

Publish Date: 2021-03-17

Cabinet approves bill to set up Development Finance Institution

To be started at an initial paid-up capital of Rs 20,000 crores, the proposed DFI will also receive an additional grant of Rs 5,000 crores from the government

In a move that could speed-up the process of infrastructure development in India, the union cabinet, on March 16, 2021, approved a bill to set up a Development Finance Institution (DFI), to offer long-term capital support for the sector.

“The Cabinet has cleared this bill, through which we will have an institution and institutional arrangement, which will help in increasing long-term funds,” finance minister (FM) Nirmala Sitharaman said, in a press briefing after the cabinet meeting.

To be started at an initial paid-up capital of Rs 20,000 crores, the proposed DFI will also receive an additional grant of Rs 5,000 crores from the government. The institution will raise funds from the pension and insurance sectors, for investment in new projects, while also offering tax incentives – the centre will provide a 10-year tax exemption to funds investing in the DFI, to attract long-term players. To lower the cost of funds from the DFI, the government will also provide the institution with some securities.

See also: Budget 2021: FM gives a boost to infrastructure development

“This decision has been taken by the government, to increase spending on roads, ports and energy and other infrastructure projects, which were pending for completion. It will speed up major infrastructure projects and give a push to the real estate sector in a big way. This is positive news for the real estate industry and all other allied industries,” said Praseon Chauhan, founder and CEO, BlackOpal Group.

The cabinet’s approval, follows an announcement made by the FM on February 1, 2021, in her Union Budget 2021 speech, in which she spoke of setting up the DFI. The industry lauded the announcement, stating that the DFI could go a long way in securing long-term debt financing for the sector.

“The DFI is expected to provide ease of access to finance for infrastructure projects and will aid the developers, who are finding it difficult to raise finance with long gestation and tenures, from the banks,” said **Vipula Sharma** and **Nirav Shah** of **Brickwork Ratings**.

About 7,000 projects have been identified under the National Infrastructure Pipeline (NIP) with a projected investment of Rs 111 lakh crores during 2018-19 to 2024-25. Work on 1,766 projects has started.

The DFI will initially be owned by the government but it will gradually lower its stake in the institution to 26%. Also, half the directors of the DFI will be non-official.