

INLAND WATER TRANSPORTATION FINANCING

Large Corporate Department

Agenda

1. What is Inland Water Transportation?
2. Present Environment
3. Government Policy
4. Funding
5. Union Bank of India

What is Inland Water Transportation (IWT)?

What is Inland Waterways Transport (IWT) ?



IWT plays an important role in providing effective services for the movement of cargo and passengers on rivers, lakes and canals of the region



IWT is an energy efficient and cheaper mode of transport for bulk commodities, especially those generating and terminating on the waterfronts



It has the least impact on the environment, the lowest cost for domestic and international transport, enormous capacity reserves and the least energy consumption

Why Inland Waterways Transport is beneficial ?

Moving freight through barges helps in reducing the level of congestion on road and rail tracks.

As it is environment friendly, it creates less noise pollution and reduces pollutants levels in the air thereby reducing expenditure on medical aid.

Increased economic activity through IWT- the average earning due to additional employment is estimated as Rs 33.32/ man-day.

During flood season, when other modes of transport are not in operation, only IWT mode is the linking route for the NE region to the rest of the country.

Proper bandalling and channel maintenance will prevent soil erosion & siltation of rivers, provide better quality of water and ensure biodiversity in the area.

Present Environment

Inland Waterways Potential in India

The Ganga- Bhagirathi- Hooghly between Allahabad - Haldia (1620 km) in UP, Bihar, Jharkhand and West Bengal, the Sadiya- Dhubri stretch of river Brahmaputra (891 km) in Assam and the Kollam - Kottapuram stretch of West Coast Canal along with Champakara and Udyogmandal Canals (205 km) in Kerala have so far been declared as national Waterways and are being developed for navigation by IWAI



Inland Waterways Transport: Global Scenario

China

- The navigable inland waterways is more than 100,000 kilometers
- IWT accounts for almost 10 per cent of the total freight tonnage (like coal, steel, cement, containers and LPG) carried in the country

Europe

- IWT is estimated to carry about 7 per cent (and growing) of freight traffic in those EU states.
- In the EU states with waterways, this proportion is 12 % overall and it accounts for more than 40% of ton-km in some regions

Thailand

- IWT is next to road in share of freight carried (about 20 million tons).
- Passenger movement in and around Bangkok is significant, with different types of services, including express services.

Bangladesh

- Inland waterways are estimated to carry approximately 14 per cent of the country's annual passenger volume and 35 per cent of its annual freight volume.

Government Policy

Steps taken for IWT Growth

IWAI to raise bonds	<ul style="list-style-type: none"> • Inland Waterways Authority of India (IWAI) is being authorized to raise bonds to enable IWAI to borrow from the market and mobilize funds, as provided for in other infrastructure sectors
Joint venture by IWAI	<ul style="list-style-type: none"> • It has been decided to enlarge the role of IWAI to enter into commercial/joint ventures to encourage investment in this sector, subject to financial exposure of the Government being limited to equity participation. Additional concessions in the form of grants, subsidies and other expenditure for development of infrastructure will not be within the scope of the joint venture projects
Tax exemption similar to National Highways	<ul style="list-style-type: none"> • Grant of 100% tax exemption to investors in this sector for five years and further 30% tax exemption permissible under the Income Tax Act to be availed of in the next five years within a period of 15 years as in the case of National Highways so as to enable this sector to develop.
Enhancement in depreciation rate for inland vessels	<ul style="list-style-type: none"> • The rate of depreciation for all vessels ordinarily operating on Inland Waterways will be fixed on a par with the rate of depreciation applicable to ocean going vessels, from time to time.
Vessel building subsidy of 30%	<ul style="list-style-type: none"> • With a view to encouraging IWT fleet expansion, a scheme will be operationalised providing for vessel building subsidy of 30% for ship owners for inland vessels built in Indian shipyards. For the purpose of vessel building subsidy scheme, 'inland vessel' means, a vessel registered under Inland Vessels Act, 1917. The present Loan Interest Subsidy Scheme has been discontinued with effect from 9th January 2001. Ministry of Shipping will formulate a comprehensive vessel building subsidy scheme in consultation with the Ministry of Finance
Custom Duty Concessions	<ul style="list-style-type: none"> • In-principle approval has been given for levying minimum customs duty on imported equipment and machinery for the development of inland waterways to be identified by IWAI. A list of such equipment/machinery items will be submitted by the Ministry of Shipping to the Ministry of Finance in advance so as to facilitate levying of minimum custom duty

Funding Issues & Strategy

Inland Waterways Transport: Issues

Shallow waters and narrow width of the inland water channel during dry weather, siltation & bank erosion.

Absence of infrastructural facilities such as terminals and inadequacy of navigational aids.

Shortage of water in the tributaries of the Brahmaputra during the lean season (November to March)

Fairway not reliable throughout its length

Insufficient hardware, for example dredgers for maintaining the fairway

High investment cost: cannot be recovered from beneficiaries

Low or negative financial rate of return: need for subsidy or support from government

Night navigation facilities unavailable

Future Strategy

Investment

- IWT, as with any infrastructure sector, will have long gestation period for return of investment and hence the initial government support is inevitable.
- Conscious investment is needed for the systematic development of fairway, fleet, terminals and navigational aids.

Viability

- Initially, government should act as a facilitator for IWT projects, but after IWT projects viability has been proved then government should act as a regulator .
- Acceptable mode tariff structures need to be rationalized, travel time reduced, and safety of goods in transit improved and sufficient financial incentives to consignees and end users must be provided.

Financing

- Debt financing risk will be perceived as big, so possible revenue risk premiums will be high. Reducing this risk premium would require a large share of equity capital or external loan guarantees from the government.
- Reluctance to finance new modes is impediment. Measures need to be taken for ensuring cashflows like committed traffic, long-term cargo assurance, captive users as project participants, joint ventures by the government, shipper, carrier etc.

Risk Mitigation

- The Government, as a facilitator, should reduce the investor's risk by way of fiscal concessions, easy availability of funds, long-term assurance of cargo and concessionary rates of port charges.
- Operating risks can be fully taken by the operator as long as government does not intervene in major cost components (wages and fuel). Revenue risk pertaining to fare is influenced a lot by government regulation.

Union Bank of India

UBI's Offering



Union Bank Advantage

Strong appraisal capabilities

Credibility & acceptability amongst lenders / investors

All the requirements i.e. Fund Based & Non-Fund Based limits & services such as TRA a/c are provided under one umbrella

Strong balance sheet to take up substantial exposure

Strong relationships with the banking community for syndication

Capability to harmonize the needs of participants & close deals quickly

Our Team

Analyst Team

- Undertakes Industry Research, Company Research & Credit Appraisal

Sales Team

- Responsible for deal origination & distribution. It also liaisons & maintains relationships with other Banks / FIs

Technical Consultancy Team

- Undertakes Technical Appraisal & Periodical Inspections during project implementation till commencement of successful commercial production

Legal Team

- Undertakes legal due diligence, liaisons with outside law firms for joint documentations ,attends to legal issues pertaining to Private Equity, Securitization & Advisory Services.

THANK YOU