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Mains Practice Questions

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Q. Development Financial Institutions (DFIs) are critical intermediaries for channeling long-term finance required for infrastructure and realizing higher economic growth. Discuss.

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Approach

- Start the answer by briefly introducing the background & functioning of Development Financial Institutions (DFIs).
- Discuss the importance of DFIs India.
- Conclude Suitably.

Introduction

Development financial institutions provide long-term credit for capital-intensive investments spread over a long period and low yielding rates of return, such as urban infrastructure, mining and heavy industry, and irrigation systems.

In India various DFI existed in the pre-1991 era, but they were converted into banks after the recommendation of the Narshiman committee (1991-92). However, given the infrastructure deficit in India, there is a need to revive the DFIs.

Body

Importance of DFIs India

- **Infrastructure Building:** Inadequate and inefficient infrastructure leads to high transaction costs, which in turn stunts an economy's growth potential.
Therefore, DFIs makes sense as the Centre government envisages mobilizing nearly ₹100 lakh crore for the ambitious National Infrastructure Pipeline.
- **Lack of Finance for Infrastructure:** Although India has a long-term debt market for the government securities and corporate bonds cut, it is still out of reach of retail investors and unable to meet the large infrastructure financing needs.
- **Economic Crisis Triggered By Covid-19 Pandemic:** The Covid-19 pandemic has exacerbated inequality, the poverty gap, unemployment, and the economy's slowing down.
Thus, infrastructure building through DFIs can help in quick economic recovery.
- **International Precedent:** Irrespective of the level of development, countries across the world have set up development banks to finance key infrastructure and manufacturing projects.
For instance, the European Investment Bank (EIB) acts like a DFI for Europe.

Conclusion

For a developing country like India, it is desirable that the new DFI remains viable and sustainable to be able to cater to the long-term development financing requirements.