# ED opens preliminary inquiry into KIIFB borrowings

## Kerala Finance Minister says the probe will precipitate extraordinary administrative paralysis

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The Enforcement Directorate (ED) has reportedly opened a preliminary inquiry to examine whether borrowings by the Kerala Infrastructure Investment Fund Board (KIIFB) from overseas markets "to spur development" in Kerala violated the provisions of the Foreign Exchange Management Act (FEMA).

Official sources said the verification was predicated on the finding of the Comptroller and Auditor-General (CAG) that the KIIFB had raised ₹2,150 crore from the international market without the consent of the Central government.

The CAG had also pointed out that the KIIFB had overstepped its legal bounds by issuing masala bonds to raise money from foreign markets in violation of Article 293 (1) of the Constitution.

Only the Central government could guarantee instruments of debt floated by State-run entities in foreign financial markets.

The ED has reportedly written to the Reserve Bank of India (RBI) seeking details about the no-objection certificate it had supposedly extended to the KIIFB, enabling the agency to take sizeable loans from the foreign financial market.

The ED's bid to forensically examine the KIIFB's working has arguably shaped up to be the latest battlefront between the State and the Centre. Finance Minister T.M. Thomas Isaac on Sunday said the ED's attempt to investigate the KIIFB could precipitate an extraordinary administrative paralysis.




He said the agency had attempted to stop dead the KIIFB-funded development drive at the behest of its political masters at the Centre. With the threat of an ED probe hanging like a sword of Damocles over the KIIFB, investors could shrink away from buying its masala bonds.

The investigation could potentially cause the KIIFB's revenue streams to dry up. The probe comes at a time when the International Finance Corporation (IFC) had expressed willingness to extend loans to the KIIFB.

Dr. Isaac disagreed with the CAG's finding that the KIIFB's bid to raise loans from foreign financial markets was unconstitutional.

The KIIFB was a corporate entity and not the State government. As per FEMA provisions, corporate entities could issue masala bonds to raise funds from foreign markets. The KIIFB was not a statutory body as deemed by the CAG.

The KIIFB worked on a market-sensitive annuity model. It ensured that its liabilities never overshot its assets. The government would mobilise public opinion against the political move to undermine the KIIFB.

Dr. Isaac said the CAG had unilaterally submitted its audit observation regarding the KIIFB without according the State its right of reply.