



National Bank for Financing Infrastructure and Development Bill, 2021

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Why in News

Recently, the Rajya Sabha cleared the **National Bank for Financing Infrastructure and Development (NBFID) Bill, 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.
- NBFID was announced in the **Budget 2021**.

Development Financial Institution

- 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 multilateral institutions**, and are often supported through government guarantees.

Key Points

- **About:**
NBFID will be set up **as a corporate body** with authorised **share capital of one lakh crore rupees**.
- **Objective:**
 - **Financial Objective:**
To directly or indirectly **lend, invest, or attract investments for infrastructure projects** located entirely or partly in India.
 - **Developmental Objective:**
Includes **facilitating the development of the market for bonds, loans, and derivatives** for infrastructure financing.

- **Functions of NBFID:**
 - Extending **loans and advances for infrastructure projects.**
 - Taking over or **refinancing** such existing loans.
 - **Attracting investment** from private sector investors and institutional investors for infrastructure projects.
 - Organising and **facilitating foreign participation** in infrastructure projects.
 - Facilitating **negotiations with various government authorities** for **dispute resolution** in the field of infrastructure financing.
 - Providing **consultancy services** in infrastructure financing.
- **Source of Funds:**
 - It 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.**
 - It may borrow money from the central government, **Reserve Bank of India (RBI)**, scheduled commercial banks, mutual funds, and multilateral institutions such as the **World Bank** and **Asian Development Bank.**
 - **Initially, the central government will own 100% shares** of the institution which may **subsequently be reduced up to 26%.**
- **Management of NBFID:**
 - NBFID will be governed by a **Board of Directors.** The Chairperson will be appointed by the central government in consultation with RBI.
 - 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 the central government in case of the chairperson or other directors, and 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 Development Financial Institutions:**

- 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.

Source:TH