

VALUE CAPTURE FINANCE: POLICY PERSPECTIVE

Towards financially sustainable, connected transportation systems



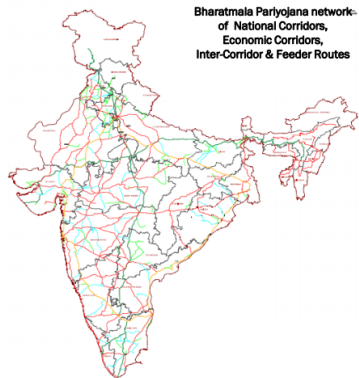
NITI Aayog

(National Institution for Transforming India)

Government of India

INFRASTRUCTURE SECTOR IN INDIA

- **Budget 2019:** Infrastructure- INR 4.56 Lakh Crore
- **Infrastructure Investment in India:** Heavy reliance on borrowings from banks, 12.7% of share in Total Bank Credits
- **Deficit:** 0.6 Trillion USD by 2040 is predicted for sustainable infrastructure development in India
- **Monetization** of Transport Projects is a viable option to bridge the gap, make projects financially healthy and aid their maintenance. This can be achieved by VCF, ToD and various other tools
- **Transport** is a major part of Infrastructure development – Roads, Railways, Civil Aviation, Urban Transit, Shipping
- **Agglomeration and Urban Sprawl:** Need to promote mobility, possible through sustainable transport projects



Bharatmala: 1,57,324 Crores



DFC: 1,37,000 Crores



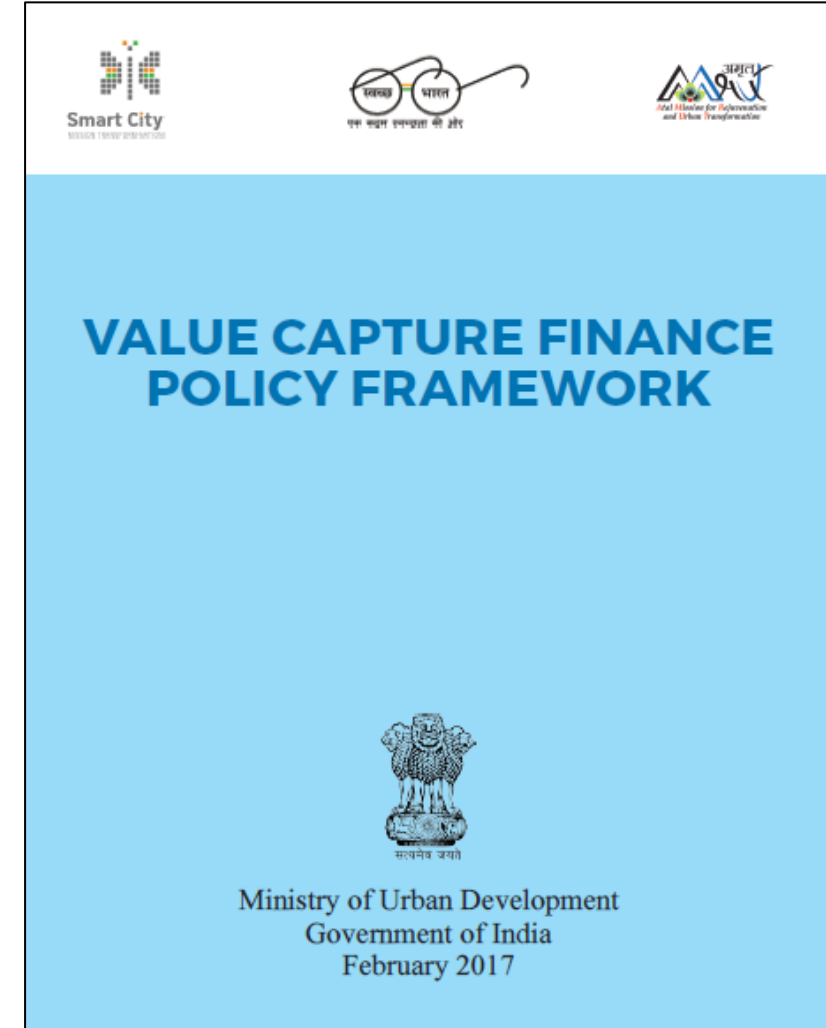
MUTP 3A: 55,000 Crores



RRTS: 30,274 Crores

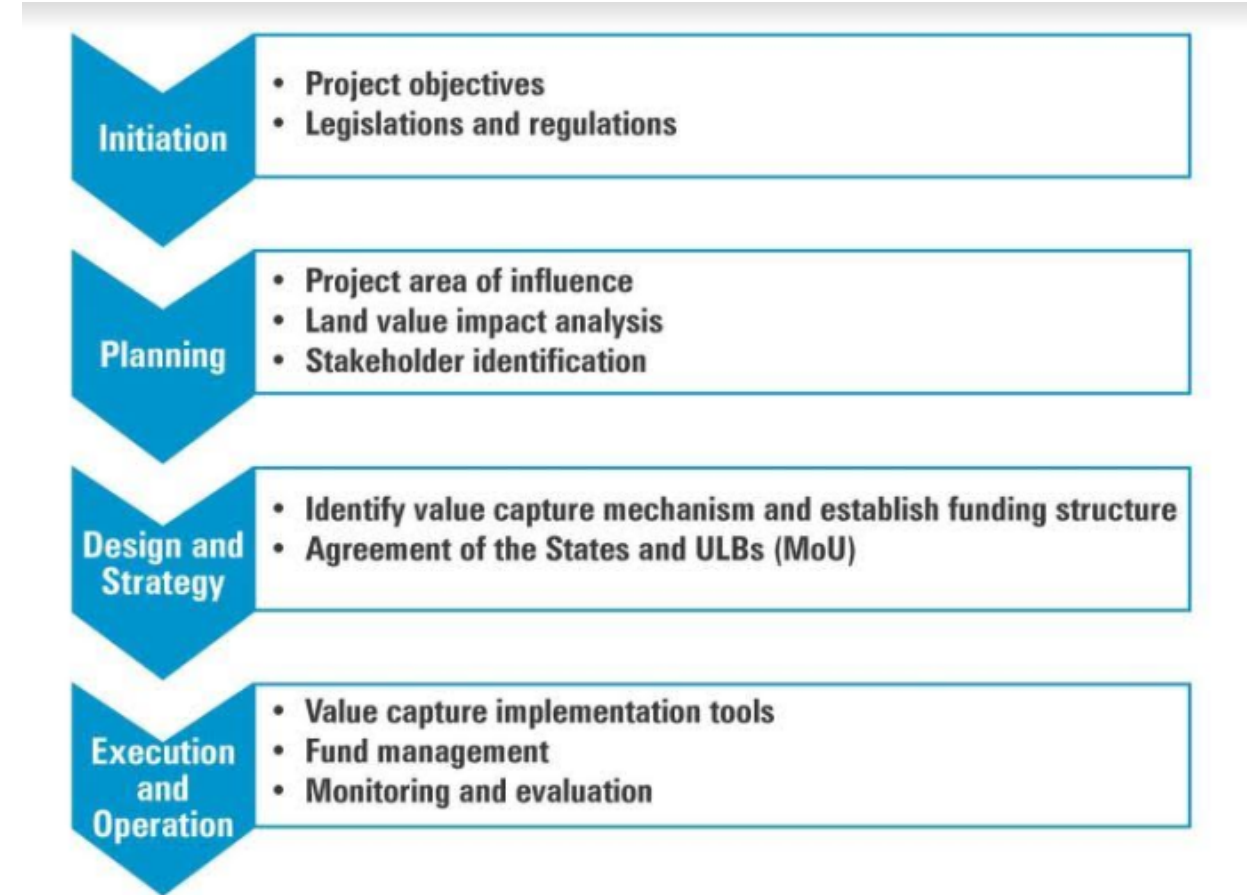
VCF POLICY FRAMEWORK OF MoHUA

- Introduced in **February, 2017**
- Aims at bridging the **INR 65,000 crore deficit** in urban infrastructure investment with an **additional source of funding** in the form of VCF
- The idea is to equip the Urban Local Bodies (ULBs) with financial resources to meet the **increasing demand** by construction of **state of the art infrastructure**
- Enables capture of value from increase in private land valuation from public investments and public policy actions
- Suggests utilization of VCF tools including Land Value Tax, Betterment Levy, Transfer of Development Rights, Land Pooling, Additional FSI etc.

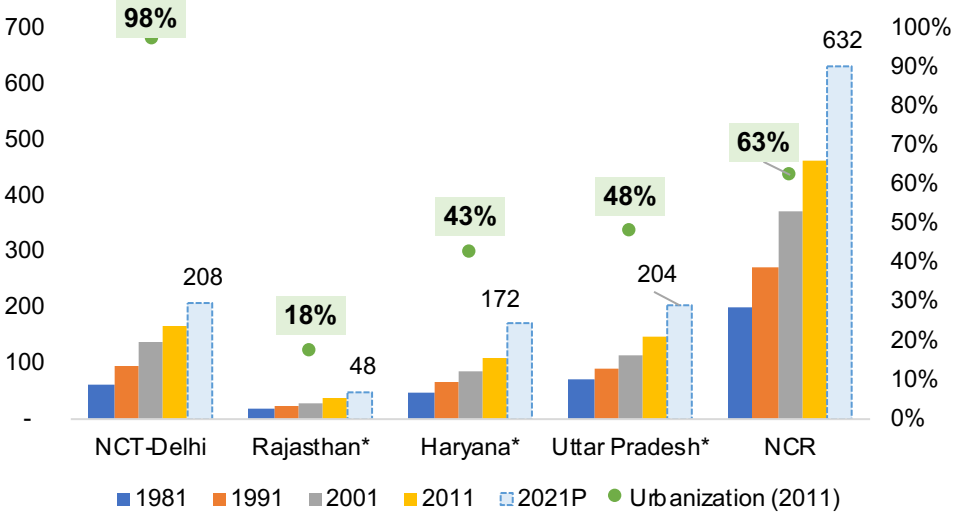


VCF POLICY FRAMEWORK OF MoHUA

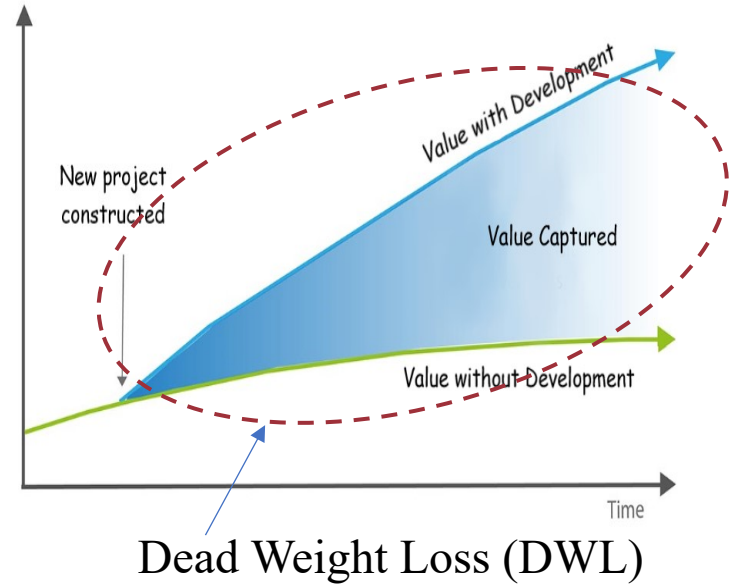
- Assesses the legal and legislative feasibility of implementing the VCF tools in respective states of India
- Preempts the creation of a mechanism for **sharing of revenues** through Value Capture between various stakeholders such as States and ULBs
- Envisages a **national policy** for Value Capture in a bid to provide an **additional source of funding** to urban infrastructure projects



MARKET FAILURE AND BROADENING PERSPECTIVE



Rapid Urbanization



VCF + ToD

URBAN TRANSIT

GREENFIELD

MONETIZATION

ENTIRE TRANSPORT ECOSYSTEM

GREENFIELD + BROWNFIELD

DERIVING VALUE FROM TRANSPORT PROJECTS

- Value Capture Finance is tapping into the **financial appreciation of land** surrounding transport projects
- Monetization is endogenizing transport projects by **long term revenue generation**
- This incorporates a degree of **self reliance** and makes the projects **financially healthy**
- Monetization covers **broader issues** and **goes beyond** VCF to monetize the projects

Innovative Project Financing (IPF)	Value Capture Finance (VCF)	Financial Market Instruments (FMI)
Green Infrastructure	Transit Oriented Development	Securitization
Wet Leasing	Special Assessment Tax	Infrastructure Investment Fund (InvIT)
	Joint Development	
	Land pooling	
	Tax Increment Financing	
	Betterment Levy	
	Transfer of Development Rights	
	Vacant Land Tax	

SELECT FEW TOOLS

WET LEASING

- Lease the required commodities- avoid paying upfront
- Avoid long term investment in the project
- Increase private sector involvement



TRANSIT ORIENTED DEVELOPMENT

- Citizen centric infrastructure in close proximity of transit projects
- Increases ridership and reduces reliance on private vehicles
- Land and property values increase



INFRASTRUCTURE INVESTMENT TRUST FUND

- Investment in projects through trust fund, long term returns
- Sponsor, Trustees and Investors together finance construction of projects
- Long Term Capital Gains are tax exempt
- Works as a Mutual Fund



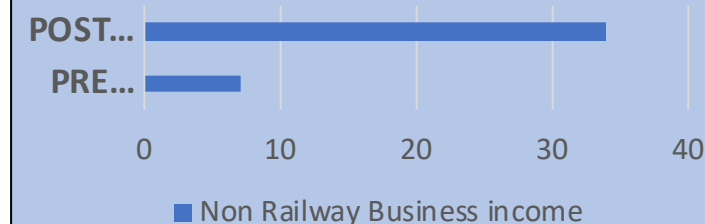
SEEING VALUE IN BROWNFIELD PROJECTS

- **Opportunity:** Unutilized spaces in existing Transport infrastructure present a huge opportunity
- **Redevelop:** Such spaces can be improvised, redesigned and redeveloped
- **Monetize:** Redeveloped projects to be leveraged for revenue generation
- **General Equilibrium Effects:** Redeveloped public spaces lead to ease of commuting, parking facility, increase in footfall



- Taxation tools under VCF
- Joint Development
- Transit Oriented Development
- Green Infrastructure
- Transfer of Development Rights

Effect of Redevelopment on Shinjuku Station



GLOBAL EXAMPLES



*Transit Oriented Development (ToD)
suburbs of Toronto, Canada*



*Special Assessment District
London CrossRail Project*

CHALLENGES

POLICY LEVEL

- Lack of clear, cohesive guidelines / policy at the national and state levels
- Overlapping guidelines and policies stall efficiency
- Incentives, interests of central and state governments are not aligned
- Failure to recognize people as key stakeholders
- Need for single-point agency for end to end implementation of transportation projects

ON- GROUND

- Low awareness about monetization at local / municipal level
- Lack of implementation capability / capacity building measures
- Multiplicity of authorities / agencies
- Need to bridge mistrust – mutual benefits need to be highlighted
- Handling public reluctance

EXPERIENCE WITH NCRTC

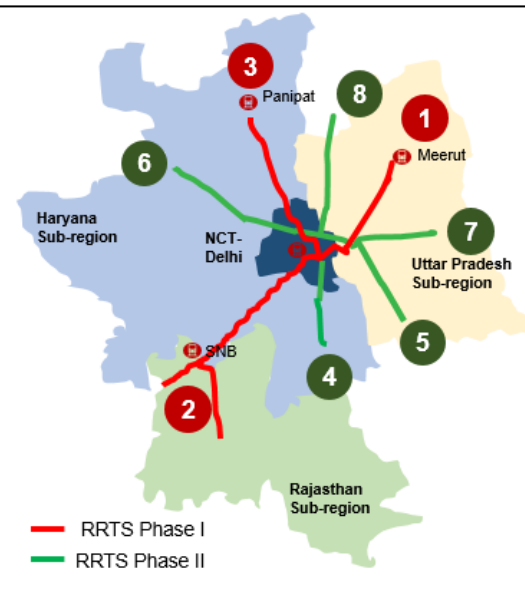
- Mammoth Cost Benefit Analysis jointly undertaken
- 10-15 Meetings and Consultations held over the last 8 months
- Collaborative learning
- Interests of NITI, NCRTC aligned

Cost Benefit Analysis of Delhi-Ghaziabad-Meerut Regional Rapid Transit System (RRTS)

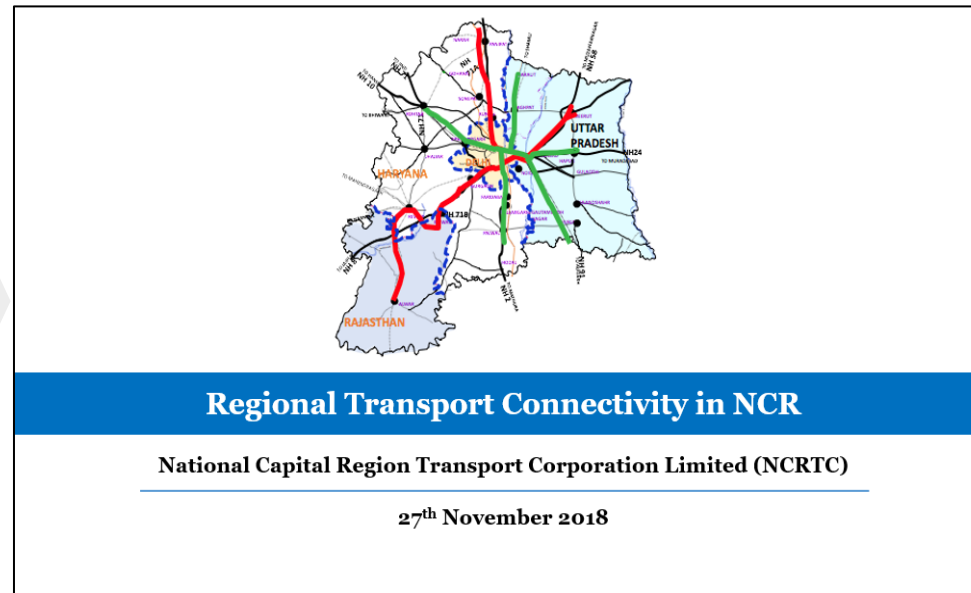


December 2018

Final CBA report



FTP 2032, Planning Commission Task Force prioritizes 3 corridors



NITI asked to undertake CBA

WAY FORWARD

- **Policy Framework** at the national level – systematic, cohesive and comprehensive approach
- **Streamlining:** Overlapping policies and guidelines need to be addressed
- **Institutional Memory:** Learning from best practices of various developers
- **Dynamic Mechanism** allowing for constant feedback and evolution
- **Aligning of Interests** and incentives of various stakeholders including local and municipal authorities
- **Awareness:** Need to disseminate knowledge to agencies working at ground level

WAY FORWARD

- **People Centric Policies:** People need to be the center of policies – without them, this cannot happen
- **Proactive Approach:** Need to push for VCF/ToD during evaluation/appraisal by Centre/State
- **Capacity Building Measures** need to be undertaken
- **Broadening Perspective:** Need to look at the bigger picture to ensure financial sustainability
- **Single Entity:** Need to have single agency responsible for end to end implementation and monetization
- **Facilitating Agency:** To bring together stakeholders, prevent collective action problem



NITI Aayog

(National Institution for Transforming India)
Government of India

THANK YOU