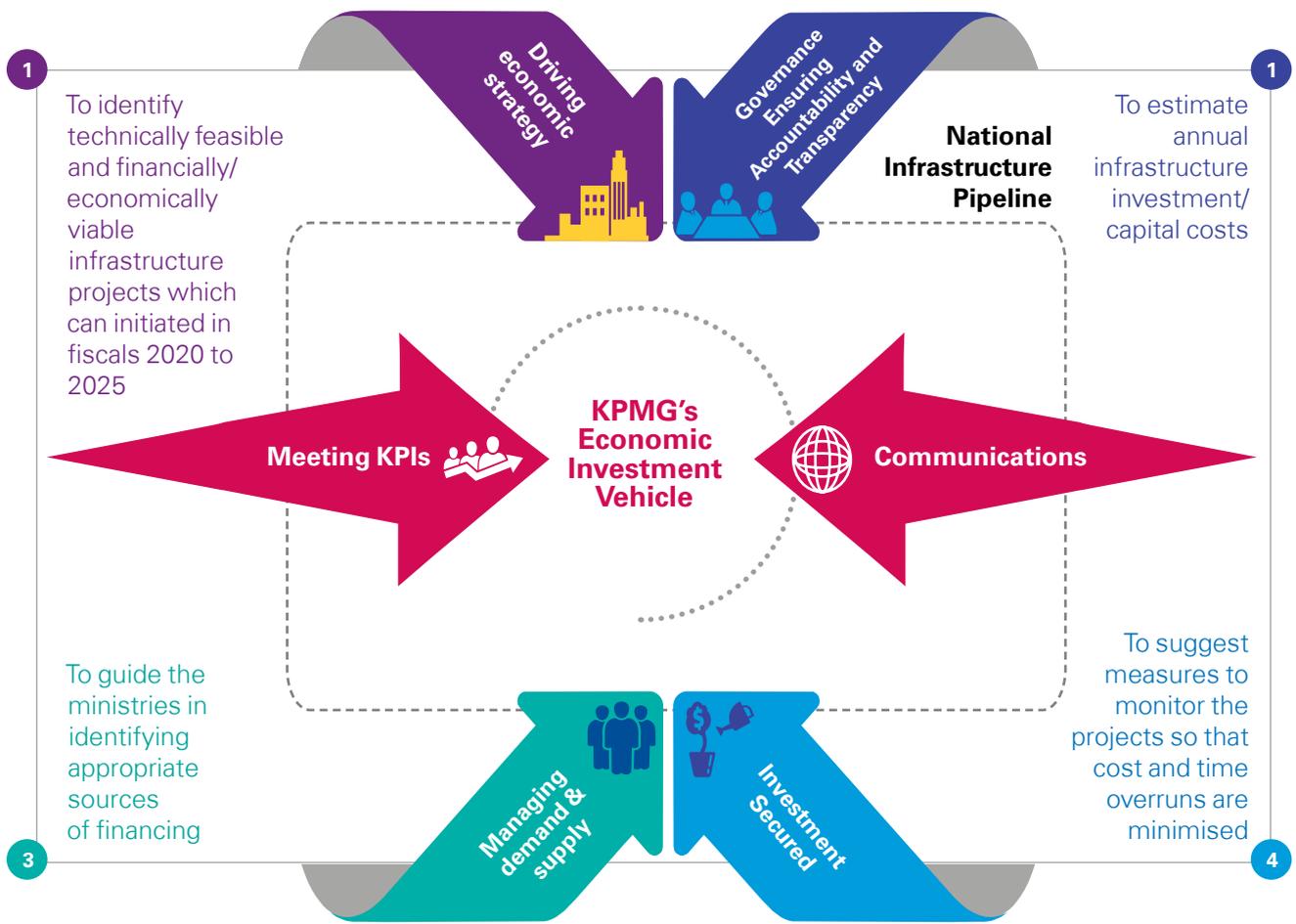
# The EIV: KPMG in India's integrated proposition

In order to unlock India's growth potential, a comprehensive and transparent strategy is required to attract investors and foster a business-friendly environment. Real partnerships and collaboration between the government and private businesses can pave the way for development.

KPMG in India's integrated approach through EIV aims to attract more investments, intelligently matching project supply with investor demand and appetite, and thereby creating jobs, exports and

value. The EIV enables a framework of certainty and confidence for investment, with a focus on not just outputs but on measuring the impact of outcomes through the SDGs.

As a smart and efficient tool, EIV aims to make India the number one destination for investment among emerging markets through innovation and expertise in attracting and supporting new investors through infrastructure transactions.



Strong Governance Framework



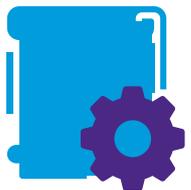
Investor needs and funds availability



Clear project assessment tools



Outcome measurement



Continuous project pipeline

## Enabling certainty and confidence

The EIV is an integrated framework of distinct KPMG services, to channel public and private capital into a viable project pipeline of opportunities. This model brings transparent project selection tools in determining viability and project prioritisation, as well as a framework of accountable public and private governance in overcoming development obstacles. There are three clear parts to the model:

- 1. Ensuring accountability** – Clear public-private governance and aligned shared economic narrative helps to unblock development barriers collectively, reducing political bias through clear terms of reference, thereby ensuring leadership and a governance framework of certainty for developers and investors
- 2. Enabling effective project prioritisation, viability and delivery** – Transparent project tools and defined selection criteria allow a ranking of projects. The key is also the measuring of real outputs (roads, houses etc.) and outcomes measured against Sustainable Development Goals (SDGs).
- 3. Securing investor confidence** – An intelligent Investor Audit determines investor demand for projects at differing development cycles and asset class. This enables tailored investment and intelligent matching between project supply and investor demand/appetite. This can be achieved through a collective data base identifying investor appetite as well as project and investor matching through MoUs, success fees and deals with investors. The model recognises that investors have varied demands, ranging from long or short-term returns to a focus on socio, economic or environmental returns. This can help to foster blended public-private finance initiatives. KPMG aims to explore the possible initiation of an infrastructure investment fund which will help kick-start priority projects.

## Building for the future

The quality of India's infrastructure and its urban environment is central to the nation's development, helping to create jobs, raise living standards, and achieve the SDGs set by the UN. Given the role that India's infrastructure and urban environment plays in economic growth and quality of life, the government has increasingly focussed on attracting overseas investment into infrastructure, thereby unlocking major regeneration projects across the country. The government aims to equip the county with world-class infrastructure, enabling India to remain globally competitive.

The National Infrastructure Pipeline (NIP) attempts to demonstrate the bandwidth of project opportunities. There are, however, several key requirements needed to deliver the NIP, including the improvement of capacity at all three levels of government - national, state and city. These key requirements are project delivery, contract regulations and enforcements, easier financing of projects and quicker construction of projects. What these requirements highlight is that we need to go beyond a NIP which identifies a list of projects, to a pipeline that has been independently assessed as viable and is prioritised for investment opportunities.

There is a need for a project pipeline that is both deliverable and investor friendly within an enabling transparent governance framework. A connected plan needs to include radical new policies and targeted action to unlock and stimulate private sector investment. It would also enable public-private capital to deliver and materialise the infrastructure and investment goals.

In order to overcome the challenge of raising funds, more needs to be done in creating processes to achieve transparency in project selection and prioritisation, alongside a framework of accountable public-private governance. Project tools and clear terms of reference enables certainty and confidence of the developer and the investor. India's growth hinges on enabling capital and in delivering the resulting economic, social and environmental development.

There are three key areas that need to address to realise the target of investing USD5 trillion into infrastructure in India by 2025:

1. The need for a strong narrative and leadership from the government in terms of regulatory frameworks that supports infrastructure delivery – i.e. enabling business certainty
2. Public-private collaboration wherein the best specialist technical skills are aligned with policy priorities – i.e. enabling business confidence
3. An identifiable pipeline that has been independently and technically assessed and prioritised, representing the best of India and key strategic projects ready for a pool of investors.



# The future is India

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India's growth plan, however, should be seen within the context of exciting times in Asia as the balance of economic power tilts in Asia's favour. At the heart of this shift is the rise of a new middle class with the elevation of millions of more people out of poverty and into a higher consuming class in India. There is an increasing need to deliver on social, economic, and environmental objectives through sustainable

infrastructure and, therefore, a real opportunity for global companies to invest intelligently and with confidence and certainty. This can, however, only be achieved through highly transparent project processes and accountable governance and regulatory processes, which allow for both transparency and accountability.

# Appendix

## Core EIV services

EIV is a smart economic delivery and investment vehicle. It acts as a holistic tool which covers a wide range of connected KPMG development services and work streams – through a strong narrative, transparent project tools and processes and an effective accountable public private governance framework.

Workstreams	KPMG Services	Client Outputs
<b>Driving Economic Strategy</b>	<ul style="list-style-type: none"> <li>• Development of a clear strategy shared narrative</li> <li>• Ensuring Diversity of Partners and Expertise across the public and private sectors</li> <li>• Ensuring the Alignment of local, regional, national international policies and priorities enabling the joint commissioning of services across an authority</li> <li>• Aligning national and local policy priorities and funding availability</li> </ul>	<ul style="list-style-type: none"> <li>• Clear vision &amp; strategy document that is aligned to local, regional &amp; national policy</li> <li>• Identification of key internal &amp; external stakeholders and stakeholder management plan</li> </ul>
<b>Governance Ensuring Accountability and Transparency</b>	<ul style="list-style-type: none"> <li>• Develop Public Private Project Governance Board</li> <li>• Define Terms of Reference (TOR) and Accountability - Clear divide between Board and Executive –Board gives advice and Executive deals with delivery</li> <li>• Facilitates an un-biased recommendation</li> <li>• Develop Reporting Structures and Monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Set up Governance Board</li> <li>• Develop governance documentation (TORs, MOUs, progress reporting &amp; KPIs)</li> </ul>
<b>Delivering Operational Process – Managing demand &amp; supply</b>	<ul style="list-style-type: none"> <li>• Develop Project tools to assess project viability</li> <li>• Undertake clear Due Diligence on projects and data</li> <li>• Technical and specialist support teams – major projects</li> <li>• Project Sourcing</li> <li>• Agree Project Prioritisation and Ranking</li> <li>• Agreed Project Pipeline and Pitch Book Offer</li> </ul>	<ul style="list-style-type: none"> <li>• Project tools e.g. Project Initiation document, evaluation criteria etc.</li> <li>• Documented findings from Due diligence &amp; project prioritisation pipeline</li> </ul>
<b>Investment Secured</b>	<ul style="list-style-type: none"> <li>• Identify and target key investors</li> <li>• Undertake Investor Audit – Determine investor appetite (questionnaire)</li> <li>• Match Project supply and demand</li> <li>• Manage Investor Relationships – set up a data base</li> <li>• Commercial and financial transactions – deal making – A success fee /between KPMG and the Investor</li> <li>• Develop thinking around a new Regeneration Fund offering with partners – Pension Funds, Sovereign Wealth Funds etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Long list of investors &amp; documented priorities</li> <li>• Identification of shortlist for investors</li> <li>• Transaction services support</li> </ul>
<b>Meeting KPIs KPMG True Values offering</b>	<ul style="list-style-type: none"> <li>• Measuring economic and social outcomes</li> <li>• Measuring against Government policies and targets – Appraisals</li> <li>• Meeting SDGs</li> <li>• Specialists - Economists</li> </ul>	<ul style="list-style-type: none"> <li>• Identification of KPI &amp; development of KPI dashboard</li> <li>• Impact modelling</li> </ul>
<b>Communications</b>	<ul style="list-style-type: none"> <li>• Develop a Communication Strategy</li> <li>• Digital website</li> <li>• News letters, Pitch book</li> <li>• Key global infrastructure events and conferences – the sell MIPIM/Press</li> </ul>	<ul style="list-style-type: none"> <li>• Documented communication strategy</li> <li>• Ongoing management of investor relations</li> </ul>

# Appendix

## What will EIV do for the Client – Outcomes

Help you achieve the following:



Develop a **Strong Governance Framework** – transparent and Accountable

- This will **Secure collective agreement of diverse partners**, leaders/members in terms of resource allocation and project priority ranking
- Help unlock any political or policy barriers to project delivery (less arguments from a variety of diverse members for pet projects)
- Help target resources and funding into key projects
- Provides a clear divide in terms of roles and responsibilities between members (giving direction) and executives (technical expertise) in scoring projects



Provide broad range of **specialist skills (which are increasingly missing in Councils) and clear processes across KPMG** when and if needed different costs – from set up, to management and project assessment to securing investment



**Clear Project Assessment Tools and a ranked continuous Project Pipeline**

- A **Project Initiation Document** will allow a transparent technical project assessment tool in terms of determining viability and deliverability – rigorous technical agreed criteria
- Will demonstrate clearly how a project goes from a C to an A
- Will enable a maximising of resources to a project if it's a project A or where any additional grants or funding difficult sites may need funding
- A **viable project pipeline, ranked and prioritised** (with member and officer approval) to meet varying investor appetite and demand (de-risking governance and project delivery issues) – a solid pitch book of opportunities



**An Investor and Funding Audit – Understand better the needs of investors and funding availability**

- Facilitates an intelligent match between project supply and investor demand – Investment secured
- Negotiate further match funding from Government and or other bodies – alignment of funds to projects that need a quick start (Housing Infrastructure Fund for difficult sites in priority areas)
- Could demonstrate possible JV between local developers and supply chain with an investor



**Measurement of outcomes from projects** | Economic, social and environmental values | Measure growth and see outcomes | Political win at a local and national level and with local communities | Delivering on election promises and Government expectations | Delivering true values assessment in the delivering of outcomes and the sustainable development goals

# Appendix

## Measuring Project Impact – True Values



### Generic examples of impacts assessed by KPMG True Value

	Positive impacts on society (+)	Negative impacts on society (-)
<b>Economic impacts</b>	<ul style="list-style-type: none"> <li>• Paying taxes</li> <li>• Creating jobs</li> </ul>	<ul style="list-style-type: none"> <li>• Avoiding fair taxes</li> <li>• Paying bribes</li> </ul>
<b>Social impacts</b>	<ul style="list-style-type: none"> <li>• Improving public health</li> <li>• Providing education</li> </ul>	<ul style="list-style-type: none"> <li>• Paying low wages</li> <li>• Damaging workers' health</li> </ul>
<b>Environmental impacts</b>	<ul style="list-style-type: none"> <li>• Using renewable energy</li> <li>• Recycling waste</li> <li>• Rehabilitating land</li> </ul>	<ul style="list-style-type: none"> <li>• Emitting greenhouse gases</li> <li>• Depleting water resources</li> </ul>



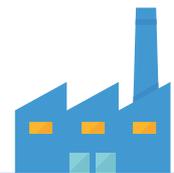
**Decent work and economic growth**



**Sustainable cities and communities**



**Life on land**



**Industry, innovation and infrastructure**

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