

# Bill Summary

## The National Bank for Financing Infrastructure and Development Bill, 2021

- The National Bank for Financing Infrastructure and Development Bill, 2021 was introduced in Lok Sabha on March 22, 2021. The Bill seeks to establish the National Bank for Financing Infrastructure and Development (NBFID) as the principal development financial institution (DFIs) for infrastructure financing. DFIs are set up for providing long-term finance for such segments of the economy where the risks involved are beyond the acceptable limits of commercial banks and other ordinary financial institutions. Unlike banks, DFIs do not accept deposits from people. They source funds from the market, government, as well as multi-lateral institutions, and are often supported through government guarantees.
- **NBFID:** NBFID will be set up as a corporate body with authorised share capital of one lakh crore rupees. Shares of NBFID may be held by: (i) central government, (ii) multilateral institutions, (iii) sovereign wealth funds, (iv) pension funds, (v) insurers, (vi) financial institutions, (vii) banks, and (viii) any other institution prescribed by the central government. Initially, the central government will own 100% shares of the institution which may subsequently be reduced up to 26%.
- **Functions of NBFID:** NBFID will have both financial as well as developmental objectives. Financial objectives will be to directly or indirectly lend, invest, or attract investments for infrastructure projects located entirely or partly in India. Central government will prescribe the sectors to be covered under the infrastructure domain. Developmental objectives include facilitating the development of the market for bonds, loans, and derivatives for infrastructure financing. Functions of NBFID include: (i) extending loans and advances for infrastructure projects, (ii) taking over or refinancing such existing loans, (iii) attracting investment from private sector investors and institutional investors for infrastructure projects, (iv) organising and facilitating foreign participation in infrastructure projects, (v) facilitating negotiations with various government authorities for dispute resolution in the field of infrastructure financing, and (vi) providing consultancy services in infrastructure financing.
- **Source of funds:** NBFID may raise money in the form of loans or otherwise both in Indian rupees and foreign currencies, or secure money by the issue and sale of various financial instruments including bonds and debentures. NBFID may borrow money from: (i) central government, (ii) Reserve Bank of India (RBI), (iii) scheduled commercial banks, (iii) mutual funds, and (iv) multilateral institutions such as World Bank and Asian Development Bank.
- **Management of NBFID:** NBFID will be governed by a Board of Directors. The members of the Board include: (i) the Chairperson appointed by the central government in consultation with RBI, (ii) a Managing Director, (iii) up to three Deputy Managing Directors, (iv) two directors nominated by the central government, (v) up to three directors elected by shareholders, and (vi) a few independent directors (as specified). A body constituted by the central government will recommend candidates for the post of the Managing Director and Deputy Managing Directors. The Board will appoint independent directors based on the recommendation of an internal committee.
- **Support from the central government:** The central government will provide grants worth Rs 5,000 crore to NBFID by the end of the first financial year. The government will also provide guarantee at a concessional rate of up to 0.1% for borrowing from multilateral institutions, sovereign wealth funds, and other foreign funds. Costs towards insulation from fluctuations in foreign exchange (in connection with borrowing in foreign currency) may be reimbursed by the government in part or full. Upon request by NBFID, the government may guarantee the bonds, debentures, and loans issued by NBFID.
- **Prior sanction for investigation and prosecution:** No investigation can be initiated against employees of NBFID without the prior sanction of: (i) the central government in case of the chairperson or other directors, and (ii) the managing director in case of other employees. Courts will also require prior sanction for taking cognisance of offences in matters involving employees of NBFID.
- **Other DFIs:** The Bill also provides for any person to set up a DFI by applying to RBI. RBI may grant a licence for DFI in consultation with the central government. RBI will also prescribe regulations for these DFIs.

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