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TO FACILITATE INFRASTRUCTURE INVESTMENTS

Govt to launch ₹500-crore credit enhancement fund

Corpus to operate as a non-banking financial company with 49% govt stake

ENS ECONOMIC BUREAU
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OVER TWO years after Arun Jaitley proposed the Credit Enhancement Fund in the 2016-17 Union Budget, the government is planning to launch the Rs 500-crore fund next month to facilitate infrastructure investments by big players like insurance and pension funds.

"India is launching a dedicated fund may be next month to provide credit enhancement for infrastructure projects which will help in upgrading credit ratings of bonds issued by infrastructure companies and facilitate investment from investors like pension and insurance funds," said Kumar V Pratap, Joint Secretary (infrastructure, policy and finance), Ministry of Finance (MoF). A credit enhancement fund provides an additional source of assurance or guarantee that the borrower will service their loan. It can also help borrowers raise loans at lower interest rates.

The dedicated fund will operate as a non-banking financial company (NBFC) with 49 per cent government stake. It has got support from investors such as India Infrastructure Finance Company Ltd (IIFCL), Life Insurance Corporation (LIC) of India. IIFCL will hold a 22.5 per cent stake in the NBFC, while the Asian Infrastructure Investment Bank (AIIB) has offered to pick up a 10 per cent stake, Pratap said, adding that state-run SBI, Bank of Baroda and LIC will also have stakes in the firm.

The initial corpus of the fund, to be sponsored by IIFCL, will be Rs 500 crore, and it will operate as a non-banking finance company, he said while speaking at an event here on private sector participation in resource mobilisation organised by the MoF, Research and Information System for Developing Countries (RIS) and FICCI.

BORROWERS CAN RAISE LOANS AT LOW RATES

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Pratap said there is a "mismatch" at present, where bonds floated by infrastructure finance firms are typically rated BBB, whereas regulatory agencies mandate a rating of at least 'AA' for investments by the long-term pension and insurance funds. While the fund was first announced in the financial budget for fiscal year 2016-17, he attributed the delay in fructification of the budget announcement to the time taken in amending the NBFC-CE (credit enhancement) notification by the Reserve Bank of India (RBI) and also getting all stakeholders together.

Pratap said the World Bank had evinced interest to pump in Rs 5,000 crore for the fund initially, but the government declined it because it wanted to start small for proving the concept. Currently, the banking system does a bulk of infrastructure project financing and exposes itself to asset liability management (ALM) mismatches and hence, alternatives like raising of money through corporate bonds is necessary. It can be noted that the present state of the banking system, where all the lenders are saddled with NPAs, will also make it necessary to accommodate alternatives.

He said bank lending to the infra segment has slowed down in the past few years and the annual growth rates plummeted to 3 per cent between FY14 and FY17, against 43 per cent from FY2000 to FY13. NPAs from the segment have also ballooned to 9 per cent in FY17, from 3 per cent in FY13, he said.

Currently, only $ 110 billion is being invested in infrastructure, against a requirement of $ 200 billion, leading many analysts to classify India as an infrastructure deficit country. However, he said there is a need for the private sector to be more active on the infrastructure investment front.