

# New-Generation DFI in India: Opportunities and Challenges

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A Report based on RIS-IIC Webinar Series  
on Banking & Finance 2020-2021





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*Published in June 2021*



**RIS**

Research and Information System  
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विकासशील देशों की अनुसंधान एवं सूचना प्रणाली

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President, IIC*

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# Foreword

**Sachin Chaturvedi**

Director General, RIS

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**N. N. Vohra**

**D**evelopment finance institutions (DFIs) have been crucial partners in the development journey of many countries across the world, especially in the post-war period. A significant number of national, regional and multilateral development banks such as KfW in Germany, DBSA in South Africa, BNDES in Brazil and several others have been serving infrastructure funding and industrial growth requirements for several decades, and playing a critical role in shaping national economic development. In India, a number of DFIs and refinancing institutions including ICICI, IDBI, IFCI, NABARD and SIDBI were established in the initial decades of independence to cater to economy-wide as well as sectoral development financing requirements. Their contributions to term lending, project finance and financial consultancy services were significant and visible till they became unviable and converted into universal banks in the early 1990s. The fall of public-funded DFI model resulted in consequent reduction in provision of industrial finance and the new avatars of DFIs operated as one-stop shop for banking and financial services, with no commitment to development finance as such.

Since the 1990s India has seen ups and downs in its industrial development , characterised by prolonged stagnation in manufacturing and the rise of services sectors. At the same time, infrastructure funding gaps have widened over the years , notwithstanding substantial growth in credit flows by the commercial banking sector. In addition, commitment to Sustainable Development Goals (SDGs) requires additional resources mostly from non-tax revenue sources. This has prompted the governments of several countries, such as UK and India, to create dedicated development finance institutions to meet the ever-growing demand for infrastructure funding, both physical and social. The United States has established its international development finance corporation (DFC) in 2018 . There is need for DFIs at national and global levels.

A similar approach existed in India for quite some time, primarily because of the domestic compulsions. The incumbent government at the centre has embarked on a grand vision for infrastructure development and has launched the National Infrastructure Pipeline of \$1.5 trillion , involving 7400 projects by 2025. On the other hand, several on-going flagship connectivity projects, ‘Bharatmala’, ‘Sagarmala’, etc., need massive injections of capital in the coming years. In order to provide a dedicated window for funding, the Finance Minister, in her Union Budget 2021-2022, has allocated INR 20,000 crores to set up a new DFI. While the proposal has received support from different quarters of the economy, there are varied apprehensions in regard to the business model and viability of the projected institution.

To discuss the concept and explore the future role and challenges to be faced by the proposed DFI, drawing lessons from the past, RIS and India International Centre (IIC) organised two webinars in 2021, on February 19 and March 17. Both the webinars were well attended and aroused keen interest and debate on important policy issues relating to the functioning of the proposed DFI. To respond to this growing interest and to provide a fresh, comprehensive and consolidated perspective on the subject, we are bringing out this report which comprises key messages of the principal speakers and panelists who deliberated in the aforesaid two webinars .

We trust that this publication would prove useful and serve as a handy resource for the policy makers, academics, scholars and businesses.

**Sachin Chaturvedi**

**N. N. Vohra**

25 May 2021

# New Development Finance Institution and Infrastructure Financing in India



President and Distinguished Fellow, Centre for Social and Economic Progress, New Delhi.

**Rakesh Mohan**

## Background

Development Financial Institutions (DFIs) have really a very long history, especially since the Second World War. And most developing countries and emerging markets have had different kinds of DFIs over this period. In fact, in 1950s through the 1960s, the World Bank and other aid agencies promoted DFIs in many countries as the main solution to funding industrial development, in almost all public sector institutions. And, of course, the multilateral including the World Bank, Asian Development Bank, African Development Bank, the Inter-American Development Bank for Latin America were all founded after the Second World War and right through the 1950s. The need for new DFI is primarily recognised in the context of infrastructure financing. Basically, the understanding that capital markets have always had difficulty in funding long term investment needs. And of course, infrastructure needs long term finance. There had been much greater optimism in the 1990s and 2000s. Corporate bond markets can fill that need, but still it is not that smooth as it appears to be. Now that India is considering creating a new DFI, this paper provides a very brief background of DFIs in India, infrastructure funding issues and the issues confronting the new DFI announced for infrastructure by the finance minister of India in the Union Budget 2021-2022.

## **History and Functioning of DFIs**

DFIs have been part of the development journey of many countries of the world regardless of their level of development. Interestingly, what is less known is that the advanced economies themselves have also had development banks like Japan Development Bank in Japan, KFW in Germany, the European Investment Bank in Europe, the Nordic Bank in Scandinavian countries, among others. After the Iron Curtain fell, the European Bank for Reconstruction Development was founded for those countries. More recently, BRICS has founded the New Development Bank. And the China has formed another multilateral bank, the Asian Infrastructure Investment Bank. This is worth mentioning here that what is being proposed is not very different from many development banks that have existed before. And, in some sense, in recent years with the New Development Bank and the Asian Infrastructure Investment Bank, there is a new life to Development Finance Institutions. Among the emerging markets, some of the most well-known development banks are BNDES in Brazil, the China Development Bank in China, development banks in Colombia, Mexico and Indonesia, among others.

**Most of the earlier DFIs in emerging markets and developing countries did not really fund infrastructure. They mostly funded industrial development.**

Most of the earlier DFIs in emerging markets and developing countries did not really fund infrastructure. They mostly funded industrial development. They were almost all government owned. The other issue was that there were not enough long-term savings institutions like pension funds, insurance funds, etc. Hence there was a need for setting up these industrial development banks. Now, most of them had different kinds of government funding sources or government guarantees. The multilateral bank themselves, the World Bank, the ADB and others are all jointly owned by the member countries, so they are 100 per cent government owned. The World Bank has a special structure in terms of the callable capital that it has less than

15 to 20 per cent of its capital as paid in. So it has very high leverage because the rest of it is callable capital. All its bonds are multilaterally guaranteed. What is interesting to learn that it took the World Bank almost 10 to 12 years from its founding to actually get AAA rating by the credit rating agencies, despite all the collective guarantees and the capital structure that it had.

## DFIs in India

IFCI was the first DFI that was established in India followed by IDBI and ICICI. There are also central DFIs like the Power Finance Corporation, NABARD, the Indian Railway Finance Corporation, Rural Electrification Corporation, and so on. IDFC and IIFCL were founded in the late 1990s and 2005 respectively. And almost all of those DFIs still exist now. ICICI and IDBI have been turned into commercial banks. IDFC was formed after the Expert Group on Infrastructure Finance issued India Infrastructure Report in 1997. The then Finance Minister Mr. P. Chidambaram announced the creation of IDFC based on the Expert Group recommendations. However, the IDFC was then turned itself into a bank. So in 2005, another institution called IIFCL was created.

IDBI, IFCI and other DFIs had windows for cheap sources of funding from RBI. In those days until the 1990s interest rates were fixed which helped them to function. The financial liberalisation of the 1990s made interest rates market determined. RBI had to stop its funding of these institutions and, therefore, their funding became expensive. DFIs around the world faced similar problems. The chief promoters of those institutions, i.e. the multilateral agencies like the World Bank which had supported their founding in the 1950s through the 1970s hailed them as not very good institutions. Many of those DFIs were shut down. It was not easy to structure DFIs so that they get relatively cheap funding.

What the government is proposing now is not a very new idea, but it does need to learn from the various mistakes that may have been made. On infrastructure funding, one important point to understand is that why there were not many infrastructure funding DFIs until recently while almost all infrastructure was funded and executed by the governments until the 1990s. In particular, in the 1990s technological changes in telecommunications, power, etc. it became possible to have competition in those sectors. Therefore, there was possibility of funding by the private sector. Likewise, roads, ports and airports which have very clear return stream in terms of user charges were viewed attractive to private sector as well. Hence, the need to find funding sources exclusively for infrastructure was recognised. That was precisely the reason for establishing IDFC in 1997.

The Government of India and the Reserve Bank of India at that time decided that it would be a good idea to set up the institution in such a fashion that it would be classified as a private sector institution, even though promoted by the government. So, in fact, it had a very interesting equity structure with the Government of India and the Reserve Bank of India together holding equity amounting to around 40 per cent. The rest of the equity capital was contributed by some public sector banks, the International Finance Corporation, the Asian Development Bank, the GIC of Singapore, the government of Switzerland and some others. Almost all its equity was indeed promoted by different kinds of public organizations- domestic and international. But because the Government of India and Reserve Bank of India equity share was less than 50 per cent, it was classified as a private sector entity and functioned accordingly.

In the UPA-1 and UPA-2 era, there was large-scale promotion of public private partnerships. Basically public sector banks started funding a lot of the PPP projects. They suffered from asset liability mismatches. And also because of the economic slowdown after 2009, many of these projects went bad and NPAs in infrastructure became quite large, which also affected the viability of IDFC. In addition, one major error was made by the government in letting the IDFC be listed which made it liable to report quarterly earnings and so on. This was contrary to the practice as development finance institution which cannot be subject to that kind of market arrangements. Moreover, one general problem that has affected most public sector lenders whether they are commercial banks or DFIs is the problem of behest lending i.e. lending under government influence.

## **Business Model for New DFI in India**

Infrastructure investment in India is still only about 5-5 ½ per cent of GDP. For last 25 years, it has been observed that growing economies really need something like 7 to 8 per cent of GDP in infrastructure investment. Infrastructure funding gap needs to be filled. The Government of India has announced the national infrastructure pipeline. The need for funding the projects inspired the idea of setting up a new DFI. Now, many multilateral institutions and a lot of other financial sector thinkers have constantly been promoting the idea that corporate bond markets should basically fund infrastructure. Although it is one of the many alternatives before the country the success of this idea is doubtful for two reasons. One, on the investment side, there is need for a much larger set of institutional finance like pension funds, life insurance funds and others, who can invest in longer term bonds. Both pension funds and life insurance and other insurance funds are still in the infancy in India and it will take quite some time for them to grow as large investors in the bond market.

Second, from the demand side, most infrastructure projects are structured as SPVs, which by definition, do not have a credit record and therefore cannot have credit ratings. Therefore, it is very difficult for them, particularly to float long term bonds and finding buyers. Even advanced economies, much of the bond market funding infrastructure is really public sector entities, like local government, state governments, parastatals like port authorities, etc. There is not much bond market financing, long term bond market financing or private sector infrastructure investment. Hence there is need for a new DFI in India as the country has a comprehensive infrastructure development plan.

In terms of structure, it will be difficult to run it as a 100 per cent government owned DFI. Attention needs to be given to inventing an equity structure, something analogous if not the same as the IDFC, as the combination of the government, LIC, ADB, IFCI, GIC of Singapore and other sovereign wealth funds from whom equity infusion could be arranged. This kind of public sector solid parentage is required, but because of the way things are classified in India, as long as the government equity is less than 50 per cent, it can be classified as a private sector institution. The compensation structure can be in line with the market trends so as to attract the best talent into the institution. Otherwise, it would be very difficult to get the best expertise.

Its functioning would clearly need a certain degree of direct lending, basically longer-term lending. It should participate in syndication with other lenders, including other banks. The new DFI should essentially fund the longer-term portion of any project borrowing of over five-year terms. The shorter and medium term borrowing could continue to be from existing banks, both public and private because they can actually manage the asset liability mismatches. It must develop appraisal expertise as a very key function and that can really be used to

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do credit enhancement. It will have to establish its reputation for expertise and appraisal. So, it should be the case that once it has established its expertise in appraisal and appraises a project to be sound, then other lenders can find it much easier to lend to that project.

It should also help in developing bond market as an anchor investor. It can also do equity participation and project. It can issue guarantees, provide advisory services and many other financial sector products. It must be structured initially with very strong professional board consisting of citizens who are widely recognized for integrity, expertise, and devotion to country's development. And there is no shortage of such people in the country. Its headquarters must be in Mumbai; not in Delhi like the IIFCL. Any financial institution whose headquarters is in Delhi is much more subject to behest lending. Further, as Mumbai is the financial headquarters of the country cooperation with other financial sector entities is necessary for such an institution to function. In the same vein, the first CEO or CMD must be a highly selected professional who is respected all round. One issue that will arise since the government has announced that they will merge the IIFCL into this new DFI with respect to finding transparent means of absorbing the IIFCL staff into the new institution. Finally, on the crucial issue of cost of funding, the government should guarantee the borrowing of the new DFI for at least 10 years.

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# Right Time for a New DFI in India



Formerly President, New Development Bank, Shanghai

**K. V. Kamath**

## Operational Challenges of DFIs in the Past

A question which runs in most people's minds, is why did the DFI model not work in India in the late 1990s? Corollary to this is why do we believe it is going to work now? If we answer this, then a lot of things fall in place. Going back to the founding of the DFI model in the early 1950s, it was basically a World Bank model, which was scaled across most of the developing countries. As part of this wave, India established ICICI, IFCI, IDBI and others as term lending institutions. The business model of these DFIs in those days was different. For the first 40 years, up to the early 1990s they were allowed preferential access to long-term funding by the government. In case of our DFIs, the bonds that were issued qualified as SLR securities for banks. As a result, the DFI model worked well in India for 40 years.

To understand what went wrong with the DFIs, two things that happened in the 1990s need attention. Firstly, the opening up of the economy meant that a whole lot of enterprises which were funded over the past 40 years had issues with scale and competitiveness, resulting in their turning NPAs. A bigger issue for the DFIs was the withdrawal of access to long term funding, i.e. SLR bonds with government guarantee which left them with virtually no access to funding. Some of them tried to issue long-term bonds in the market

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without government support and could raise some funding. But it was not found to be a viable model as the insurance and pension markets were not deep as they are today. In the face of these challenges, starting with ICICI, DFIs repositioned themselves as commercial banks.

### **Conditions Ripe for New DFI**

Commercial banks have been funding primarily the long-term needs of industry in the infrastructure and other sectors. This type of lending carries a mismatch in banks' books because access to liabilities in the banking context is relatively short term. It includes savings deposits, current account deposits and fixed deposits of one to three year maturity, not the sort of maturity required in the infrastructure space. Who then are the institutions having the ability to fund long-term papers. These are institutional investors such as the life insurance and pension funds which were missing in the 1990s. Unlike then, these players have become large by themselves with massive potential to fund and hence funding is probably not going to be a problem for the new DFI. This new DFI, which the Government of India is considering, could look at a variety of instruments that it could use both for resource raising and for lending. Other similar institutions could come up in due course.

Another important issue relating to the viability of the institution is whether it would be able to lend over a long period. Given India's infrastructure needs over the next 25 years, there seems to be enough opportunity for the new institution as infrastructure development needs long term funding. Infrastructure development would be diverse, including roads, ports, rail, green energy, harnessing water, cleaning and greening and rejuvenation of urban centres, smaller towns, and even the village.

Setting up the first DFI is just the start of the process. There will be need for more lenders which could meet the funding needs of the infrastructure

sector. The capital market in due course, will also be a provider of long term funding for infrastructure. Borrowers who have a good track record could issue paper in the capital market and get funded because that paper can be rated properly, and investors would probably not make the mistakes of the past.

Going forward commercial banking sector will primarily lend to corporates, do retail lending, payments and provide a variety of other financial services. The DFI along with funding from the capital market would be ideally placed to provide the long term funding for infrastructure and other sectors. At a national as well as global level commercial banks are hesitant to lend long term for infrastructure. On the other hand the capital market is the platform for infrastructure lending. While long-term lending would constitute the core business activity of the DFI, the institution will have freedom to design a variety of products. In fact, development banks in the past have offered equity underwriting, guarantees along with long-term lending.

## **Funding and Governance of New DFI**

The initial capital of INR 20,000 crore along with the grant and hybrid instruments would be substantial and be sufficient to achieve the lending target of INR 300,000 crore within two to three years. In subsequent years the institution could dilute itself and raise equity funding from the capital market.

In terms of governance structure, the institution would have skilled operating staff with competitive compensation packages. Unlike the past where most of the related activities were done internally, the new DFI can use skilled professional firms for these services including legal, risk management, credit rating and project supervision through lenders. It is now possible to build an institution which is significantly leaner than in the past. For instance, the Asian Development Bank has a staff strength of 2500 or more whereas the New Development Bank (NDB) has a strength of about 200 employees and should peak at less than 500. In other words, a staff of less than 500 can efficiently handle a lending book of over \$100 billion. A lean structure also allows you to work at speed. So this institution can get off the blocks quickly, have a sound grounded structure and have the necessary checks and balances, not just internal but also external. Such a structure would allow it to function differently and more efficiently.

On the question of a private sector led DFI, it could be set up in due course. With an aim of a lending portfolio of INR 300 lakh crore in two to three years, it is only the government which can actualise this. With proper scale and size, the new DFI can dilute its stake as mentioned earlier.

Compliance to ESG criteria is a good practice in development finance. In fact, in the first year the NDB focused predominantly on projects that were compliant. Over the years, NDB has continued to emphasize on the ESG criteria. Getting projects which comply and fit the bill is not difficult. As part of continuous assessment, a scorecard can be tracked. It is basically an internal mindset which can be easily adopted. Since this institution owned by the government, it should have a domestic AAA rating and a high international rating in line with the sovereign. Will it breach the sovereign? This would depend on the track record of the institution. With the efforts the government of India is making, the sovereign rating would need to move up. It is important to ensure that the cost of borrowing remains attractive. Suffice to say that the rating should not be a constraint in accessing funds. The new DFI could have a blend of domestic and international funding.

To sum up, the setting up of a term lending institution is timely and the environment is conducive for it to play a key role in the developmental agenda.

**On the question of private sector-led DFI, it could be probably suboptimal in the beginning. With an aim of a lending portfolio of three lakh crore in two to three years it is only the government who can actually lead it upfront.**

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# Role of New DFI for Growth and Development in India



Formely Executive Director, IDBI

**G. A. Tadas**

## Role of DFIs in India

**D**evelopment Finance Institutions are a critical instrument for channelling long-term finance required for infrastructure development and for realizing higher economic growth. Infrastructure development concomitantly attracts higher investments in other sectors thereby further accelerate growth process. Inadequate and inefficient infrastructure leads to high transaction costs, which in turn stunt realizing high growth potential of the economy. There is a close linkage between infrastructure development and growth, and infrastructure development has multiplier effects on the rest of the economy. From this perspective, it is imperative to address the issue of financing infrastructure development, as done in the past for financing industrial development by setting up various Development Finance Institutions (DFIs) like IFCI, IDBI, ICICI and sector-specific institutions such as PFC, REC, SIDBI. These institutions have played an important role in promoting financing not only for industrial development but also sector specific requirements, whether it is power sector in general or rural electrification in particular.

Irrespective of the level of development, whether developed or developing, countries across the world have set up development banks (DBs) to finance construction of roads, highways, airports, energy plants, dams, and telecommunication infrastructure. Many multilateral institutions and country specific Development Finance Institutions

have come up in the past to address global and regional development financing needs. The European Investment Bank (EIB) acts like a DFI for Europe and the German Kreditanstalt für Wiederaufbau (KfW) as a national DFI provides funding to sub-national institutions within Germany. There are area specific DFIs meant to promote small and medium enterprises (SME), economic & social infrastructure within the European countries. In the Asian region, the China Development Bank (CDB) has been playing a pivotal role in the country's efforts to build infrastructure sector and Agricultural Development Bank of China has contributed immensely to the growth of Agri-sector. Similarly, in Latin America, Brazil has its own development bank to take care of economic and infrastructure development needs.

DFIs in India did play a significant role in the past with the best of the resources made available to them and with focus on industrial development. After the economic liberalisation in the early 1990s, DFIs had to change their track because of change in the business environment and pressure from various quarters of the government. Earlier they were getting concessional funding from RBI and the government which was no longer tenable in the subsequent years. In the absence of cheap long-term funds, DFIs had to tap the market by converting themselves into universal banks/ commercial banks. With the conversion of the major DFIs into commercial banks, there were few institutions in the country which could take care of the macro needs of either the industrial development or infrastructure development. Although IDFC (1997), IIFCL (2006) and more recently NIIF (2015) had been set up to focus on funding infrastructure development, they did play a role up to some point in time. As the business environment changed in the late 2000s with the global economic crisis in 2008-09 and the subsequent changes in the economic arena, IDFC was converted into IDFC Bank (now IDFC First Bank). Moreover, there has not been much of traction in IIFCL lending for last 10 years and NIIF contribution is not worth significant.

## The New DFI

Given the fast changing operating environment, the pace of infrastructure development and quality of infrastructure services are critical for ensuring a sustainable economic growth at a healthy rate. It is a positive development that Government of India has recognized the criticality of financing long term infrastructure requirements with the announcement of setting up of a new DFI through passage of The National Bank for Financing Infrastructure & Development Bill 2020 (NABFID) in the Union Budget 2021-2022. It is reported that as a starting point, IIFCL would be converted into a new DFI with an initial capital of INR 20,000 crore. It is expected that new DFI will aim

at building a portfolio of INR 5 trillion in the next 3 years. The new DFI is being set up as a 100 per cent Government of India owned entity. It is important to relook at the contours of the new DFI in terms of ownership and organization structure keeping in view experiences of successful development banks in other countries. The ownership and organisation structure are critical starting points that require greater clarity as this would have bearing on the functioning, flexibility, governance of the institution and its long-term sustainability. More importantly, it is to be seen in what ways we can enable IIFCL so that it can meet the goal of creating INR 5 trillion portfolio in the next three years as envisaged in the Union Budget. Presently with a capital base of INR 20,000 crore, the new DFI, with a leverage of around 6 to 7 times, can lend up to INR 1.2 trillion. Now, if it needs to build a portfolio of INR 5 trillion over a period of three years, the present level of capital would not be sufficient and needs to be augmented by additional capital of about INR 60,000 crore. If it continues to remain Government of India entity, then government will have to infuse capital from time to time going forward. Alternatively, government may allow equity investment by long-term institutions like insurance companies and pension funds to augment the capital base in future, which means the government holding may have to go down to 25-26 per cent. From the perspective of making the DFI to cater to the changing needs of infrastructure and overall economic development, this could be a preferred option as these institutions will bring with them the long-term and diversified perspectives apart from requisite expertise to guide the Board's functioning in an effective and efficient manner.

Apart from capital infusion from time to time, the government would have to extend guarantee so that the new DFI is enabled to borrow not only nationally but also in the international market.

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Otherwise, it would not be feasible to achieve the target of INR 5 trillion portfolio in the next three years. With respect to the changes that are required to meet the desired goal it calls for relooking at the existing scope of IIFCL and the criteria for lending. The IIFCL would have to be overhauled not only in terms of the objectives that are enshrined in its formation but also the lending norms that it needs to follow in future so as to create flexible framework for the new DFI to consider funding large and varied requirements of infrastructure projects.

It is critical to hire experts with good understanding of infrastructure, policies, financing and risk management. Good number of experts in the country could be attracted to work with this institution provided adequate market-driven compensation is offered. Besides compensation, proper organization structure and professional board is very important. The constitution of board is very critical as it is going to be the final authority in guiding the future path of DFI and in directing development finance to desirable projects. The potential investors would look forward to this with great interest. Market perceptions are very important. We need to identify visionaries, people of eminence, and people who have contributed significantly to infrastructure finance and development. The multilateral organizations, international bodies, long-term institutional investors or private players would look at competence of the Board and corporate governance practices. We need to have clear structure in place and the path to be followed. We may draw lessons from the successful DBs in other developing and developed countries.

The World Federation of DFIs survey has enlisted the challenges faced by the DFIs across the world. Some of those include strengthening their risk management capacity and improving corporate governance and transparency in their functioning. In addition, there are difficulties in making them

financially self-sustainable, because most DFIs especially in the developing countries are dependent on government for their capital or resources or found to be failing to become self-sustainable over time. These aspects need to be relooked if the new DFI should achieve a higher target of INR 5 trillion rupees in the coming three years. Corporate governance and transparency reforms are required for these institutions as those were often found lacking in the DFIs in the developing countries. There is need to reduce undue political interference. There is also difficulty of hiring qualified and right kind of people due to lack of proper compensation packages.

## **Need to Provide Enabling Environment**

Achieving a INR 5 trillion rupees loan portfolio over the next three years requires augmenting the capital base further from time to time. We need to attract long-term institutions, insurance companies, pension funds, whether public, private or multilateral. All these would require an assurance of an enabling environment in the country. The government is also proposing to encourage setting up of private sector DFIs with a view to ‘bring pressure on government owned DFI to perform’. It may be noted that private players may be reluctant to take interest in setting up a DFI if there are uncertainties as regards government policies, regulations and delays in getting requisite approvals for project implementation. Risks arising out of policy uncertainties and delay in government approvals are beyond their control, which need to be properly addressed. The designing of framework for allocation of risks is very crucial to attract private participation in DFI or investments by private players in long-gestation infrastructure projects. This would greatly reduce uncertainties associated with project implementation and policy environment which would bring more clarity as regards business model for the project and its future cash flows. The pension funds or insurance companies invest long-term (10-20 years) hoping that at the end of the period they can fulfil their obligations of giving the money back (with reasonable returns) to their investors when needed, especially the retail investors who are dependent on them for pension and insurance claims.

The second important reform is in the area of development of the long-term debt market. Although India has the long-term debt market for the government securities and corporate bonds, it is still not that developed either in terms of being able to reach out to retail investors or to meet the whole infrastructure financing needs. Most of the corporate bonds are issued for a period of five to seven years or a maximum of 10 years. To raise funds on a long-term basis, debt market needs to be broad-based to cover the retail investors, high net worth individuals and long-term investment institutions. The government would

have to facilitate build-up of requisite institutions and network platforms to be able to reach widespread retail investors and incentivise and properly structure the bonds/instruments so that they are attracted to invest long-term in those instruments. The government also needs to extend credit enhancement support so that the retail investors or long-term institutions, domestic or global, can derive some comfort in the safety of their money.

It is desirable for development banks to have periodic reviews of mandates to ensure that they remain relevant. Changes in the economy need to be taken into account and adjustments in the roles of DFI should be considered regularly. In India, we perhaps failed to review the mandates given to the DFIs in the past with view to enable them to change course to meet changing long-term development priorities. Most of the successful DBs around the world have seen that the mandates given to them were reviewed periodically and if at some point of time it was felt that the relevance is losing, the mandates were revisited and then the fresh mandates were given. This practice needs to be adopted in India so that the new DFI will remain relevant for time to come because a developing country like India needs a long-term institution to cater to the long-term development financing requirements.

# Success Factors for New DFI in India



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**Stephany Griffith Jones**

The initiative of the Indian government to create a DFI is timely because there is at the moment a sort of renaissance of development banks worldwide, as well as a clear need in the Indian economy for a development bank that provides additional funding for infrastructure. There was a time when a lot of criticism was made of the contribution of development banks, but now the world is turning back to development banks, partly because they were found to be so valuable in times of crisis such as the 2008-2009 global financial crisis, Euro zone crisis and particularly during the COVID-19 pandemic crisis.

## **Proper Level of Leverage**

The capital base contemplated for the new DFI in India initially is around US\$3 billion. The ambition is to get up to US\$70 billion of lending. And I think that would imply a leverage, which is very high, even by international comparisons. When we have been studying the creation of infrastructure development bank in the UK, we have talked about leverage of around eight or nine.

Just to compare, the level of total assets of the proposed bank, for example, KFW, the German Development Bank has more than US\$500 billion of assets at the moment even though it has accumulated this amount over a large period because they were created after the Second

World War. The China Development Bank, the largest development bank in the world, has around two and a half trillion dollars of assets.

A new database created by the French agency, Agence Francaise de Development and INSE in China shows that there are 450 public development banks world wide, if you include multilateral, regional, and national ones. They estimate that the total assets of all these public development banks worldwide are well over US\$11 trillion. On a yearly basis, they disburse around almost two and a half trillion dollars, which actually is a very important amount, because it represents about 10 per cent of world investment. It suggests that DFIs already have a large scale and impact. And of these assets, about US\$ 8 trillion are of national development banks. Given the significant and growing importance of DFIs worldwide, it is excellent that India is creating a new DFI.

As regards international experience, the UK is now creating a new infrastructure bank. Scotland already has one. But more importantly, in practically all the European countries today, we have either existing development banks, well established ones like KFW, or the Italian and French ones, but also new ones. Practically every country, including the East European countries have, especially since the Euro zone debt crisis, created new development banks. Thus, it is also an advanced economy characteristic to have development banks- not just a feature of emerging and developing countries. Other developing countries, for example, Ghana, Tunisia and others are creating new development banks.

## **Capturing Green Finance Sensitivity**

Serious discussions on legislation for a green bank are underway in the United States. There are already many development banks at the state level e.g. green development banks. There is already in the Congress a law called green accelerator for energy and sustainable finance which would imply having US\$100 billion of equity and then would leverage with private capital. The Green banks in the states can channel at least US\$500 billion during the period of the Biden administration. It will be focused on green as the Biden administration has a target of US\$ 2 trillion of spending on climate related investment. This would be fulfilling a quarter of that very ambitious target. Many other countries see development banks as key actors for performing the green transformation. There is also a broader proposal in US of a National Investment Authority or a National Investment bank that would cover all aspects, not just focus on green, but also on broader aspects of infrastructure, innovation, financing of SMEs, again with a capital of US\$100 billion and focusing not just on loans, but also on providing equity and guarantees, and very much emphasizing on channelling funds from institutional investors as well as

banks.<sup>1</sup> Likewise, it is worth mentioning the role that European Investment Bank has been playing which was significantly enhanced since the Euro zone crisis through the Juncker Plan, now called Invest EU. The European Investment Bank has been scaled up both in terms of the size of resources it provides and the bigger risks it takes to encourage innovation. It is in fact being called now a climate bank. And by 2025, half of its lending will go to low carbon activities.

### Virtuous Role of State

In Europe and most other countries, development banks are public; belonging to the governments that they represent. In that perspective, EIB, the shareholders are the members of the European Union; KFW, the shareholder is the German state; and so on. This is similar in most emerging economies. Although they have all sorts of interactions with other actors the property of the capital of development banks is of the state and it has the advantage, that the development bank is an instrument of government policy and it can implement the national development plans of the country, of course in close consultation with the parliament, civil society, as well as naturally the private sector-financial and non-financial, with whom it co-finances, leverages resources and so on. There is a certain advantage of having a strong participation of the national government in development banks. There are some exceptions, like the European Investment Fund does have participation of private banks.

Returning to the broad picture, these development banks have played two major roles which became clearer in the recent years. The first one is to finance the major structural transformations needed to make economic growth and develop a

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society, as well as  
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sector-financial and  
non-financial, with  
whom it co-finances,  
leverages resources  
and so on.”

<sup>1</sup> See <http://www.stephanygj.net/press/>  
AnInvestmentBankToHelpTheUSProsper2020.pdf  
S Griffith-Jones in FT An Investment Bank to Help the US prosper

more dynamic, inclusive, and greener economy. In essence, there is need for some directionality of investment so the major investments needed have potential for structural transformations, as in the case of India. For example, India has the major need of better infrastructure development including greener infrastructure.

But the second role that has become particularly clear since the so-called North Atlantic financial crisis in 2008-2009 is the counter cyclical function, which is to maintain investment, and even finance working capital in bad times and in crises. This was so clear in the North Atlantic crisis, in the Euro zone crisis, and is even clearer during the COVID-19 crisis. This counter-cyclical financial function has been one of the reasons why we have had such a renaissance of public development banks. The private financial markets on their own tend to fail or be very insufficient, and the role of the public development banks, and all the leverage that they provide becomes crucial in that sense.

### **Broad-Basing Development Finance**

Development banks have been very crucial in the health sector both in supporting health systems in general but even in the production of vaccines. For example, the European Investment Bank and the German government funded practically all the initial research that led to the Pfizer vaccine which has been perhaps one of the most successful vaccines that have been produced. EIB is very proud of this achievement as it illustrates very nicely the public good element. It comes with priorities to mobilize funding very quickly for vital aspects for the populations of countries. From this example one needs to think about whether in the future the proposed DFI in India could also broaden its activity beyond infrastructure. At the same time, it is better to start with infrastructure in the beginning. The European Investment Bank, KFW and many other

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development banks have actually started with infrastructure, including the World Bank, itself which later broadened their operations to other sectors.

## **Desired Scale and Impact**

It is valuable for every country to have one or more development banks. But, scale is important to fulfil various development goals. The bigger the scale the more significant would be the impact. Financial returns are very important but with a desired scale. At least, development banks should have positive returns because those profits will then help to expand the Development Bank further without requiring additional injections of public resources. But the main element to evaluate the impact of these development banks is precisely on development. So how impactful are these development banks to promote development is the main criteria. As regards the instruments to be used, it is very important that when there is co-financing with the private sector both the risks and the profits should be shared as much as possible through different instruments like loans, equity, and guarantees.

## **Good Governance Practices**

Governance has been stressed as a key parameter for success of the new DFI in India. Some development banks have achieved a fine balance between having governance structure that is close to the government, because they need to implement government policy, but also to be independent of narrow political interests, and thus without being captured by narrow political interests. At the same time, closeness to financial markets and financial actors is very important, but maintaining independence to avoid capture by narrow private interests and to avoid guaranteeing profits but not sharing risks is critical. High-quality staff and professional board form important pillars of governance structure of any DFI.



# New DFI in India: Fixing Past Mistakes

Formerly Secretary, Ministry of Shipping, Government of India

Vishwapati Trivedi



## Introduction

The new DFI that the Government of India is planning at the national level would be a very different one from the old DFIs. It would not be an exaggeration to observe that there is a renaissance of DFI in the world in the recent years. Moreover, DFI is no longer just a third world concept anymore. It is a coincidence that IFCI in India and KFW in Germany were both created in 1948. Unfortunately, the irony is that KFW is currently running with an asset portfolio of something like US\$ 26 billion whereas IFCI is reporting losses accumulated over time. China leads the world in terms of the number of DFIs currently operating in the country even though the size justifies and those institutions work in a slightly different governance mechanism. In other parts of the world, there are several DFIs existing in Europe and some new ones are coming up. India should have established a new DFI much before. It is a good decision that a DFI must be there and past mistakes are avoided. DFIs had a cheap source of finance through SLR bonds. In fact, the state financial corporations (SFCs), which are also some kind of development finance institution, had a direct line of refinance from the Reserve Bank of India (RBI) until 2000 which was stopped later. It is not the first time that India is creating a new DFI in the country.

India has several DFIs in the country including the sectoral ones with their own governance and regulatory mechanisms. But unfortunately the classic DFIs such as the SIDBI, IFCI, etc. have lost

their perspective somewhere along the way. Apparently, the business model they had chosen later was not successful. For instance, the Small Industries Development Bank of India (SIDBI) had started directly lending into the hinterland. Likewise, there are 18 SFCs all over the country, about five of them are surviving operationally and the rest are closed or in the process of liquidation. But SIDBI at some point of time also realize that direct financing is very difficult. So, SIDBI withdrew from or they are withdrawing from industrial finance and infrastructure finance as well, which fell in their remit. And they are now going through an intermediary. Most of its funds are going through the Non-Banking Financial Companies (NBFCs), mostly into industries that are setting up infrastructure. But they lost in the process the cost advantage they enjoyed during concessional funding. Cheap long term finance backed by refinance was the order of the day. Although they relied on raising resources from the market, capital markets and other financial markets are not yet deep enough to support a whole lot of borrowing through bonds especially corporate bonds.

The need for the DFI and the backing of the DFI by the government is actually the need of the hour. The DFIs, for example, not only extend long term infrastructure, cheap, or cost effective financing, but they are actually a huge instrument or a tool for counter-cyclical policy initiatives. For example, had there been a DFI which has been planned a few years back, they would have pumped in infrastructure finance at competitive rates during the pandemic to support recovery from the economic dip. Today, there is some gap in provision of cheap and cost effective finance for infrastructure in the country.

## **Focus Policy Areas**

It is imperative to understand the issues and mistakes that are to be avoided in the endeavour towards creating a new development finance ecosystem in the country. There is a huge menu of things but broadly it requires proper appreciation of the governance structure and the targets.

### ***Identification of Core Targets***

The thrust would be on providing infrastructure financing with low cost funds. There are other public policy goals which include social and environmental issues like climate change, blue economy, etc. which can be done side by side or can be accessed through several DFIs which are multilateral or bilateral. There are a whole lot of similar institutions in Europe and other Western countries. So the new DFI might want to access not just the funds which come from the government, but also be very active in accessing the funds which are available on a multilateral or a bilateral basis for several initiatives like the environment, climate change, blue economy and other sectors.

### *Independent Board of Governors*

The governance structure and management should be independent professionals. The most experienced people should be brought into the new DFI. While doing so, the past mistake of omnibus guarantees to other institutions and other closed down DFIs should not be repeated. In other words, patronising the management and staff of old DFIs should not be done. The CEO of the new DFI should have the freedom to undertake decisions that is necessary for raising funds, be it domestic or international, co-finance for guaranteeing investments, and so on. The board and management should be hired purely based on merit.

### *Proper Appraisal and Monitoring Mechanisms*

The new DFI should learn and respond accordingly to the school of thought that suggests that government run institution is slow to respond and fail in meeting targets. Although this is not true in absolute sense, several intense and detailed appraisal mechanisms are available to monitor the progress in targets. Leveraging on digital monitoring, digital performance & management, digital measuring, etc could be more effective. By doing so, the fear of subjectivity coming into the operations of the new DFI can be actually contained to a reasonable extent. At the same time, the risk of subjective decisions at different stages of sanctions and recovery of overdues cannot be entirely ruled out in a democracy. It would continue to be a challenge to insulate the new DFI from all such influences. Hence, proper internal checks and balances should be carefully orchestrated.

### *Flexible Business Decisions*

The new DFI should be flexible and transparent in its business decisions. For instance, IFCI, one of the old DFIs, have been investing in the public sector institution called the Stock Holding Corporation of

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India for the past 35 years since 1986. As a result, IFCI has become a monopoly investor in Stock Holding Corporation of India with significant management control. This type of exposure to a single institution leading unhealthy control is not a good business proposition for the new DFI. The new DFI should have the flexibility to enter and exit from any investment portfolio. This aspect should be reflected well in the preamble of the new DFI that it would not stick to specific investments throughout the life of the institution.

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### *Preventing Misallocation of Funds*

Another crucial learning from old DFIs is the risk of misallocation of funds either subscribing to political influences or personal favouritism. Although this is not the right time for the new DFI to address this issue perhaps recognition of such outcome is the need of the hour. It is critical to underline that the need for low-cost finance for infrastructure development is huge.

### *Implementing Atmanirbhar Bharat Abhiyan*

Now that India has embarked upon Atmanirbhar Bharat Abhiyan, there would be need for a lot of innovations, new technologies, huge risky finance, among others. In that perspective, the new DFI that is being envisaged should support the Atmanirbhar Bharat initiative. Since it is expected to be fully funded by the Government of India with 100 per cent stake, financing model should focus on provision of low cost and long term infrastructure finance with an aim to fulfil the goals and targets of the Atmanirbhar Bharat Abhiyan.

### *Ensuring Good Market Ratings*

A lot of foreign funds are willing to come into India for investment in various infrastructure sectors. However, it would *prima facie* require credible guarantee. If the DFI itself is credible, its guarantee would itself be credible. In that sense, maintaining

good rating, e.g. AAA-plus for the new DFI would be favourable for raising resources in the international capital market.

### ***Enabling Framework for Contract Enforcement***

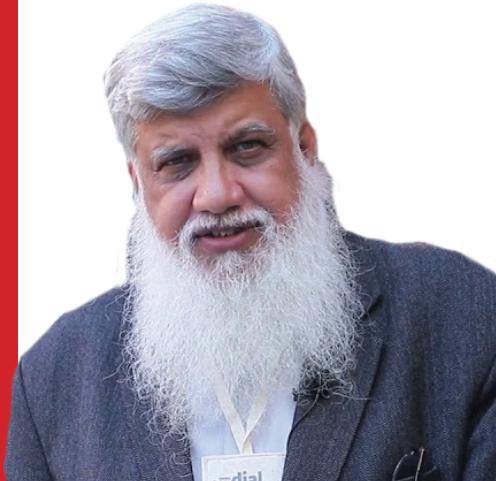
Very often, contract enforcement and renegotiation in case of Public Private Partnership (PPP) projects is a quite contentious area of policy. The Insolvency and Bankruptcy Code (IBC) which is already in force in India can pave the way for quick enforcement of contracts and facilitates smooth exits and take-overs. That kind of business environment where contractual liabilities are not just honoured but executed briskly should assume importance.



# New DFI: Old Basics and New Opportunities

Senior Fellow, Centre for Policy Research (CPR), New Delhi.

**Partha Mukhopadhyay**



India has announced creating a new-generation Development Finance Institution (DFI) to fill the ever-growing infrastructure financing gap. While the intent is clear, i.e. to kick-start the infrastructure development agenda and fuel the growth momentum in the country, there are certain important aspects, both strategic and operational, which need to be considered.

## **Success Mantra**

While the success of the new DFI would rest on a host of factors, the following three are possible focus areas for policy makers so as to ensure that the new DFI model becomes financially viable and, more importantly, effective in channelling resources to infrastructure.

## **Leveraging Low-Cost International Funds**

One of the reasons that IDFC had to transform itself to IDFC First Bank is that it was unable to compete with the access to low cost finance that banks had. At present, banks are actually better placed domestically in India to access low cost funds, although they face the problem of a maturity mismatch. But if one is willing to accept the maturity mismatch (for example, by limiting exposure to a certain fraction, comfortably above the minimum level of, short-term deposits), the kind of savings available with domestic banks would out-price institutional finance. But, currently, the international investment environment is favourable as access to low cost funds has increased

in recent years. This phase may not be long-lived but certainly the current situation is conducive for accessing funds. So, one important issue for the new DFI is to understand the extent to which it would be able to access international funds at a low cost.

Typically, international funding involves several challenges. Firstly, international investors are reluctant to take on country risk, which could possibly be handled, and the project risk, which is much harder. In that context, a key role for the new DFI would lie in structuring the infrastructure projects. It is likely that the projects would need funding by the domestic financial institutions in the beginning and then end up accessing much lower refinance and even international finance at lower cost, once the risks of the implementation phase is over.

Usually, rating is an issue for funding infrastructure projects. However, given the kind of global savings at this time, the risk spread across the rating categories is quite compressed, i.e. the value of actually moving up the rating scale, in terms of less expensive funds, is lower than what it used to be earlier. The excess liquidity reduces the penalty of a lower rating, though minimal rating thresholds would still be needed for regulated investors like pension funds.

### Ethical Investing

The second issue with respect to international finance is that there are now substantial resources available for ethical investing, such as ESG investing, sustainable finance, green finance and others. Ethical investing does not necessarily mean investing in solar power plants and similar projects. Resources could be also possibly raised for the Pradhan Mantri Awas Yojana or the Har Ghar Jal kind of programmes as well, which have very strong social impacts. In that sense, packaging these kinds of programmes to suit the mandates of ethical finance would be critical.

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In sum, the new DFI could play a critical role in structuring the projects and programmes so as to access the patient low-cost capital, currently available in the international market.

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A large amount of this type of ethical investment originates from patient long-term institutional investors like pension funds, insurance funds, etc. Moreover, they may accept returns lower than the prevailing market rates, trading off the lower return against the assurance that the projects will appropriately meet their investing guidelines.

In sum, the new DFI could play a critical role in structuring the projects and programmes so as to access the patient low-cost capital, currently available in the international market. In this, they would only be joining the vanguard of global investing. For example, J. P. Morgan has established a development finance institution in early 2020 to link investors with the development projects in different countries. These kinds of ethical investing is an attractive proposition as they may even breach the sovereign floor, i.e. secure project-specific funds at a lower cost than general foreign borrowing by the sovereign. Domestic economic goals can thus be quite strongly aligned with this kind of ethical investing structure.

## **Securitisation of Cash Flows**

Given high perceived risks associated with infrastructure projects, securitisation of cash flows is another effective tool. This approach has already been experimented in the highway sector to some extent, with TOT (tolling, operation, and transfer) concessions. With extensive use of FastTag including its mandatory use in toll collection, the revenue flows on toll roads have become much more transparent. Similarly, within the Powergrid Corporation, the revenue flows, which are dependent on power flows are also quite transparent. In this situation, writing financial instruments based on particular transparent revenue flows becomes much less risky, because people can actually see the revenue coming in and are not worried that the operator is not reporting the full revenue that is realised. Further, this would be seen as relatively safe revenue flows, even as there would be fluctuations from year to year. The instruments can be tranches so that one set of bonds can be based on the first 50 per cent (say) of the revenue. This will be attractive to people who are looking for very safe investments, since it is unlikely that the revenues will fall so much that the bond cannot be serviced. Thus, the new DFI can help a variety of network operators like highways, transmission lines, utilities, etc in securitising their revenue streams and raise money for future investments.

Domestically, for example, the pension and insurance markets are becoming more mature and as their respective regulators, viz. Pension Fund Regulatory and Development Authority (PFRDA) and Insurance Regulatory and Development Authority (IRDA) gain the confidence of investors, significant level of investment will come to the insurance and pension sectors. However,

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**Appropriate projects not only cover ethical investing but could also include those that have been structured in a manner to effectively address project risk, exchange risk and country risk in order to make the instruments attractive for investment by different classes of investors.**

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direct investments by the insurance and pension funds into infrastructure projects, which most sensible regulators find excessively risky, will only be possible if the projects and associated instruments are structured to reflect different levels of risk. To reiterate, structuring of projects with appropriate amount of risk is the key. For example, the hybrid annuity structure used by NHAI for highway projects and NMCG for sewerage treatment plants is definitely less risky than a pure toll-based project. Similarly, the least present value of revenue (LPVR) or other kinds of structures can be designed going forward. In this space, the new institution could play a role in structuring finance, so as to reduce the risk profile for certain instruments, to a level where pension and insurance regulators consider it permissible.

### **Institutional Form of the DFI**

In doing justice to these three important functions, the proposed DFI, would be much less like a bank and much more akin to a dealmaker. Basically, it would connect the inexpensive sources of international and domestic finance to appropriate projects. Appropriate projects not only cover ethical investing but could also include those that have been structured in a manner to effectively address project risk, exchange risk and country risk in order to make the instruments attractive for investment by different classes of investors. Further, restructuring these cash flows at various stages, especially as the projects mature would be important. In broad terms, the initial risks during construction are absorbed by local financial institutions that have both the domain knowledge of the sector and of the equity investors, in terms of the credibility of the promoters. In subsequent phases, in view of duration mismatch and short-term finance available with domestic banks, the projects can be refinanced into a broader

market going forward, which can include both international and domestic institutions.

It is, therefore, useful to visualise the new DFI as a small knowledge centric institution, small in terms of staffing and relatively light on capital, but network heavy – well connected to potential international and domestic investors and financiers – and most importantly, knowledge-centric, relentlessly focused on appropriately structuring and allocating risk and matching the nature of the projects to risk and sector appetite of investors. It should be essentially be a private sector entity like the original IDFC and current NIIF. While access to international funding at scale may need some sort of backstopping by the government, this should be largely at the level of projects or programmes (groups of bundled projects, like a set of highway projects) financed on the basis of user fees, like revenue loss guarantees, etc. This will reduce the need for government equity in the DFI itself.

In sum, the new DFI needs to be an agile, connected and smart institution. It will only be successful if one stops fixating on the balance sheet and starts focusing on the value-added. With such an approach, its possibilities are boundless.



# Social Imperatives of Development Finance Institution in India

Visiting Fellow, RIS and Professor, O. P. Jindal Global University.

**Milindo Chakrabarti**



## Value for Money vs. Value for Society

As development finance institutions (DFIs) existed in India before and contributed to industrial financing till early 1990s, the response to the idea of creating a new development finance institution in the union budget 2021-2022 has received mixed response. In this context, it is imperative to look at the proposed DFI from the policy perspective. Looking at the history of DFIs in India, it has been observed that there were some good numbers of DFIs in India, which were either shut down or converted into universal banking system, taking away their role as the Development Finance Institutions. It prompts us to look into the theoretical or conceptual framework behind such a policy change and how the new conceptual framework is applicable in appreciating the new policy. This has to be situated in view of the new reality that from 1991 onwards the developmental paradigm across the globe as well as in India has shifted towards the realization that India is not a developed country because markets are missing. So, it was a case of missing market, and the missing markets were tended to be filled up with new ways of doing it. That perhaps, was reflected in the so-called liberalisation, Privatisation and Globalisation (LPG) and other components of that transition that were introduced even before 1991 in terms of structural adjustment program. So, the developing countries were made to feel and made to accept that the problem lies in terms of missing market. Those was perhaps the reason for the country that time to focus on

creating market and shrink the role of the state as much as possible. Consequently, a greater role for the private players was envisaged in different sectors of the economy.

Besides general DFIs there were a few sectoral DFIs as well. All of them had unfortunate fate in that period. But now, with concerns looming large all over the world, there is a greater realisation that missing markets and replacing them with markets, perhaps are not going to solve the problem of development. That is the perhaps the motivation for establishing the DFIs again. In fact, this process was initiated a long time back involving several steps including the existing banks changed or developed new business models, even considering some new DFIs.

Among many other factors, the fundamental reason behind this change is the recognition of the difference in value for money in the spectrum of finance and value for society from the development perspective. Perhaps the financial system that has been in practice for long was obsessed with filling up the missing markets and more concerned with value for money than value for society. The reality is that new DFIs are going to be created all across the globe as an attempt to create a balance between value for money and value for society. If there is a conflict between the two, more emphasis and weightage should be given to value for society, which is consistent with the path the world has chosen by embarking on SDGs. Although SDGs do not explicitly emphasise the value for money aspect, those goals favour a developmental process that would make human lives sustainable and add value to the social system.

### **Key Operational Focus**

India and other developing countries face several developmental challenges which require judicious use of public resources. In line with the larger developmental objectives and social imperatives of

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The reality is that new DFIs are going to be created all across the globe as an attempt to create a balance between value for money and value for society.

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development finance, the following three operational focus areas may be considered by the proposed new DFI.

### ***Disinvestment Proceeds as Funding Base***

In India a lot of public assets are getting disinvested or monetised. Unless properly utilised, the proceeds of monetisation would be wastage of precious resources. In that light, the policy makers can consider the proceeds from monetization of the public assets forming the fundamental capital base of the new DFI. As mentioned above, if the proceeds of these disinvestment proceeds are used for consumption requirement, then the whole purpose of disinvestment will be defeated and the economy would end up in dissaving which is not a positive signal for the economy.

### ***Coalition of Southern DFIs***

In the spirit of promoting South-South Cooperation, the national development banks located in the southern countries can form a federation of Development Finance Institutions among them. This would help them identify common priority sectors of funding and joint pooling of resources.

### ***Holistic Approach towards Development***

Both ‘market failure’ and ‘state failure’ could have adverse implications for the economy and society. Market forces have been perceived as superior to state presence in economic sectors. Now, again the cost of market failure is being recognised especially after three decades of market economy. Markets have not only failed but also resulted in problems like unemployment, increasing inequality, environmental degradation, ecological issues, even pandemic. These problems are widespread regardless of the level of development, i.e. developed or developing. Since development does not necessarily mean only economic growth, the new DFI has to take care of social, political, ecological, and environmental problems as well with underlying focus on the value for society principle.

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The focus of the work programme of RIS is to promote South-South Cooperation and collaborate with developing countries in multilateral negotiations in various forums. RIS is engaged across inter-governmental processes of several regional economic cooperation initiatives. Through its intensive network of think tanks, RIS seeks to strengthen policy coherence on international economic issues and the development partnership canvas.

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