

Development Financial Institution (DFI)

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In News: The Finance Minister on Monday announced the setting up of a development financial institution (DFI) to help fund infrastructure projects across their lifespan.

What are the development finance Institutions?

- The development finance institutions or development finance companies are organizations owned by the government or charitable institution to provide funds for low-capital projects or where their borrowers are unable to get it from commercial lenders.
- 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.
- In most cases, these agencies are government owned and their borrowings enjoy the comfort of government guarantees, which help bring down the cost of funding.
- DFIs can include multilateral development banks, national development banks, bilateral development banks, microfinance institutions, community development financial institution and revolving loan funds.
- These institutions provide a crucial role in providing credit in the form of higher risk loans, equity positions and risk guarantee instruments to private sector investments in developing countries.
- DFIs are typically backed by countries with developed economies,

Objectives

- DFIs do not accept deposits from people
- These banks provide financial as well as the technical

support to various sectors

- They raise funds by borrowing funds from governments and by selling their bonds to the general public
- They also provide technical assistance like Project Report, Viability study, and consultancy services.
- Underwriting enables firms to raise funds from the public. Underwriting a financial institution guarantees to purchase a certain percentage of shares of a company that is issuing IPO if it is not subscribed by the Public.
- It also provides a guarantee to banks on behalf of companies and subscriptions to shares, debentures, etc.
- DFI will be used to finance social and economic infrastructure projects identified under the National Infrastructure Pipeline(NIP).

National Infrastructure Pipeline(NIP)

- NIP, a first-of-its-kind initiative'
- To provide world-class infrastructure across the country and improve the quality of life for all citizens.
- National Infrastructure Pipeline is the Central Government's investment plan that aims to enhance the infrastructure in select sectors for a period of five years from 2020 to 2025.
- The Finance Minister announced Rs.103 lakh crore (\$1.4 trillion) for NIP to spend in the infrastructure sector over a five-year period.
- NIP will be crucial for obtaining the target of becoming a USD 5 trillion economy by FY 2025.
- Furthermore, it is estimated that India would need to spend \$4.5 trillion on infrastructure by 2030 to sustain its growth rate.
- The NIP aims to make it happen efficiently