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NATIONAL BANK FOR FINANCING INFRASTRUCTURE AND DEVELOPMENT

A Vehicle of Infrastructure Financing: Challenges and Opportunities

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National Bank for Financing Infrastructure and Development (NaBFID) as a Vehicle of Infrastructure Financing: Challenges and Opportunities

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Abstract

The Government of India has set up the National Bank for Financing Infrastructure and Development (NaBFID) as the central Development Finance Institution (DFI) for infrastructure financing. The idea is to establish NaBFID as the key DFI which provides financing to infrastructure projects under the broad developmental goals of the country. Emphasizing on the concept of infrastructure multiplier and the role of infrastructures in facilitating economic growth, this paper seeks to bring out the key institutional mechanisms which need to be put in place for NaBFID to become a successful DFI. The paper brings out the past experiences of DFI led financing in the country and the lessons that can be drawn from those experiences. Specifically, the paper builds on the concept of 'allocation with discipline' as the driving mechanism behind successful infrastructure financing. The concept of allocation with discipline is further rooted into the theoretical framework of 'Reciprocal Control Mechanisms'. The evidence of post-war economic growth in Korea and Japan fuelled by development banks is used as an ideal type in order to point out necessary institutional frameworks which would fuel robust infrastructure growth in the economy. The paper concludes by articulating these institutional frameworks which will play a key role in the trajectory of infrastructure financing undertaken by NaBFID.

Key Words: Development Finance Institution (DFI), Infrastructure Growth, Infrastructure Financing, Infrastructure Multiplier, Allocation with Discipline, Reciprocal Control Mechanisms

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1. Infrastructure and Economic Growth

Infrastructure growth is one of the most important preconditions for rapid economic growth. What is infrastructure? In the context of this paper, Infrastructure can be seen broadly as physical structures which are fundamental towards facilitating economic activity. They also consist of structures which support operational capacity. Highways, Buildings, Power Supplies, Bridges etc. are a few examples of physical infrastructure. These infrastructures can have varied ownership structures depending on the way they are being financed. They are often paid for by public money (depending on the model of financing undertaken) and a fee is collected for usage, maintenance, and upkeep. This paper is premised on the need for creation of physical infrastructure which is fundamental towards facilitating economic growth in the economy. Moreover, particular infrastructure needs such as those of the railways which have financing mechanisms of their own are not being seen under the ambit of infrastructure in this paper which can be financed by the National Bank for Financing Infrastructure and Development (NaBFID).

Strategies of economic growth often revolve around creating necessary infrastructures which propel economic activity in the economy and create avenues for enhanced productivity. David A. Aschauer has contributed significantly to the idea of utilising fiscal policy as a tool of infrastructure growth. Essentially, his argument is that there is a role for the state in infrastructure financing which must go beyond facilitating private savings and private investments to generate economic growth.[2] The state has its own sake in infrastructure financing and it is here that it must spend public money on creating necessary infrastructure in the economy. Aschauer argues that necessary infrastructure should be seen as a factor of production like labour and capital and only then necessary focus on infrastructure financing will be achieved.

Empirical studies also point to the evidence of cross-country differences in economic growth as a result of differential infrastructure spending. Alicia H. Munnell in her paper on infrastructure investment and economic growth argues in line with Aschauer about

[2] Aschauer, David A. : Genuine Economic Returns to Infrastructure Investment, Policy Studies Journal

the importance of infrastructure investment. She points out evidence of slowdown in the American economy of the 1970s as its correlation with declining public capital investment in the economy.[3] The role of infrastructure investment through public spending has a huge impact on the overall productivity in the private sector. Morrison and Schwartz in their study on state infrastructure and productive performance confirm the arguments made by Aschauer and Munnel. Their empirical work points out the evidence of significant impact of infrastructure investment on economic returns with a positive marginal product for infrastructure and its role in determining productivity growth.[4]

In the Indian context too, research evidence shows that infrastructure growth has a positive impact on economic growth with a lag of one to two years.[5] The key takeaway here is that there is a lag in this impact which makes it all the more important for state led infrastructure financing mechanisms to emerge in order to socialise the necessary risks and have the vision of long term economic growth. Das and Sahoo in their paper titled *Economic growth in India: the role of physical and social infrastructure* also show that the infrastructure creation has significant positive impact on output in the economy.[6] In light of this empirical evidence, it is important that the vision of long term economic growth in India must revolve around creation of robust infrastructures.

India has been one of the fastest growing economies over the last two decades and has been able to achieve comparatively high levels of per capita income over this period. From a Gross National Income Per capita of USD 2070 in 2000, it increased to USD 6390 in 2020 in PPP terms. If this economic growth story needs to be kept intact then there are key aspects which must be focussed on, with the focus on infrastructure growth in the economy of paramount importance. There has already been a huge impetus on infrastructure growth with the National Infrastructure Pipeline being one of the most significant policy interventions which has been incorporated to accelerate

[3] Munnell, Alicia H. : Infrastructure Investment and Economic Growth, Journal of Economic Perspectives
[4] Munnell, Alicia H. : Infrastructure Investment and Economic Growth, Journal of Economic Perspectives
[5] Kumari, A. and Sharma, A.: Physical & social infrastructure in India & its relationship with economic development, World Development Perspectives
[6] Das, R. and Sahoo, P.: Economic growth in India: the role of physical and social infrastructure, Journal of Economic Policy Reform

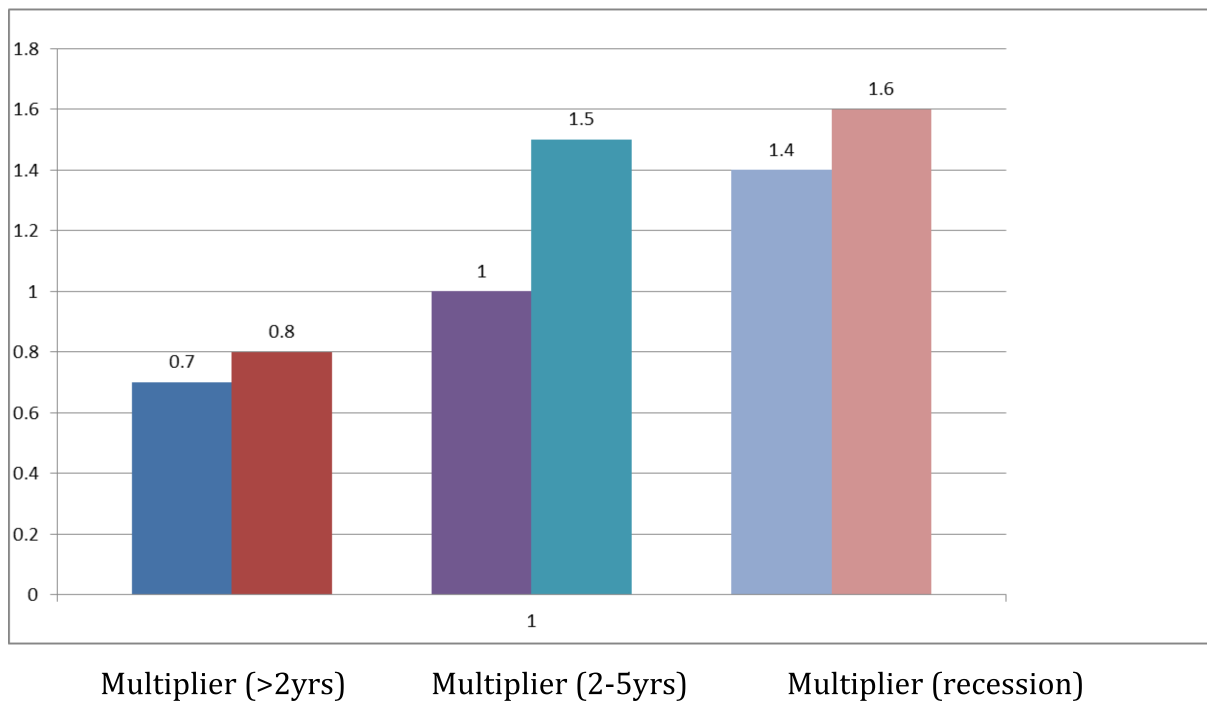
infrastructure growth in the economy.

Global Infrastructure Outlook report of 2017 estimates a global investment of $94 trillion in the period between 2016-2040, out of which around 50% is to be invested in Asia alone with India, China, and Japan investing a bulk of it.[7] The NIP plans to invest Rs 111 lakh crores on infrastructure investments over the period 2020-2025 in order to accelerate the pace of economic growth in the country.[8]

2. Infrastructure Multiplier

There is another key element to the benefits of infrastructure growth: the concept of infrastructure multiplier. The concept of infrastructure multiplier establishes that any public spending on the creation of infrastructure projects in line with the broad developmental goals will lead to a much larger capacity building and development outcomes on the ground than those very infrastructure projects. Infrastructure investment has multipliers for creation of jobs, enhancement of quality of living, and ease of doing business. It leads to reduction in transportation costs, fuel consumption, and enhanced connectivity.

Figure 1: Fiscal Multiplier effect for Public Spending vs. Infrastructure Investment



[7] Report of the Task Force on National Infrastructure Pipeline

[8] Report of the Task Force on National Infrastructure Pipeline

Source: Global Infrastructure Hub

According to an estimate by S&P Global, the potential multiplier effect on India's GDP is twice the infrastructure investment being made in real GDP terms.[9] Global Infrastructure hub estimates that the fiscal multiplier effect of infrastructure investment is positive over a period of more than two years. Not only is the fiscal multiplier effect positive, the multiplier effect for infrastructure investment is higher than the effect of total public spending. The graph above depicts the difference in fiscal multiplier effect over different periods for gross public spending against infrastructure investment (2016 estimates). It is important to note that the multiplier effect here is of total infrastructure investment in the economy and it may include infrastructures which are not physical in nature. Nonetheless, the rationale remains the same: that infrastructure investment is critical for generating multipliers for overall economic growth in the economy.

Infrastructure multiplier is the key reason as to why a concerted focus on infrastructure investment is necessary if India is going to achieve the goals of achieving rapid economic growth and improving the overall quality of life in the country.

3. Some Models of Infrastructure Financing

One of the important aspects of infrastructure financing is the way financing is designed and the models which are utilised in order to fund infrastructure projects. In this section, the various key models of infrastructure financing are explored.

The first is the **Build Operate Transfer (BOT)** model. In this model, there are generally two parties where one party (the government) gives a contract to the private party for building an infrastructure and operating it for an already agreed upon duration of time. Once that period is over, the private party has to transfer the infrastructure created to the government. What really happens in this case is that the private party is allowed to levy charges on the users of the infrastructure for the given time but the ownership of the infrastructure stays with the government. This model is

[9] S&P global report, The Missing Piece in India's Economic Growth Story: Robust Infrastructure

utilised for projects which have to be built up right from the start (Greenfield) and are generally bulky in terms of scale.

The second is the **Joint Venture (JV)** model. In this model, the private party and the public party enter into a joint venture and financing for the project is provided by both parties. The ownership of the asset stays with both the parties for the contract period and the private party is compensated for its investment from the revenue pool that is generated by the infrastructure. This model is usually followed when the cost of the project is very high and there is a need for sharing the associated risks by designing a joint venture.

The third model of infrastructure financing is the **Engineering, Procurement and Construction (EPC)** model. In this model, the project is completed by the contractor in the given time frame as per the elements of the contract. The contracting party (government) then releases the payment on the basis of the milestones attached to the project. In this model of financing, projects which have bulkiness associated with them are generally taken up.

The fourth model which can be used is **Hybrid Annuity model (HAM)**. This is an innovative model of infrastructure financing where the financing is made contingent on the actual progress of the project. In addition to that, it helps spread the risk between the government and the private party responsible for the project. A part of the financing is given in annuity mode which is linked to the milestones being achieved by the project and the rest is arranged by the developers of the project which includes their own contribution and a share raised in the form of debt. HAM is essentially a combination of EPC and BOT.[10] It also needs to be noted that HAM is currently utilised by the National Highway Authority of India (NHAI) for financing of highways.

These are some of the key models of financing which are employed for infrastructure projects. These models have their own sets of elements as pointed out above and NaBFID will have to rely on these broad models to see how it finances the projects

[10]https://www.thehindubusinessline.com/opinion/columns/slate/all-you-wanted-to-know-aboutham/article22060197.ece

under its ambit depending on the very nature of those projects.

4. Development Finance Institutions and Infrastructure Financing

Given that the NIP provides the vision for infrastructure growth in the economy, one of the key aspects that come up is the actual financing of infrastructure growth. It is this particular aspect that this working paper focuses on with specific focus on the newly created National Bank for Financing Infrastructure and Development (NaBFID). In line with the evidence pointed out above in terms of the role of infrastructure investment in productivity growth, this newly created development bank will seek to finance a bulk of infrastructure projects within the broad vision of NIP.

The NaBFID has been set up as a development bank and it is important to understand the role of Development Finance Institutions (DFIs) in infrastructure financing. What are DFIs? DFIs are financing institutions which provide long and medium term credit for development projects. Their ownership structures include a wide range of participants including the government, private parties, and other institutional investors. Their goal is to finance projects which have a developmental rationale so that they can create infrastructure multipliers for the economy. DFIs have a long and rich history in India going all the way back to 1948 when Industrial Finance Corporation of India (IFCI) was established as the first DFI. This was followed by the creation of Industrial Credit and Infrastructure Corporation of India (ICICI) in 1955 and the Industrial Development Bank of India (IDBI) in 1964. The 1950s also saw a number of State Finance Corporations (SFCs) emerging in order to provide for state level financing of various projects. The establishment of NaBFID is a return of the vision of DFI led financing.

Globally too, DFIs have played key roles in installing successful industrial policies in late developing countries. The Korean experience of post-war economic development was built on the shoulders of proactive development financing from the Korean Development Bank in particular.[11] The state played a significant role in creating a

[11] György Iván Neszmélyi, The Role of Development Banks in the Economic Development Policy of the Republic of Korea, Public Finance Quarterly

robust credit policy which allowed it to extract performance from the Korean conglomerates (chaebols) and eventually led to the success of the export-oriented growth strategy which Korea embarked on. The Development Bank of Japan and the Industrial Bank of Japan played significant roles in the success of the Japanese experience of post war reconstruction and economic growth.[12] These development banks functioned with well laid out institutional mechanisms which were able to achieve synergy between the various bodies responsible for implementing these industrial policy interventions.

The fact that we keep coming back to the DFI model of financing of development projects means there is something quite unique and important when it comes to the vision of the DFI model in infrastructure financing. The vision is not simply driven by the need to address market failures emerging out of the bulkiness or long gestation periods of certain infrastructure projects. This vision has a key element: looking beyond returns on investment in monetary terms but creating critical infrastructure which aligns with the broad developmental goals of the country.[13] This is a vision which is unique to DFIs and this is what makes it so important to have well-functioning DFIs in the country. The creation of NaBFID is a welcome move but there are key challenges which need to be addressed in order to make sure that NaBFID can achieve the infrastructure financing goals that it has been set up to accomplish.

5. National Bank for Financing Infrastructure and Development (NaBFID)

In the previous two sections the efficacy of DFIs as institutions of financing developmental projects and the multiplier effect of infrastructure investment for the overall growth of the economy have been explored. It is in line with these two key aspects that the National Bank for Financing Infrastructure and Development (NaBFID) has been set up. The National Bank for Financing Infrastructure and Development (NaBFID) Act, 2021 received the Presidential approval on March 28, 2021 paving the way for the creation of NaBFID as a Development Finance Institution (DFI) for

[12] Yasuda Ayako, The Performance and Roles of Japan Development Banks

[13] Nayyar, Deepak: Birth, life and Death of Development Finance Institutions in India, Economic and Political Weekly

financing long term infrastructure growth in India.

NaBFID has been envisaged as a vehicle of financing projects which are essential towards the overall economic growth and development of the economy. With an equity capital commitment of Rs 20000 crores from the government, NaBFID's vision is to become an important player in the domain of infrastructure financing.[14] NaBFID has also set for itself a target of providing financing assistance up to Rs 1,00,000 crores towards infrastructure projects in the first year of its operations.

In addition to providing direct infrastructure financing, NaBFID's mandate also includes expediting the development of bonds and derivatives markets in infrastructure financing.[15] The idea is to set up NaBFID as the central DFI to address the needs of infrastructure financing in the economy. The government of India has moved swiftly to organise the administrative structure of NaBFID with a chairperson at the helm and a managing director who will head the institution. The NaBFID act also provides for the appointment of not more than three deputy managing directors who will assist the MD in the day to day functioning of the DFI.[16]

The NaBFID Act points out that this new DFI will undertake financial as well as developmental activities. The functions of NaBFID will include: extending loans and advances for infrastructure project, 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.[17]

NaBFID has been put in the category of All India Financial Institution (AIFI) under the Reserve Bank of India Act, 1934. This makes NaBFID the fifth AIFI after the National Housing Bank, the National Bank for Agriculture and Rural Development, the Small

[14] National Bank for Financing Infrastructure and Development (NaBFID) Act, 2021
[15] National Bank for Financing Infrastructure and Development (NaBFID) Act, 2021
[16] National Bank for Financing Infrastructure and Development (NaBFID) Act, 2021
[17] National Bank for Financing Infrastructure and Development (NaBFID) Act, 2021

Industries Development Bank of India, and the EXIM Bank.[18] The establishment of NaBFID as a dedicated financial institution for infrastructure financing is a step in the right direction.

The key question that emerges from the creation of NaBFID is this: How is NaBFID going to leverage its capacity towards creating a regime of robust infrastructure financing in India? In this paper, I explore the rationale for setting up NaBFID and the need for establishing institutional mechanisms which will help achieve its goals. The specific focus of this paper is to establish lessons from the past experiences of DFI led financing and how the lessons drawn from those experiences can be used to establish NaBFID as an efficient development finance institution.

6. The Rationale for Establishing NaBFID

NaBFID's vision is to become an important player in infrastructure financing in India. It has been clearly established how important infrastructure growth is going to be for the overall economic growth of the country. A dedicated financing institution which will accelerate the pace of infrastructure financing is the need of the hour. It is here that NaBFID becomes a key institution.

A look at the budgetary allocation in the infrastructure sector shows that Rs 10,00,000 crores have been allocated for this purpose in the union budget 2022-23. The Union Budget for the 2022-23 puts significant impetus on infrastructure investment in the economy. The goal is to mobilise 20000 crores for the expansion of the national highways network.[19]

The overall capital expenditure in the economy for the year has seen an increase of 35.4% from Rs. 5.5 lakh crores in 2021-22 to Rs. 7.5 lakh crores in 2022-23. PM Gatishakti is another important vision of infrastructure growth in the economy where sectoral engines of economic growth are going to be prioritised in order to achieve

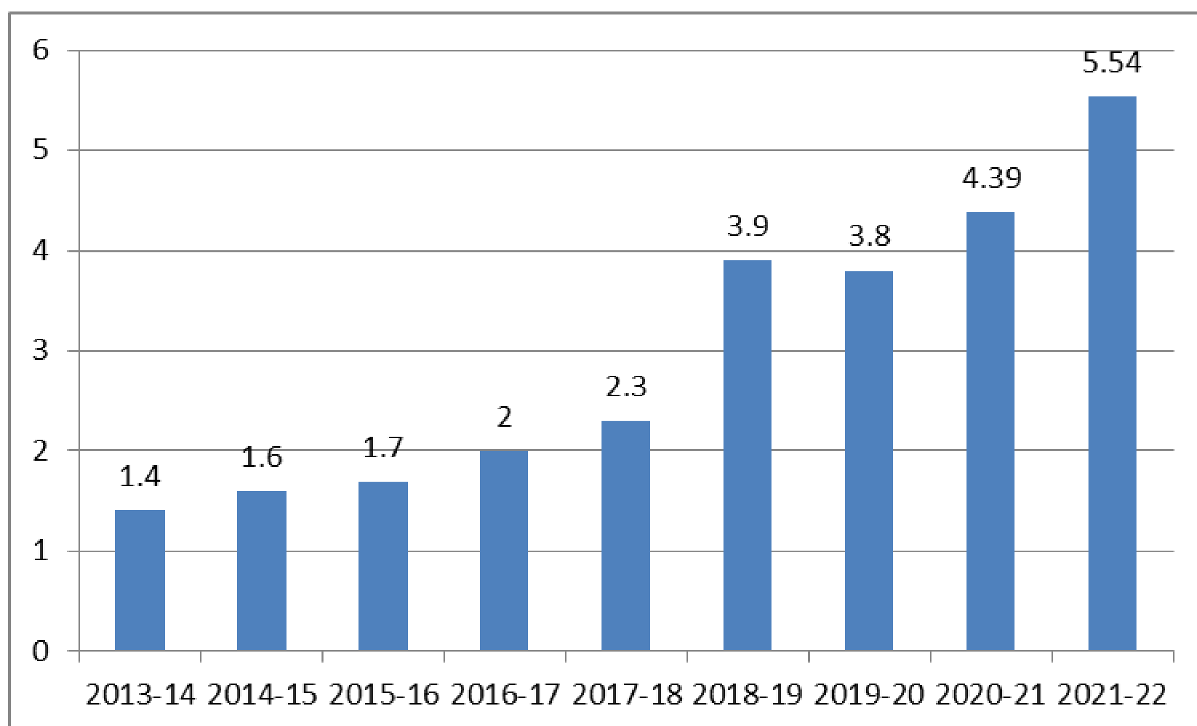
[18]https://timesofindia.indiatimes.com/business/india-business/union-banks-former-chief-to-head-nabfid/articleshow/92861325.cms
[19]https://timesofindia.indiatimes.com/business/india-business/national-highways-to-be-expanded-by-25000-km-in-2022-23-fm/articleshow/89269754.cms

multimodal connectivity and logistical efficiency. The graph below shows the centre's share in infrastructure spending since 2013.[20]

It is also important to note that there is empirical evidence which shows that the cost of private capital is higher than the cost of public capital when it comes to infrastructure financing. It is a key element as to why a development finance institution like NaBFID has an advantage when it comes to infrastructure financing.

The immediate rationale for establishing NaBFID emerges from this impetus on realising the vision of policy interventions such as the National Infrastructure Pipeline and PM Gatishakti for infrastructure growth in the economy. NaBFID will seek to mobilise capital for investment in these infrastructure projects in addition to the budgetary allocations already made under various projects.

Figure 2: Infrastructure investment since 2013



(Investments by Centre in Rs Lakh Crores. Source: Report of the Task Force on National Infrastructure Pipeline)

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[20] Report of the Task Force on National Infrastructure Pipeline

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7. Lessons from Past Experiences of DFI led Financing

The key goal of this paper is to understand what institutional frameworks NaBFID can establish in order to become a valuable stakeholder in the infrastructure financing ecosystem for the country. In order to understand these institutional frameworks, it is important that past experiences of DFI led financing of projects are evaluated and the lessons which can be learnt from them be installed so that NaBFID can become a successful DFI.

The period from 1948 to 1965 saw the setting up of three key DFIs in addition to the establishment of National Industrial Development Corporation and the Refinance Corporation of India. The Industrial Licensing Policy Committee (ILPC) Report of 1969 is a key committee report which evaluates the performance of these DFIs in industrial financing.[21] In their analysis, these committee reports point out that inefficient allocation of critical financial resources was a theme of this period. In addition to that, the reports bring out the evidence of capture and undue advantage accruing to particular business houses due to the absence of necessary institutional mechanisms to establish accountability and transparency in disbursal of credit.[22] It was as a result of these inferences that the DFI ecosystem took a sectoral shift with the establishment of DFIs like National Housing Bank, the National Bank for Agriculture and Rural Development, the Small Industries Development Bank of India.

Moreover, in a large number of cases where financing was disbursed by these DFIs, there was little or no scrutiny of the way the financing was to be utilised towards completing the projects. It was as if the moment financing was disbursed there was a delinking of financing from performance criteria. What really happened was that a

[21] Industrial Licensing Policy Committee (ILPC) Report of 1969, Ministry of Corporate Affairs

[22] Public Money for Private Enterprises, Economic and Political Weekly

number of projects which had received financing were not monitored effectively post release of the financing. This was a key design failure in terms of how DFIs functioned in the post-independence period.

In addition to the lack of a robust mechanism for scrutiny of DFI disbursements there was a clear failure in terms of installing regulatory mechanisms which would ensure measures for checks and balances at every step of the disbursement process until the project is completed.[23] This was clearly absent which meant the scarce financial resources disbursed by DFIs did not lead to an overall enhancement of performance when it came to a large number of projects being financed.

There was an absence of an established institutional setup which would coordinate between the various agencies responsible for various stages of project implementation. Vivek Chibber in his book Locked in Place: State-Building and Late Industrialization in India points this out very clearly. He points out that the various ministries and the Planning Commission did not have clearly laid out roles which meant that these institutions were always in tension with each other, eventually leading to a lack of coordination and coherence in policy implementation.[24] This is a key lesson which must be taken into account.

A comparison with other late developing countries, specifically South Korea which established DFIs for achieving high levels of economic growth, brings out these lessons much more clearly. The Economic Planning Board (EPB) in the Korean case was able to achieve the goals of coordination and coherence with much more clarity. Chibber points out that the EPB was able to establish clear lines of communication with the stakeholders when it came to the execution of its industrial policy. Additionally, it was able to extract performance not only from the business class but also from the officials and the coordinating agencies which worked under its direction. It was as a result of this coordination and coherence that DFIs in Korea were able to allocate scarce financial resources with discipline and eventually extract performance from these firms which got financing. The absence of a body like EPB which could coordinate

[23] Industrial Licensing Policy Committee (ILPC) Report of 1969, Ministry of Corporate Affairs
[24] Chibber, V.: Locked in Place: State-Building and Late Industrialization in India

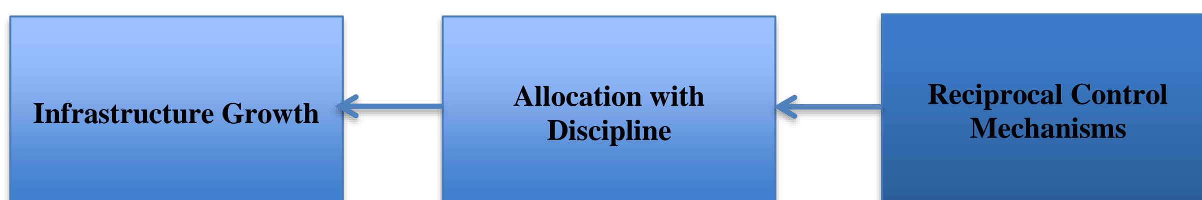
various aspects of industrial growth including its financing was a key deficiency in the Indian experience.

8. The Importance of 'Allocation with Discipline'

Given the lessons from the past experiences of DFI led financing in India, a key goal for successful infrastructure financing which needs to be achieved is allocating critical financial resources with discipline. What does the term allocation with discipline mean? Allocation with discipline essentially means that the institution which is allocating critical financing for various projects must be able to discipline the entity receiving that financing towards achieving the goals that the project has laid out at the very outset. Given that this paper works with the premise of a state-led DFI (NaBFID in this case), allocation with discipline allows the DFI to be able to install mechanisms of disciplining the stakeholders in the arena so that the goals of development financing can be achieved.

Allocation with discipline is premised on Alice Amsden's framework of reciprocal control mechanisms.[25] The framework of reciprocal control mechanisms is built on the premise that the state has the ability to allocate resources (subsidies, financing etc.) and in turn extract performance from the firms which get these resources. This is accomplished through a network of institutions with a central body in control of the overall financing ecosystem which is aided by a network of nodal agencies which keep track of the projects and make necessary interventions which will ensure that the project reaches its culmination. The key here is that the firms which get these resources "reciprocate" by successfully achieving the ends of the project. The framework for the same is shown below.

Figure 3: The role of Reciprocal Control Mechanisms



[25] Amsden, A.: The Rise of "The Rest": Challenges to the West from Late-Industrializing Economies

How is allocation with discipline different from allocative efficiency? Allocative efficiency in economics deals with the broad premise that equilibrium can be achieved when it comes to the marginal utility of a commodity and the marginal cost of production. This allocative efficiency can be achieved in a market condition with little or no intervention from the state as long as production and consumer preferences can be aligned. This concept is futile when it comes to understanding state led disciplining of business houses getting development finance through DFIs in order to achieve the goals of the project for which financing is being disbursed. There is another key difference: allocative efficiency functions on the premise of no state intervention in the arena and that markets can achieve this equilibrium. This is completely impossible in the arena of state-led DFI financing and the need for regulatory mechanisms and monitoring of projects is paramount. And it is the immediate focus of this paper to bring out institutional mechanisms which will allow NaBFID to achieve allocation with discipline.

9. Institutional Mechanisms Necessary to Achieve Allocation with Discipline

Given that allocation with discipline is a key component of establishing a successful DFI, a question which emerges here is this: what are these institutional mechanisms which are necessary to achieve allocation with discipline and why, in the first place is the state and the DFI allowed to discipline the stakeholders in the arena towards achieving the goals of the project?

To answer the why first, this legitimacy to discipline comes from the very vision of how state led DFIs function. These DFIs provide critical financing and in certain cases highly subsidised loans to companies which take up these projects. The DFIs leverage their capacity to take the risks that these projects entail which can often have long gestation periods and associated bulkiness. The DFI uses critical public finance and routes it towards development finance in order to achieve the broad developmental goals of the economy. In a large number of cases, these projects cannot be financed by other means simply because parties are not ready to take up the risks that these projects have. DFIs

finance these projects because they can achieve a socialisation of these risks and have goals much larger than simply making a profitable investment.[26] The market failure in this arena is clear and evident. And this is exactly the problem which a state-led DFI seeks to solve. And it is from this ability to address market failure and create critical public infrastructure the legitimacy of the state to discipline the stakeholders in the arena comes from.

How can this state discipline be achieved and what are its elements? State-led DFIs are built on the shoulders of an organisational setup which is critical to achieve any level of success in reaching its development financing goals. The organisational setup must be simplified in a way that critical access to financial resources is not driven by organisational discretion but by a rigorous process of scrutiny of applications for financing. This is something which was absent in the past regimes of DFI led financing.[27]

The most crucial institutional mechanism which needs to be put in place to achieve allocation with discipline is a complete scrutiny of project applications before they are approved for financing. There must be a mechanism which evaluates these project applications carefully in order to establish feasibility and the broad developmental goals that these projects can achieve. Only when the feasibility studies are established should a project be recommended for DFI financing. This will ensure that a number of projects which do not have a developmental rationale can be weeded out.

Once the projects are established as feasible and developmental, they can be provided the financing contingent on the actual physical progress of the project. What it means is that the financing be divided into phases depending on the project and its disbursal should be made contingent on the actual progress that the project makes. This would require a clearly laid out monitoring mechanism which would ensure that the project proceeds at its expected pace. This monitoring should be dynamic and regular and not a static appraisal once in a while would not provide a true understanding of where the

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[26] Ray, Partha: Rise and Fall of Industrial FInance in India, Economic and Political Weekly

[27] Industrial Licensing Policy Committee (ILPC) Report of 1969, Ministry of Corporate Affairs

project stands. A separate monitoring unit needs to be established under NaBFID which conducts regular surveys of these projects. One of the features of the past DFI led financing was this delinking; the new regime of NaBFID must establish this link between financing and physical progress of the project as the critical parameter towards disbursing financial resources.

There is another key institutional mechanism that needs to be established in NaBFID: that of dealing with liquidation and reorganisation in case a project defaults. There has been enough evidence of banks having to take haircuts and even having to classify a number of financed projects as Non-Performing Assets (NPAs) and eventually being forced to write them off partially or completely. Right from the start, NaBFID must put in place mechanisms which will govern the liquidation and reorganisation of the financing when a project default becomes inevitable which can be because of a number of factors, not always apartment right away. This means that the need for future securitisation is high and hence institutional mechanisms must be established to prioritise that.

To summarise, there are four key institutional mechanisms which must be put in place under the ambit of NaBFID in order to achieve allocation with discipline. These are: **robust organisational setup, efficient monitoring and regulatory mechanisms, linking of disbursement of key development finance with the actual physical progress of the project, and robust mechanisms for liquidation and reorganisation in case of project default**. These are the four key institutional mechanisms which NaBFID must incorporate in order to become a robust and well-functioning DFI.

10. Conclusions

From the arguments made above, it is evident that the success of NaBFID will be contingent on the institutional mechanisms that are set in place and the lessons it can incorporate from the past experiences of the DFIs. Protecting itself against design failures and establishing necessary monitoring and regulatory mechanisms will be key. NaBFID must put the concept of allocation with discipline at the very centre of any

infrastructure financing that it undertakes. It is also paramount that the scrutiny of projects and their ability to generate infrastructure multipliers be carefully evaluated before they are sanctioned for financing. Given the evidence of a higher multiplier effect for infrastructure investment in comparison to public spending, NaBFID needs to achieve this multiplier if it is going to realise its vision of successful infrastructure financing.

In conclusion, the key challenge ahead for NaBFID will be to install the necessary institutional mechanisms pointed out above if it has to become a successful infrastructure financing body. The opportunity for NaBFID is huge as well. It can create a framework of infrastructure financing which will have multipliers for economic growth and will lead to an overall increase in the developmental outcomes in the country. It will also be able to create a blueprint for future DFIs if it can successfully navigate through the challenges of infrastructure financing.

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