

The National Bank for Financing Infrastructure and Development (NaBFID) Bill, 2021

March 9, 2021

In News: The Budget Session of Parliament will consider a new bill to set up a development financial institution (DFI) for the purpose of funding infrastructure projects across their lifespan.

The National Bank for Financing Infrastructure and Development (NaBFID) Bill, 2021

Objective

- Sets up a new Development Financial Institution (DFI) as a provider, enabler, and catalyst for infrastructure financing and as the principal financial institution and development bank for building and sustaining a supportive ecosystem for infrastructure projects.

What Is A Development Finance Institution?

- A development finance institution is an agency that finances infrastructure projects that are of national importance but may or may not conform to commercial return standards.
- Since few commercial lenders are willing to take on infrastructure risk, particularly after the experience of the last lending cycle, a development finance institution has become necessary.
- DFIs provide long-term credit for capital-intensive investments spread over a long period and yielding low rates of return, such as urban infrastructure, mining

and heavy industry, and irrigation systems.

- DFIs often lend at low and stable rates of interest to promote long-term investments with considerable social benefits.
- DFIs are also known as Development banks. They are different from commercial banks which mobilise short- to medium-term deposits and lend for similar maturities to avoid a maturity mismatch-a potential cause for a bank's liquidity and solvency.

DFIs in India

- After independence, the institutional framework for development banking began- IFCI (1948), IDBI (1964), IIBI (1972), NABARD and EXIM Bank (1982), SIDBI (1990), etc.
- In the past few years, DFIs such as ICICI, IDBI and IDFC have transformed into universal banks as they did not have the advantage of low-cost funding for long term projects.
- DFIs are sector-specific, such as Rural Electrification Corp. Ltd (REC) for the power sector, National Bank for Agriculture and Rural Development (NABARD) for the agriculture sector, and Indian Railway Finance Corp. to fund rail infrastructure among others.

Return To The Past

- In setting up a DFI, India will return to an earlier experiment with the idea. ICICI, in its original form, and IDBI were both set up as DFIs but were later converted into universal banks as it was believed that they needed access to public deposits.
- The earlier generation of DFIs ran into the problem of financing because retail deposit access was cornered by banks and available for long-term financing without government guarantees was limited.