

## RBI ISSUES PROJECT FINANCE DIRECTION: ECONOMY

**NEWS:** RBI issues project finance directions, banks to provide 1-1.25% for projects under construction

### WHAT'S IN THE NEWS?

The RBI's "Project Finance Directions 2025" aims to streamline and risk-align long-term lending by reducing provisioning norms and setting clear timelines for project implementation. It introduces a stress resolution framework, encourages performance-based discipline, and seeks to boost infrastructure and real estate financing.

### Context and Background

- The Reserve Bank of India (RBI) has released the **final "Project Finance Directions 2025"**.
- The objective is to create a structured, uniform, and risk-sensitive regulatory framework for **banks and financial institutions** (collectively called **Regulated Entities – REs**) involved in project finance.
- These directions are especially important for sectors with **long gestation periods and high financial risks**, such as **infrastructure and commercial real estate (CRE)**.

### Key Features of Project Finance Directions 2025

#### 1. Revised Provisioning Requirements

- REs are now required to maintain:
  - **1.25% provisioning** for loans to **under-construction commercial real estate (CRE)** projects.
  - **1% provisioning** for **under-construction infrastructure** projects.
- This is a major reduction compared to the **draft norms**, which had proposed:
  - **5% provisioning** for under-construction projects.
  - **2.5%** once operational.
  - **1%** at the cash-generating stage.
- **Implication:** Lending becomes **less capital-intensive**, promoting increased bank participation in long-term projects.

#### 2. Operational Stage Relief

- Provisioning levels drop **significantly** once a project reaches the operational or revenue-generating stage.
- This **encourages timely completion**, boosts project efficiency, and ensures that successful projects receive **capital relief**.

- The shift links regulatory provisioning to **performance and cash flows**, supporting better financial discipline.

### 3. Introduction of a Stress Resolution Framework

- A **principle-based stress resolution regime** has been established for distressed project finance accounts.
- Ensures **harmonised risk management** across different REs.
- Promotes **transparency and consistency** in identifying, reporting, and resolving stress in long-gestation project loans.

### 4. Rationalisation of DCCO Extensions

- **DCCO (Date of Commencement of Commercial Operations)** refers to the final deadline for starting project operations.
- Revised norms specify:
  - For **infrastructure projects**: DCCO can be extended **up to 3 years** from the original date.
  - For **non-infrastructure projects**: Extension allowed **up to 2 years**.
- **Beyond these limits**, asset classification will be **downgraded**, triggering higher provisioning and recognition of potential defaults.

### 5. Flexibility to Lenders Within Limits

- RBI provides **operational flexibility** to REs to decide on DCCO extensions **within pre-scribed limits**.
- Encourages banks to take **project-specific decisions** based on viability, while maintaining risk control.
- Enhances lender accountability and fosters **customized financing approaches**.

### 6. Key Objectives of the Directions

- Strengthen regulatory clarity for **project lending**, especially where **delays and risks** are common.
- Ensure a **balanced approach**: promoting credit flow to vital sectors while maintaining **financial stability**.
- Align provisioning norms with **actual risk** and **performance** stages of the project life cycle.

### Implications and Significance

- **Lower provisioning norms** are likely to encourage more **bank lending** to infrastructure and CRE sectors.

- Will improve **project viability** by reducing financing costs.
- Enhances RBI's move towards a **risk-based, performance-sensitive regulation** rather than a uniform standard.
- If **combined with proper risk evaluation**, it can **reduce Non-Performing Assets (NPAs)** and boost bank confidence in financing long-term projects.
- Contributes to **nation-building** by making it easier to finance large-scale, capital-intensive infrastructure ventures.

Source: <https://www.thehindu.com/business/rbi-issues-project-finance-directions-banks-to-provide-1-125-for-projects-under-construction/article69713655.ece>