

Note

RBI revises and redefines “Infrastructure Lending”



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Note

The Reserve Bank of India (RBI) vide its *Notification dated November 20, 2012*¹ (the Notification) gave a new meaning and scope to the definition of “**Infrastructure Lending**” for financing by banks and financial institutions. The Notification includes a fresh list of sectors/sub-sectors which has been given the status of “infrastructure lending”. With the publication of the said notification, RBI made an attempt to bridge the gap between the definition of infrastructure lending widely used and the definition of “*Infrastructure Lending for the Purpose of Financing of Infrastructure by Banks and Financial Institutions*” published in the “**Master List of Infrastructure Sub-sectors**” notified by the Government of India on March 27, 2012² to avoid confusions. RBI has included about thirty odd sub-segments which will qualify as “infrastructure lending” i.e. roads and bridges, LNG and oil pipelines, telecom towers, water treatment plants, hotels etc. The projects included in the old definition but are excluded from the new list published by the RBI, will continue to enjoy the status of ‘infrastructure lending’ till their completion. However, fresh lending to those sectors will not be given the same status.

What is meant by Infrastructure Lending?

The World Bank³ has defined Infrastructure as:

“Infrastructure helps determine the success of manufacturing and agricultural activities. Investments in water, sanitation, energy, housing, and transport also improve lives and help reduce poverty. And new information and communication technologies promote growth, improve delivery of health and other services, expand the reach of education, and support social and cultural advances. Data here are compiled from such sources as the International Road Federation, Containerization International, the International Civil Aviation Organization, the International Energy Association, and the International Telecommunications Union.”

The definition given by OECD⁴ is as follows:

“The system of public works in a country, state or region, including roads, utility lines and public buildings.”

Thus, in simple terms, financial assistance given by a bank or financial institution to an entity to undertake a project for developing the “infrastructure” of a country is termed as infrastructure lending.

¹ <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=7700&Mode=0#anx>

² <http://pib.nic.in/newsite/erelease.aspx?relid=80643>

³ <http://data.worldbank.org/topic/infrastructure>

⁴ <http://stats.oecd.org/glossary/detail.asp?ID=4511>



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Definitions by the RBI

In *Notification dated November 30, 2007*⁵ named “*Scope of Infrastructure Lending Expanded*” RBI provided a list encompassing items under the infrastructure sector. After this, the Ministry of Finance published a revised list of sectors qualifying as infrastructure lending sectors in March this year. In response to the Government press release, RBI came out with a “*Master Circular- Exposure Norms*” dated July 2, 2012⁶ containing a definition of infrastructure lending. In its *Second Quarter Review of Monetary Policy 2012-13* dated October 30, 2012⁷, the RBI; precisely in paragraphs 110 and 111; clarified that confusions are arising due to multiplicity of definitions followed by various regulators which has become the main hindrance in the proper development of the infrastructure sector. RBI emphasized the harmonization of these definitions and mentioned that proper guidelines in this regard will be published at a later stage. In furtherance of this, RBI issued the latest Notification dated November 20, 2012 wherein segments like oil/gas/LNG storage facility, gas pipelines, hospitals etc. (see **Annexure 1**)

Infrastructure Sector under the External Commercial Borrowings Norms

External Commercial Borrowings (ECB) in the infrastructure sector in India may be done under the ***Automatic Route***, i.e. which do not require the approval of RBI/Government of India. The norms governing ECB in the sector is stipulated in the “*Master Circular on External Commercial Borrowings and Trade Credit*” as notified by the RBI on July 2, 2012⁸. According to the master circular the following sub-sectors come within the ambit of the infrastructure sector:

1. Power
2. Telecommunications
3. Railways
4. Roads including bridges
5. Sea port and airports
6. Industrial parks
7. Urban infrastructure (water supply, sanitation and sewage projects)
8. Mining, exploring and refining
9. Cold storage or cold room facility, including for farm level pre-cooling, for preservation or storage of agricultural and allied produce, marine products and meat.

⁵ <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=3959&Mode=0#annex>

⁶ <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=7373&Mode=0#cre>

⁷ <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=7647&Mode=0>

⁸ http://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=7353



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Thus, it is quite evident that the definition of infrastructure under the ECB norms is narrower and has a limited sphere whereas the new definition reaches extensive areas. With this, RBI gave a boost to some of the key sectors of infrastructure some of which were not included earlier; paved a path for them to avail funding from banks and financial institutions in a much easy way. This will help the companies to borrow at a lower rate. Overall, RBI has now categorized the infrastructure sector much efficiently which in turn will cater more development in a national scenario and in an effective manner.

Annexure 1: List of Sub-sectors eligible for Infrastructure Lending

| Sl. No. | Category | Sub-sectors |
|---------|-----------------------------|---|
| 1 | Transport | <ul style="list-style-type: none">i. Roads and bridgesii. Portsiii. Inland Waterwaysiv. Airportv. Railway Track, tunnels, viaducts, bridges¹vi. Urban Public Transport (except rolling stock in case of urban road transport) |
| 2 | Energy | <ul style="list-style-type: none">i. Electricity Generationii. Electricity Transmissioniii. Electricity Distributioniv. Oil pipelinesv. Oil/Gas/Liquefied Natural Gas (LNG) storage facility²vi. Gas pipelines³ |
| 3 | Water and Sanitation | <ul style="list-style-type: none">i. Solid Waste Managementii. Water supply pipelinesiii. Water treatment plantsiv. Sewage collection, treatment and disposal systemv. Irrigation (dams, channels, embankments etc)vi. Storm Water Drainage System |
| 4 | Communication | <ul style="list-style-type: none">i. Telecommunication (Fixed network)⁴ii. Telecommunication towers |



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| Sl. No. | Category | Sub-sectors |
|---------|---|---|
| 5 | Social and Commercial Infrastructure | <ul style="list-style-type: none">i. Education Institutions (capital stock)ii. Hospitals (capital stock)⁵iii. Three-star or higher category classified hotels located outside cities with population of more than 1 millioniv. Common infrastructure for industrial parks, SEZ, tourism facilities and agriculture marketsv. Fertilizer (Capital investment)vi. Post harvest storage infrastructure for agriculture and horticultural produce including cold storagevii. Terminal marketsviii. Soil-testing laboratoriesix. Cold Chain⁶ |

1. Includes supporting terminal infrastructure such as loading/unloading terminals, stations and buildings.
2. Includes strategic storage of crude oil.
3. Includes city gas distribution network.
4. Includes optic fibre/cable networks which provide broadband / internet.
5. Includes Medical Colleges, Para Medical Training Institutes and Diagnostics Centres.
6. Includes cold room facility for farm level pre-cooling, for preservation or storage of agriculture and allied produce, marine products and meat.