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PRESS RELEASE

New DFI should balance between infrastructure and development needs

New Delhi, Feb 19

Former Deputy Governor of the RBI, Rakesh Mohan, on Friday suggested that the proposed new Development Financial Institution (DFI) needs to attract ‘patient capital’ investors as well as leading experts on its board and in top management. Mohan, who was also a former Executive Director at the IMF, made these comments during a webinar organised by the think-tank Research and Information System for Developing Countries (RIS) and India International Centre.

It comes in the backdrop of the Union Budget 2021-2022 recognising the long-term debt financing needs of the infrastructure sector and proposing a “professionally managed” DFI “to act as a provider, enabler and catalyst for infrastructure financing”. Finance Minister Nirmala Sitharaman, in her Budget speech, had also said that a Bill will be introduced to set up a DFI and provided Rs 20,000 crore to capitalise the institution. “The ambition is to have a lending portfolio of at least Rs 5 lakh crore for this DFI in three years-time,” she had said. Later, Financial Services Secretary Debasish Panda had reportedly said India Infrastructure Finance Company Limited could be subsumed into the new DFI - the National Bank for Financing Infrastructure and Development. The proposed DFI will also play a crucial role in realising the National Infrastructure Pipeline, under which around 7,000 projects have been identified with an estimated Rs 111 lakh crore-worth of investment between 2020 and 2025.

Rakesh Mohan also proposed that the new DFI should be headquartered in Mumbai, India’s financial capital. The first CEO or CMD of the proposed DFI should be a person with India’s best interests in mind.

Echoing Mohan, former Deputy Governor of RBI Shyamala Gopinath also said there should be an emphasis on good governance. In addition, there is a need to focus on issues such as contract enforcement and project bankability, she said.

Speaking on the occasion, former Executive Director of IDBI, G. A. Tadas, said the Budget proposal of providing Rs 20,000 crore to capitalise the institution will not be sufficient to finance infrastructure projects to the tune of Rs 111 lakh crore by 2025 and help the country to be a USD 5 trillion economy. The initial capital for the DFI needs to be augmented to at least Rs 50,000-60,000 crore to achieve a portfolio of around Rs 5 lakh crore in the next three years, he added. He said there has to be an emphasis on a robust risk management system.

Professor Stephany Griffith-Jones, Financial Markets Director, Initiative for Policy Dialogue, Columbia University, said the focus on DFIs now is on helping countries to achieve ‘green growth’, promote innovation, provide counter-cyclical finance not just to the infrastructure sector but also crucial areas such as health and other social sectors. Larger number of DFIs can have greater impact, she said, adding that post the COVID-19 pandemic outbreak, the DFIs have seen a renaissance.

Professor Sachin Chaturvedi, Director General, RIS and Professor Milindo Chakrabarti, Visiting Fellow, RIS, also spoke during the programme. (ENDS)