



# AIR Discussions (March 4<sup>th</sup> Week)

## AIR SPOTLIGHT

### DEVELOPMENT FINANCE INSTITUTION

#### CONTEXT:

- The National Bank for Financing Infrastructure and Development Bill, 2021 was introduced in Parliament.
- In budget 2021 the government had proposed to go back to the Development Finance Institution (DFI) idea.

#### BILL SUMMARY:

- The Bill seeks to establish the **National Bank for Financing Infrastructure and Development (NBFID)** as the **principal development financial institution (DFIs)** for infrastructure financing.
- **What are DFIs?**
  - 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:**
  - **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, and
  - **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) RBI, (iii) scheduled commercial banks, (iii) mutual funds, and (iv) multilateral institutions.
- **Management of NBFID:** NBFID will be governed by a Board of Directors.



- **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.
- 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.
- The Bill also provides for any person to set up a DFI by applying to RBI.

### BACKGROUND:

- In independent India, **three national-level DFIs – Industrial Finance Corporation of India (1948), Industrial Credit and Investment Corporation of India (1955), and Industrial Development Bank of India (1964) –** were established to provide long-term financing in the industrial sector.
- In the 1970s and 80s, some **sector-specific DFIs – such as EXIM Bank, National Housing Bank, and Housing and Urban Development Corporation –** were established.
- Besides, **state-level DFIs** were set up by state governments to provide concessional lending to small and medium enterprises.
- However, role of DFIs **drastically diminished with the withdrawal of concessional funding from the RBI under financial reforms introduced in the early 1990s.**
- The change in policy environment forced DFIs to raise financial resources at market-related rates, making their business model unviable.
- Consequently, Industrial Investment Bank of India was folded up while ICICI and IDBI were converted into full-fledged commercial banks in India.
- The **financial position of state-level DFIs also deteriorated because of the increase in NPAs and the weakening of the states' fiscal resource capacity.**

### ADVANTAGES:

- Unlike commercial banks, DFIs **do not operate with the primary objective of maximising profits. They combine profit-making with meeting development objectives.**
- DFIs have **a mandate that enables them to finance public health systems and other socially desirable projects, support small businesses and local communities, and provide funds to long-term projects linked to the UN's sustainable development goals.**
- The DFIs **can channel resources to new industries, sectors, regions and development initiatives that commercial banks cannot or be unwilling to finance.**
- The DFIs can also **invest in public goods and services** (such as mass transport systems) and promote climate-friendly infrastructure development.
- DFIs can also **provide counter-cyclical financing during financial crises** as witnessed in Brazil, Poland, and Germany during the 2008 crisis.
- DFIs can **provide medium- and long-term credit**, supplementing the commercial banks which usually offer short-term working capital financing.
- The **surge in NPAs in the banking sector has led to a renewed policy attention on setting up DFIs.**



- **Economic Crisis Triggered By Covid-19 Pandemic:** The Covid-19 pandemic has exacerbated inequality, the poverty gap, unemployment, and the economy's slowing down. Thus, infrastructure building through DFIs can help in quick economic recovery.
- The government has envisaged attaining the **target of becoming a USD 5 trillion economy by 2025.**
- NITI Aayog has estimated **that US\$4.5 trillion will be needed by 2030 to fund infrastructure.**
- DFI makes sense as the Centre government envisages mobilizing nearly **₹100 lakh crore for the ambitious National Infrastructure Pipeline.**

### INTERNATIONAL EXAMPLES:

- After decades of free-market orthodoxy, other countries too are revisiting the role of DFIs to meet the challenges of today as these institutions continue to play an important role in the economies of **China, Brazil, Singapore, South Korea, Japan and Germany.**
- In the aftermath of the 2008 financial crisis, the policy pendulum is swinging towards deploying DFIs to revive the economy and support new ventures.
- Post-crisis, some developed economies have established DFIs with a special emphasis on promoting green finance, new technologies, SME development and startups.
- **The UK, for instance, established Green Investment Bank in 2012 to finance specifically green projects.**
- DFIs in China, Brazil, and Singapore has been successful in both domestic and international markets.

### CHALLENGES:

- The governance of DFIs matters a lot since these are public financial institutions **dealing with public money.**
- The DFIs should be transparent in their operations and accountable not only to the government but also to all stakeholders and the public at large.
- **Case Studies:**
  - Housing and Urban Development Corporation (HUDCO), a national level DFI established to provide long-term finance for housing and urban development programmes, gave loans to an 18-hole golf course and a five-star luxury hotel in Greater Noida.
  - In a country like India with over 100 million slum dwellers, financing a golf course should not be a priority for a DFI.
  - The HUDCO has also financed premium serviced apartments on the outskirts of Delhi.
  - Such lending practices by HUDCO violate its social mandate to meet the housing needs of the poor and disadvantaged sections of the country.
  - The National Housing Bank (NHB) is a prime example of poor internal controls and governance systems. A large sum of NHB's money found its way into the personal bank account of Harshad Mehta, who used it to manipulate stock prices.
- **Some pertinent questions:**
  - Would the design of a new DFI be qualitatively different from earlier institutions?
  - Would the new DFI follow key principles of good governance – transparency, participation, inclusion, and accountability – in the conduct of its business?
  - What about checks and balances to prevent corrupt and fraudulent lending practices?
  - Would the new DFI follow strict environmental, social and human rights safeguards?
  - Would it collaborate with other stakeholders such as local communities, NGOs, academia and citizens?
  - What about policy coherence and interlinkages with the sustainable development agenda?



## WAY FORWARD:

- If the central government wants the new DFI to deliver on its promise, it should be **actively owned and managed**.
- The new DFI should be **well-capitalised with direct financing by the government and the RBI**.
- The **mandate of the new DFI should be clearly articulated**, and its board of directors and senior management team should clearly understand its purpose and objectives and their role in achieving this.
- The **quality of internal governance and management systems would also play an essential role in its functioning**.
- **Board and senior management team should commit to integrity and be held accountable** for their actions by the government, regulatory agencies, and the wider public.
- Since the government would be both the owner and the regulator of the new DFI, it should establish a **clear ownership policy**, ensuring that it will regulate the new entity in a transparent and accountable manner, avoiding any potential conflict of interest.
- New DFI should **increase engagements with the stakeholders and the broader public beyond banking professionals' little world**.
- The Centre must be open to the idea of **multiple specialized DFIs** modelled on the success of refinancing institutions such as NABARD.

<https://prsindia.org/billtrack/the-national-bank-for-financing-infrastructure-and-development-bill-2021>

<https://thewire.in/business/budget-2021-dfi-development-banks-long-term-infrastructure-financing-indian-economy>

<https://www.thehindubusinessline.com/opinion/editorial/return-of-dfis/article33794397.ece>

<https://m.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=387>



## **NEWS IN BRIEF: PRELIMS SPECIAL**

### **GANDHI PEACE PRIZE**

- The Gandhi Peace Prize is an annual award instituted by the Government of India since 1995, the 125th Birth Anniversary commemoration year of Mahatma Gandhi.
- This annual award will be given to individuals, associations, institutions or organizations who have worked selflessly for peace, non-violence and amelioration of human sufferings particularly for the less-privileged sections of society contributing towards social justice and harmony.
- The 2019 award has been given to (Late) His Majesty Sultan Qaboos bin Said Al Said of Oman.
- The 2020 award has been conferred upon Bangabandhu Sheikh Mujibur Rahman, the founding father of Bangladesh.
- The award carries an amount of Rs. 1 crore, a citation, a plaque and an exquisite traditional handicraft/handloom item.

<http://newsonair.com/News?title=PM-Modi-hands-over-Gandhi-Peace-Prize-2020-to-Bangabandhu-Sheikh-Mujibur-Rehman%E2%80%99s-younger-daughter&id=412884>

### **WORLD TUBERCULOSIS DAY**

- World Tuberculosis Day is observed on **March 24** every year.
- The aim of the celebration of the Day is to raise public awareness about the devastating health, social and economic consequences of TB, and to step up efforts to end the global TB epidemic.
- The date marks the day in 1882 when Dr Robert Koch announced that he had discovered the bacterium that causes TB, which opened the way towards diagnosing and curing this disease.
- World TB Day 2021 Theme: 'The Clock is Ticking'.

<http://newsonair.com/News?title=World-Tuberculosis-Day-being-observed-today&id=412678>

### **SHAHEEDI DIWAS**

- On **23 March 1931**, freedom fighters **Bhagat Singh, Shivaram Rajguru and Sukhdev Thapar** were hanged to death by the British government for their revolutionary activities.
- This day is observed as Shaheedi Diwas or Martyrs' Day in India.
- The day is also known as 'Sarvodaya Day'.

<http://newsonair.com/Main-News-Details.aspx?id=412604>



## UNITAR

- PM expresses gratitude to UNITAR.
- The **United Nations Institute for Training and Research (UNITAR)** provides innovative learning solutions to individuals, organizations and institutions to enhance global decision-making and support country-level action for shaping a better future.
- UNITAR was **created in 1963 to train and equip young diplomats from newly-independent UN Member States with the knowledge and skills needed to navigate through the diplomatic environment.**
- With a strategy fully focused on achieving the Sustainable Development Goals (SDGs), UNITAR **supports Governments to implement the 2030 Agenda.**
- It is now a **leading institute in the provision of customized and creative learning solutions to institutions and individuals from both public and private sectors.**
- It is **headquartered in Geneva, Switzerland** and has offices in New York and Hiroshima.
- UNITAR is **financed entirely from voluntary contributions** derived mainly from UN Member States, other UN agencies, international and intergovernmental organizations, foundations NGOs and the private sector.

<http://www.newsonair.com/News?title=India-is-at-forefront-of-initiatives-that-seek-to-prevent-non-communicable-diseases%3A-PM&id=412699>

## CENTRAL SCRUTINY CENTRE

- Finance Minister launches the Central Scrutiny Centre (CSC) to scrutinise user filings.
- The CSC is an **initiative of the Corporate Affairs Ministry to scrutinise the filings by users under straight through processes.**
- The objective behind the launch of CSC is to ensure that data quality is uncompromised and free from flaws.

<http://www.newsonair.com/News?title=Nirmala-Sitharaman-launches-Central-Scrutiny-Centre-and-IEPFA-mobile-App&id=412810>

## BLOCKAGE OF SUEZ CANAL

- The Suez Canal is a **193-km canal, and is an artificial sea-level waterway in Egypt, connecting the Mediterranean Sea to the Red Sea and providing the shortest sea link between Asia and Europe.**
- A container ship named 'Ever Given' was grounded in the Suez Canal completely blocking the traffic along the waterway and delaying a number of ships carrying cargo ranging from oil to consumer goods.
- This route is used for Indian exports/imports worth USD 200 billion to/from North America, South America and Europe.



<http://newsonair.com/News?title=Traffic-resumes-in-Suez-Canal-after-stranded-cargo-ship-fully-refloated&id=413053>

### INDO-KOREAN FRIENDSHIP PARK

- Indo-Korean Friendship Park was recently inaugurated.
- The park's significance is not only because of it being a **symbol of strong India-South Korea friendly relations, but also as a monument to India's contributions as part of 21 countries which participated in the Korean War (1950-53), under the aegis of the United Nations.**
- The park has been developed in joint consultation with Ministry of Defence, Government of India, Indian Army, Delhi Cantonment Board, Embassy of Korea and Korean War Veterans Association of India.

<http://newsonair.com/News?title=Rajnath-Singh%2C-South-Korean-Defence-Minister-inaugurate-Indo-Korean-Bilateral-Friendship-Park-in-Delhi-Cantt&id=412862>