

**F. No. 10/33/2014-Investment
Ministry of Finance
Department of Economic Affairs
Investment Division**

Dated 20th August, 2015
North Block, New Delhi

OFFICE MEMORANDUM

Subject: Creation of "National Investment and Infrastructure Fund" ("NIIF").

The creation of "National Investment and Infrastructure Fund" ("NIIF") has been approved.

2. The framework of "National Investment and Infrastructure Fund" ("NIIF") will be as under:

OBJECTIVE

The objective of NIIF would be to maximize economic impact mainly through infrastructure development in commercially viable projects, both greenfield and brownfield, including stalled projects. It could also consider other nationally important projects, for example, in manufacturing, if commercially viable.

STRUCTURE

(i) The NIIF will be established as one or more Alternate Investment Funds (AIF) under the SEBI Regulations. For Category I and II AIF, NIIF will be eligible for a pass through status under the Income Tax Act. In the case of category III AIF where pass through status is not available, all income received by NIIF shall be taxable at its level and any distribution made to the unit holders (investors) would be tax exempt.

(ii) The initial authorized corpus of NIIF would be Rs. 20,000 crore, which may be raised from time to time, as decided by Ministry of Finance. Government's contribution/share in the corpus will be 49 per cent in each entity set up as an AIF and will neither be increased beyond, nor allowed to fall below, 49%.The whole of 49 per cent would be contributed by Government directly.

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SOURCES OF FUND FOR NIIF

(i) NIIF would solicit equity participation from strategic anchor partners. The contribution of Government of India to NIIF would enable it to be seen virtually as a sovereign fund and is expected to attract overseas sovereign/quasi-sovereign/multilateral/bilateral investors to co-invest in it.

(ii) Government's funds, each year, to each entity set up as an AIF for executing its functions based on its annual plan, would be provided as required. This would help in ensuring that Government share of corpus does not exceed 49 per cent while simultaneously providing flexibility to leverage such funds. This would also not make it obligatory for the other partners to infuse similar funds to maintain their equity holdings. Cash-rich Central Public Sector Enterprises could contribute to the Fund which would be over and above the Government's 49%. Similarly, domestic pension and provident funds and National Small Savings Fund may also provide funds to the NIIF. NIIF may utilize the proceeds of monetized land and other assets of PSUs for infrastructure development. The NIIF, will work out these details in consultation with the MoF, to match different investors preferences.

GOVERNANCE:

(i) The NIIF will be established as a Trust/other legal entity from both the point of view of taxation and flexibility. There will be a Governing Council of the NIIF which will have Government representatives and experts in international finance, eminent economists and infrastructure professionals. It could include representatives from other non-Government shareholders. The terms and period of appointment of the Governing Council of the NIIF will be as decided by the Government. The Governing Council will oversee the activities of the Trust and will be constituted as a separate legal entity, if necessary.

(ii) NIIF would be supported by one or more Chief Executive Officers (depending upon the number of funds created) and a small investment team,

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consisting of limited number of expert staff, at arm's length from the Government. The staff would have expertise in project evaluation, economic master planning, financial structuring, etc. Ideally, the team should have investment, finance, legal, technical, infrastructure and economics experts. Their salaries would be market-linked and the staff will be expected to achieve ambitious performance goals with rigorous management outputs. It would be possible for the NIIF Governing Council to appoint one or several Fund Managers.

FUNCTIONS:

- i. Fund raising, which would include attracting anchor investors to participate as partners in NIIF; raise funds from markets/others through suitable instruments including off-shore credit enhanced bonds as may be decided and allowed under the extant rules and regulations;
- ii. Servicing of the investors of NIIF.
- iii. Investing, which would entail considering and approving candidate companies/institutions/projects(including state entities) for investments; and periodic monitoring of investments.
- iv. Investing in the corpus created by Asset Management Companies (AMCs) for investing private equity.
- v. Preparing a shelf of infrastructure projects and providing advisory services. For this purpose, NIIF may gauge the commercial viability of infrastructure projects by using market based selection criteria and checking for the robustness of project appraisals. NIIF would have full autonomy for project selection. NIIF would formulate guidelines and would follow due processes for selection criteria for AMCs and Non-Banking Financial Companies (NBFCs)/Financial Institutions (FIs). Appropriate rules of bidding including potential conflicts of interest will be worked out.

INVESTMENT

- (i) Equity/quasi-equity support to those NBFCs/FIs that are engaged mainly in infrastructure financing. These institutions will be able to leverage this equity support and provide debt to the projects selected.

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(ii) In funds engaged in mainly infrastructure sectors and managed by AMCs for equity/quasi-equity funding of listed/unlisted companies.

(iii) Equity/quasi-equity support /debt to projects, to commercially viable projects, both greenfield and brownfield, including stalled projects.

3. While the investments would mainly be in the core infrastructure sector, the NIIF would work out the priorities in consultation with Government.

4. The schematic representation of NIIF is given in Annex.


(Saurabh Garg)

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To

- (i) Cabinet Secretary
- (ii) All Secretaries to the Govt of India
- (iii) All Divisions of DEA

Copy to : Dr. T. V. Somanathan, Joint Secretary to PM, South Block, New Delhi

Structure and Composition of NIIF

