



In a unique initiative, the fiscally stressed Kerala government will soon set in motion a process to tap its diaspora to raise funds for the state's physical and social infrastructure development. (PTI)

In a unique initiative, the fiscally stressed Kerala government will soon set in motion a process to tap its diaspora to raise funds for the state's physical and social infrastructure development. Pravasi Chitty, a chit fund for the non-resident Keralites (NRKs), will be launched on June 12, with an initial plan to raise Rs 10,000 crore from NRKs in the UAE in the current fiscal. In the next phase, the facility will be extended to cover the NRKs in the Gulf Cooperation Council (GCC) countries as well and the aim will be to mobilise Rs 30,000 crore by 2020, official sources said.

Immediately after it assumed office two years ago, Kerala's Left Democratic Front government announced a plan to raise funds for infrastructure from sources outside of the Budget and created a special purpose vehicle — Kerala Infrastructure Investment Fund Board (KIIFB) — for this purpose.

While the principal source of the KIIFB corpus is state-guaranteed bonds — against an ambitious target of Rs 1 lakh crore, a sum of Rs 10,000 crore has already been raised via this route —, the NRK chit funds were meant to be a supplementary source.

“It (Pravasi Chitty) is probably the world's first digital online financial instrument,” state's finance minister TM Thomas Isaac said on Tuesday. “The idea is to make capital expenditure spending less heavy on borrowing costs, while getting NRIs involved in their home state's development,” he said. A robust pipeline of projects for financing by KIIFB is ready.

What set the ball rolling is a recent amendment to the FEMA allowing NRIs to invest in chit funds in India. “In response to the feedback from some potential subscribers from the Gulf, we have made Pravasi Chitty, Shariat-compliant, excluding terms like interest,” KM Abraham, CEO, KIIFB and a former Sebi member, said. Yield from chits can be estimated precisely only post-auctions. A hybrid product, it can be plied as an investment or a loan. As an investment, the Pravasi Chitty can command an average return on investment in the 10-12% band. As a loan, the average cost of funds would be about 5%,” Abraham added.

Kerala has limited budget outlay for capital expenditure. It is one of the eleven states that receive post-devolution revenue deficit grants from the Centre and the state's pension and salary bill of Rs 45,020 crore accounted for over 70% of its tax revenue in FY18. While the KIIFB funds are to be used largely for ventures that might not be profit-making — like houses for the homeless, upgrading schools' infrastructure, etc, — the state government claims that credible debt repayment facilities are being created, including a cess on auto fuels and an adjustment against development funds received to reduce borrowing costs.

Chief minister Pinarayi Vijayan would open registration for Pravasi Chitty on June 12. The Kerala government has a captive chit fund outfit KSFE to run Pravasi Chitty. “We've created a [mobile app](#) for customers. Pravasi Chitty will be fully digital, with facility to enroll, transact and bid in auctions online, using just a smartphone,” A Purushothaman, MD, KSFE, said. Besides a virtual branch, there will be a 24X7 support centre to service NRIs.

“Initially, there will be a slew of 24 chit products of 30 monthly instalments, with the lowest monthly instalment at Rs 2,500. If NRI clients feel the highest chitty amount of Rs 10 lakh is too little, we may scale it up later,” Isaac said. What adds to the lure is insurance cover and a pension scheme, in tie-up with Life Insurance Corporation.