

**BIRTH, LIFE AND DEATH OF
DEVELOPMENT FINANCE INSTITUTIONS IN INDIA**

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Abstract

This essay traces the evolution of development finance institutions in India from conception and birth, soon after independence, through infancy to adulthood and maturity, followed by a winding down at the turn of the century and closure in the early 2000s. It highlights their macroeconomic significance, and their critical role in the financing of industrialization from the 1970s to the 1990s, to analyze the factors underlying their decline. Their contribution to the provision of industrial finance was essential and innovative. Some of it served a strategic purpose in kick-starting manufacturing activities. Yet, there were serious errors of omission, such as exclusion of infrastructure, absence of coordination with industrial policy, and missing institutional control mechanisms. Instead of introducing correctives, the government shut down development banks, which was the most serious error of commission. These successes and failures carry lessons for other countries, just as India has as much to learn, about the continuing importance of finance for investment in manufacturing, from countries that have done better at industrialization.