

A Development Finance Institute is the Need of the Hour

With professional management and well-defined targets, the DFI might revolutionize infrastructure financing



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When the Hon'ble Finance Minister announced the creation of the Development Finance Institute (DFI) in the Union Budget 2021 in order to address the issue of long-term infrastructure finance, ripples of hope, aspiration and positivity spread through the entire infrastructure sector. Experts hailed it as a masterstroke to boost the economic growth of the nation after the Covid-19 shock. Infrastructure finance has had always been an issue in this country, and it had seemed even more difficult lately, since India about to enter a phase of economic slowdown due to the pandemic. Huge capital requirements and long gestation period were the primary reasons behind it, and the new DFI is expected to solve most issues related to infrastructure finance in the country.

While announcing the DFI, the Finance Minister defined it as a provider, enabler, and catalyst for infrastructure financing in the country, especially long term. The base capital for the DFI has been set up at INR 20000 crore and has a lending target of INR 5 Lakh crore for the next 5 years. It is noteworthy that this is not the first time when India has set up an institute to boost investments in the country. The Industrial Finance Corporation of India (ICFI), ICICI, NABARD, SIDBI, and EXIM Bank all are examples of institutes created in past. These institutions have worked reasonably well in their respective fields.

After the collapse of the financing institute IL&FS, the need for a professionally managed and government-backed financial institution dedicated to infrastructure was felt. To overcome the slowdown due to pandemic, infrastructure spending came up as the most viable means of generating employment, circulating cash in the economy, and bring the economy back to the growth path. However, infrastructure spending itself is not easy. It requires a large amount of finance as well as institutions to mobilize this finance. This further emphasized the need of setting up a DFI. The institutes set up earlier lacked clear focus and goals. The result was that these institutes gradually converted into commercial banks. ICICI and IDBI are examples of institutes turning into commercial banks which are unable to take long-term financing risks required for infrastructure projects. The uniqueness of the DFI lies in its clear focus and well-defined targets.

The DFI will have its focus on the National Infrastructure Pipeline (NIP), which itself is a unique initiative to provide world-class infrastructure to even the remotest parts of the country. The DFI will focus on mobilizing the INR 111 lakh crore required to complete the 7000 infrastructure projects identified under the NIP. Besides having the government's backing, the institute will have direct access to the funding facilities by the Reserve Bank of India (RBI). This will help the institution to generate funds on rates cheaper than the prevailing market rates. The DFI will also be able to borrow money from the RBI with help of other instruments like bills of exchange, promissory notes, security of stocks etc. Therefore, it can be expected that the DFI will have a perennial and economical source of funds for all its requirements. Initially, the DFI will be a fully government-owned entity. Gradually the government will reduce its share and allow other parties to join hands in the initiative. However, the government's share in the DFI will never go below 26 percent.

A country where existing infrastructure is under tremendous pressure and new infrastructure is required for both social and economic development, a DFI dedicated to infrastructure financing was the need of the hour. India is striving to beat the economic slowdown by spending more and more on infrastructure. This also emphasizes the need for DFI. By virtue of government backing, professional management, and well-defined targets, the DFI is expected to revolutionize long term infrastructure financing in the country.

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