

**GOVERNMENT OF INDIA
PLANNING
LOK SABHA**

UNSTARRED QUESTION NO:1250

ANSWERED ON:30.11.2005

SPECIAL PURPOSE VEHICLE FOR FUNDING INFRASTRUCTURE

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Will the Minister of PLANNING be pleased to state:

- (a) whether the guidelines for the Special Purpose Vehicle (SPV) to fund infrastructure projects has been finalised;
- (b) if so, the details thereof and the decision taken thereon;
- (c) whether a group of banks and financial institutions has been constituted to evaluate the projects and disburse the funds;
- (d) if so, the details thereof;
- (e) whether the borrowings of the SPV made from the market will be guaranteed by the Government but there will be no counter-guarantee for projects funded by the SPVs;
- (f) if so, the reasons therefor;
- (g) whether the projects to benefit from the SPV this year will be guaranteed by the Government but there will be no counter-guarantee for the projects funded by the SPV;
- (h) if so, the reasons therefor;
- (i) the details of projects likely to benefit from the SPV during the current year; and
- (j) the total amount earmarked for this propose and the extent to which these funds have been utilised so far ?

Answer

MINISTER OF STATE IN THE MINISTRY OF PLANNING (SHRI M.V. RAJASEKHARAN)

- (a): Yes, Sir.
- (b): The scheme for the SPV is annexed.
- (c) & (d): No Groups of banks/FI are to be constituted. The lending consortium can be different for each project.
- (e) & (f): Yes Sir, however the extent of guarantees to be expended to the SPV will be subject to a limit set annually. Projects are expected to be financially viable and not require government guarantees to support them.
- (g) & (h): There is no proposal to provide guarantees to individual projects in the current year.
- (i): No project proposal has been received so far.
- (j): No lending target has been set for the current year. The Budget 2005-06 has a provision for providing guarantees to the extent of Rs. 10,000 crore.

Annexure

Establishment of a Special Purpose Vehicle (SPV) for funding Infrastructure Projects – Scheme to set up a Non-Banking Finance Company (NBFC) called India Infrastructure Finance Company Ltd (IIFCL).

The Scheme

In order to implement the Budget Announcement, the Department of Economic Affairs has drawn up a Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle (hereinafter referred to as the Scheme). The Scheme recognises that long term debt is usually not available to infrastructure projects because of the following constraints:

- (a) Absence of benchmark rates for raising long term debt from the market;
- (b) Asset-liability mismatch of the tenor of debt in case of most financial institutions; and
- (c) High cost of long term debt

The Scheme is designed to address these constraints. The salient features of the Scheme are:-

(a) The Scheme will be implemented by a Special Purpose Vehicle called the India Infrastructure Financing Company Ltd. (hereinafter referred to as the IIFCL). The IIFCL will be incorporated as a Company under the Companies Act, 1956.

(b) Apart from its equity, the IIFCL will be funded through long-term debt raised from the open market. The source of debt can be the following:

(i) Rupee debt raised from the market through suitable instruments created for the purpose; it would ordinarily raise debt of maturity of ten years and beyond.

(ii) The IIFCL may also borrow from bilateral or multilateral institutions such as the World Bank and Asian Development Bank.

(iii) It may, with the prior approval of the Government, raise foreign currency debt, including through External Commercial Borrowings.

(c) The Government may extend a guarantee for repayment of principal and interest of a part or whole of the borrowings of the IIFCL. The extent of guarantee that may be provided by the government would be set at the beginning of each fiscal year by the Ministry of Finance, within the limits available under the Fiscal Responsibility and Budget Management Act. For 2005-06, the extent of guarantee to be provided by Government of India will not exceed Rs 10,000 crore.

(d) The IIFCL would finance only commercially viable projects sponsored by any entity viz. Public sector, Private sector or public private partnerships. Viable projects may also include those projects which become viable after receiving viability gap funding under a Government scheme.

(e) The projects may belong to the following sectors:

- i. Roads and bridges, railways, seaports, airports, inland waterways and other transportation projects;
- ii. Power;
- iii. Urban transport, water supply, sewage, solid waster management and other physical infrastructure in urban areas;
- iv. Gas pipelines;
- v. Infrastructure projects in Special Economic Zones; and
- vi. International convention centres and other tourism infrastructure projects.

Provided that an Empowered Committee may, with approval of the Finance Minister, add or delete any sector/sub-sectors from this list. The Empowered Committee as defined in the Scheme would be a Committee under the Chairmanship of Secretary (Economic Affairs) and include Secretary, Planning Commission, Secretary (Expenditure) and Secretary of the line Ministry dealing with the subject.

(f) The IIFCL may render financial assistance through one or more of the following means:

(i) Direct lending to the eligible projects. Normally the IIFCL will lend that portion of the debt that is over ten years` maturity.

(ii) Refinance to Banks and Financial Institutions for loans with tenor of five years (preferably ten years) or more.

(iii) Any other method approved by the Government from time to time.

(g) The SPV will not undertake any appraisal of Infrastructure on its own. The appraisal of the project would be done by the lead bank of the Inter-Institutional Group (Lenders` Consortium) financing the project. To qualify as a lead bank for the purpose of this scheme, a

bank must have a minimum exposure of 25% of total project debt. All disbursements and recoveries would be undertaken through the lead bank.

(h) Loan assistance from the SPV shall not exceed 20% of the project cost.

(i) A project awarded to a private sector company for development, financing, construction, maintenance and operation through Public Private Partnership (as defined in the Scheme for Support to Public Private Partnerships in Infrastructure) shall have overriding priority under this scheme if a project is awarded through open competitive bidding.

(j) Private sector companies that implement infrastructure projects, except as a competitively bid Public Private Partnership Project, will not be eligible for direct lending and only the refinancing option will be available in such cases. Further, the total lending to such projects will be kept within 20% of the lending programme of the IIFCL.

(k) The rate of interest charged by the IIFCL shall be such as to cover all fund costs including guarantee fee as well as administrative cost.

The Implementing Agency (IIFCL)

i. The India Infrastructure Finance Company Limited (IIFCL) will have an authorized share capital of Rs 1000 crore and an initial paid up capital of Rs 10 crore

ii. The IIFCL will be governed by its Board of Directors, which will have not less than 7 members. The Managing Director and one other Director shall be whole-time functional Directors. Three part time Directors will be experts from outside the Government. Two part-time Government Directors will be nominated, one each by the Planning Commission and the Ministry of Finance. The Composition of the Board will be reviewed at the end of two years to determine whether the continuation of the two Government Directors is necessary.

iii. The whole time directors will be selected on the basis of relevant qualifications and experience by a Search Committee comprising Finance Secretary/Secretary DEA, Secretary/Additional Secretary, Banking, Deputy Governor, Reserve Bank of India, and two experts to be nominated by the Government. Their remuneration package would be recommended by the Search Committee having regards to their qualification and experience.

iv. The SPV would be serviced by the Department of Economic Affairs of Ministry of Finance. A temporary post of Officer on Special Duty, at the level of Joint Secretary/Director in the Government of India, would be created in the Department for four months from the date of approval to facilitate the establishment of the SPV.