

MUMBAI: The government is likely to launch a Rs 500-crore [credit enhancement fund](#) next month to facilitate infrastructure investments by insurance and [pension funds](#), a senior [finance ministry](#)

official said on Monday.

The fund was first announced in the financial budget for fiscal year 2016-17.

"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 Vinay Pratap, joint secretary (infrastructure, policy and finance), ministry of finance (MoF).

He was speaking at an event here on private sector participation in resource mobilisation organised by the MoF.

The initial corpus of the fund, to be sponsored by IIFCL (India Infrastructure Finance Company), will be Rs 500 crore, and it will operate as a non-banking finance company, he said.

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.

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.

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 joint secretary 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.

He said at present, 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.

Pratap 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.

The NPAs from the segment have also ballooned to 9 per cent in FY17, from 3 per cent in FY13, he said.

At present, 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.