Indian Constitutional Aid Association

ANALYSIS

NATIONAL BANK FOR FINANCING INFRASTRUCTURE AND DEVELOPMENT BILL

2021

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INTRODUCTION

The Parliament on 25th March 2021, passed a bill for setting up, National Bank for Financing Infrastructure and Development (NaBFID) to fund infrastructure projects in India. It was announced in Budget 2021.

The bill proposes to create the National Bank for Financing Infrastructure and Development to support the development of long-term non-recourse infrastructure financing in India, including the development of the bonds and derivatives markets required for infrastructure financing, as well as to carry on the business of financing infrastructure and related matters. The National Bank for Financing Infrastructure and Development (NaBFID), a development finance institution, will be accountable to Parliament.[1]

[1]Financial Express, Parliament passes bill to set up National Bank for financing infrastructure and development, (6th June 2021 8 Am) Banking Finance https://www.financialexpress.com/industry/banking-finance/parliament-passes-bill-to-set-up-national-bank-for-financing-infrastructure-and-development/2220035/

DFIs AND NBFID

Development Financial Institutions (DFIs) are created to provide long-term financing to parts of the economy where the risks are too high for commercial banks and other traditional financial institutions to handle, unlike banks, do not accept deposits from individuals. They raise money from the market, the government, and multilateral institutions, and are frequently backed by government guarantees.

NBFID will be established as a corporation with a one lakh crore rupee authorized share capital. NBFID shares may be held by the following entities: I the central government, (ii) international institutions, (iii) sovereign wealth funds, (iv) pension funds, (v) insurers, (vi) financial institutions, (vii) banks, and (viii) any other entity that the central government deems appropriate. The central government will initially own 100% of the institution's shares, which may later be cut to as little as 26%.

DFIs in India

After Independence, the institutional framework was as follows- IFCI(1948), IDBI(1964), IIBI(1972), NABARD and EXIM Bank (1982), SIDBI (1990) etc. In the fast few years, DFIs like- ICICI and IDBI have transformed to universal banks as they did not have the advantage of low-cost funding for long term projects.

Some examples for the same are- National Bank for Agriculture and Rural Development (NABARD) for agriculture sector and Indian Railway Finance Corp. to fund rail infrastructure.[1]

Purpose

The Institution's developmental goal is to work with the central and state governments, regulators, financial institutions, institutional investors, and other relevant stakeholders in India and abroad to help build and improve the necessary institutions to support the development of long-term non-recourse infrastructure financing in India.[2]

[1] Empower Ias, National Bank for Financing Infrastructure and development bill 2021, Prelims Special Facts (6th June 2021, 7 pm) https://empowerias.com/blog/prelims-special-facts/national-bank-for-financing-infrastructure-and-development-bill,-2021-empower-ias

[2] SCC Online, National Bank for Financing Infrastructure and development bill 2021 (6th June 6 pm) https://www.scconline.com/blog/?p=246428

NBFID's Functions

NBFID will have both financial and developmental goals. The financial goals will be to lend, invest, or attract funds for infrastructure projects that are wholly or partially situated in India. The infrastructure domain will be defined by the central government, which will specify the industries that will be covered. Facilitating the development of the market for bonds, loans, and derivatives for infrastructure finance is one of the development goals.[1] NBFID's responsibilities include I extending loans and advances for infrastructure projects, (ii) taking over or refinancing existing loans for infrastructure projects, (iii) attracting private sector and institutional investment for infrastructure projects, and (iv) organising and facilitating foreign participation in infrastructure projects. (v) enabling infrastructure finance dispute settlement agreements with various government entities, and (vi) delivering infrastructure financing consulting services.

Sources of Fund

NBFID may raise funds by loans or other means in both Indian rupees and international currencies, or by issuing and selling a variety of financial products such as bonds and debentures. NBFID may borrow funds from the following sources: I the central government, (ii) the Reserve Bank of India (RBI), (iii) scheduled commercial banks, (iv) mutual funds, and (v) the private sector. (vi) World Bank and Asian Development Bank are examples of multilateral organisations

[1] Prs India, The National Bank for Financing infrastructure and development (6th June 2021, 8 pm) https://prsindia.org/billtrack/the-national-bank-for-financing-infrastructure-and-development-bill-2021

Views of Finance Minister

Ms. Sitharaman asserted that the NBFID was critical to India's development and will remain for the next 25 years. Its goal was to fund not just road building, but also social infrastructure like schools and hospitals. It will be a professionally run organisation, with the government appointing the Chairperson. She said the Bill included safeguards such as requiring the NBFID to send a copy of its balance sheet and accounts, as well as a copy of the auditor's report and a report on the Institution's activities during the relevant year, to the Central Government and the RBI within four months of its accounts being closed and balanced. These reports will be given to Parliament once a year. “Parliament's annual monitoring is intended and integrated into the Act itself,” Nirmala Sitharaman remarked.[1]

Management of NBFID

A Board of Directors will oversee NBFID's operations. The Board of Directors consists of I a Chairperson appointed by the central government in consultation with RBI, (ii) a Managing Director, (iii) up to three Deputy Managing Directors, (iv) two central government-nominated directors, (v) up to three shareholders-elected directors, and (vi) a few independent directors (as specified).

Candidates for the positions of Managing Director and Deputy Managing Directors shall be recommended by a central government body. On the proposal of an internal committee, the Board will choose independent directors.

[1] Newsaurchai, All you need to know about nbfid bill 2021, (6th June 2021, 7 pm) https://newsaurchai.com/all-you-need-to-know-about-nbfid-bill-2021/

Support from the National Government

By the conclusion of the first fiscal year, the central government will have provided NBFID with grants of Rs 5,000 crore. The government will also give a guarantee for borrowing from multilateral institutions, sovereign wealth funds, and other foreign entities at a reduced cost of up to 0.1 percent.

The government may pay some or all of the costs of insulating against foreign exchange volatility (in connection with borrowing in foreign currency). The government may guarantee NBFID's bonds, debentures, and loans if NBFID requests it.

Prior sanction for investigation and prosecution

No investigation or prosecution of NBFID workers can begin without the approval of the following parties: I the central government in the case of the chairperson and other directors, and (ii) the managing director in the case of other employees. In cases involving NBFID staff, courts will also seek prior sanction before taking cognizance of the offence.

The Bill also allows anyone to establish a DFI by submitting an application to the RBI. In cooperation with the central government, the RBI may give a DFI licence. These DFIs will also be subject to RBI regulations.

Views of Opposition

The Bill should be brought to the Select Committee, according to the opposition, because it does not include "external oversight or surveillance" in its current form. Mr. Jairam Ramesh, a senior Congress leader, started the issue by declaring, "The concept of DFIs has already been tried, checked, and rejected."

“The clock has turned back thirty years following Dr Manmohan Singh's Budget, and we are returning to the DFI era,” he stated. Despite the fact that the government has a 26% stake in the bank, the Bill lacks a monitoring mechanism. He also chastised the government for failing to refer the bill to a Parliamentary Committee.

Mr Manoj K. Jha, a JD MP, expressed disappointment that the government is willing to sell a 74 percent ownership despite only possessing a 26% ownership. Members of the Biju Janata Dal, Telangana Rashtra Samiti, and Yuvajana Sramika Rythu Congress, among others, backed the bill.

CONCLUSION

The government's National Bank for Financing Infrastructure and Development Bill will significantly enhance infrastructure spending and help the country's economy emerge from the COVID-19 predicament.

The NBFID will support India's economic growth by filling current gaps in long-term infrastructure financing and enhancing borrowing and lending in the infrastructure sector.[1]

[1] Clear Tax, Government introduces national bank for financing infrastructure and development bill (6th June 7 pm) https://news.cleartax.in/govt-introduces-national-bank-for-financing-infrastructure-and-development-bill/6005/

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