



Development Finance Institution to Fund Infrastructure

The government has proposed to set up a **development financial institution (DFI)** to solve the **infrastructure financing needs** of the country.

- The establishment of such an institution is considered as a positive step as **banks do not have the long-term funds to finance such projects.**
- Banks cannot afford to lend for such projects because that would shrink their lending capacity as the funds get locked up in such projects for that time period.
- **Why India needs DFIs to Fund Infrastructure?**
 - To boost **economic growth** which would increase capital flows and energise capital markets.
 - To improve long term finances.
 - To provide credit enhancement for infrastructure and housing projects
 - As India does not have a development bank, DFI would fulfil the need for us to have an institutional mechanism.
 - Debt flow towards **infrastructure** projects would be improved.
- The **RBI** had also specified in 2017 that specialised banks could cater to the wholesale and long-term financing needs of the growing economy and possibly fill the gap in long-term financing.

Thus, it would be wise to revive the concept of DFI if the government wishes to keep societal, cultural, regional, rural and environmental concerns intact.

▪ **What is Development Finance Institution?**

- These are specialized institutions set up primarily to provide development/ Project finance especially in developing countries.
- These DFIs are usually majority-owned by national governments.
- The source of **capital of these banks** is national or international development funds.
- This ensures their creditworthiness and their ability to provide project finance in a very competitive rate.

▪ **How is it different from commercial banks?**

- It strikes a balance between commercial operational norms as followed by commercial banks on the one hand, and developmental responsibilities on the other.
- DFIs are not just plain lenders like commercial banks but they act as companions in the development of significant sectors of the economy.

▪ **Evolution of DFIs in India:**

- The first DFI was the Industrial Financial Corporation of India (IFC) that was launched in 1948.
- IDBI, UTI, **NABARD**, EXIM Bank, **SIDBI**, **NHB**, **IIFCL** etc are the other major DFIs.
- Later several of them were converted into banks as industry like ICICI Bank, IDBI Bank etc.

▪ **Classification of development Financial Institutions:**

- **Sector specific financial institutions:** These financial Institutions focusses on a particular sector to provide project finance. Ex: NHB is solely related to Housing projects,

EXIM bank is oriented towards import export operations.

- **Investment Institutions:** These are specialized in providing services designed to facilitate business operations, such as capital expenditure financing and equity offerings, including initial public offerings (IPOs). Ex: LIC, GIC and UTI

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