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Kerala: The First Indian State to Issue Masala Bond

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Recently, the state-owned **Kerala Infrastructure Investment Fund Board (KIIFB)** debuted its 'masala bond' issue of ₹ 2,150 crore on the London Stock Exchange.

Key Points

- After this, KIIFB became the **first sub-sovereign entity in India** to tap the offshore rupee international bond market.
- The secured fixed-rate bond has a five-year tenure with a 9.723 per cent coupon.
- The bond issue builds on the Kerala government's focus to get multinational corporations to invest in the state, which has traditionally been known for its unfriendly business policies, bureaucratic delays and recurrent industrial strikes.
- As per Kerala state government, the proceeds from the bond issue are slated to be used to part-finance the rebuilding of infrastructure in Kerala that was devastated by 2018 floods.

Masala Bond

- Masala Bonds are **rupee-denominated bonds**, i.e, the funds would be raised from overseas market in Indian rupees.

- According to RBI
 - Any corporate and Indian bank is eligible to issue rupee denominated bonds overseas.
 - The money raised through such **bonds cannot be used for real estate activities** other than for development of integrated township or affordable housing projects.
 - It also **cannot be used for investing in capital markets, purchase of land and on-lending to other entities** for such activities as stated above.
 - The rupee denominated bonds can only be issued in a country and subscribed by a resident of such country that is a member of the financial action task force (FATF) and whose securities market regulator is a member of the International Organisation of Securities Commission.
 - While residents of such countries can subscribe to the bonds, it can also be subscribed by multilateral and regional financial institutions where India is a member country.
 - The minimum maturity period for masala bonds raised up to rupee equivalent of USD 50 million in a financial year should be 3 years and for bonds raised above USD 50 million equivalent in INR per financial year should be 5 years.

Kerala Infrastructure Investment Fund Board (KIIFB)

- KIIFB came into existence in 1999 under the Finance Department, Government of Kerala, to manage the Kerala Infrastructure Investment Fund, as per the **Kerala Infrastructure Investment Fund Act**.
- The main intention of the Fund was to provide investment for critical and large infrastructure projects in the State of Kerala.
- But it was in 2016, that the present government changed the role of KIIFB from handler of investment bonds to an entity to **mobilize the resources for developmental projects over and beyond the budget**.