

INDIAN FINANCIAL SYSTEM

M. Com Semester II

Development Banks

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What is a development bank:

- A financial institution concerned with providing all types of financial assistance (medium as well as long term) to business units, in the form of loans, underwriting, investment and guarantee operations, and promotional activities —economic development in general, and industrial development, in particular.

-A development bank is a development- oriented bank.

Objectives of Development banks:

- To serve as an agent of development in various sectors.
- To accelerate the growth of the economy.
- To allocate resources to high priority areas.
- To foster rapid industrialization.
- To develop entrepreneurial skills.
- To promote the development of rural areas.

Important Development Banks in India

- Industrial Finance Corporation of India ([IFCI](#)), 1948
- [ICICI BANK LIMITED](#), 1955
- Industrial Development of Bank of India Bank /[IDBI BANK](#), 1964
- State Financial Corporation ([SFC](#)), 1951
- Small Industries Development Bank of India ([SIDBI](#)), 1990
- Export Import Bank of India ([EXIM](#)), 1982
- National Bank for Agriculture and Rural Development ([NABARD](#)), 1982.

FUNCTIONS OF DEVELOPMENT BANKS

- Provide long term loans.
- Accept deposits from commercial banks, Central and State governments.
- Provide refinancing facilities to commercial banks.
- Play an important role in hire purchase, lease finance, housing loan.
- Central and State governments contribute capital.
- They promote economic growth of the country.

Functions of Development Banks

1. To Promote and Develop **Small-Scale Industries (SSI)**.

2. To Finance the Development of **Housing Sector**.

3. To Develop the **Large-Scale Industries (LSI)**.

4. To help in **Agricultural and Rural Development**.

5. To enhance the **Foreign Trade** of India.

6. To help to Review (Cure) **Sick Industrial Units**.

7. To Encourage Development of **Indian Entrepreneurs**.

8. To Promote Economic Activities in **Backward Regions**.

9. To Assist in the Growth of **Capital Markets**.

Small Scale Industries (SSI)

Development banks play an important role in the promotion and development of the small-scale sector. Government of India (GOI) started Small [industries](#) Development Bank of India (SIDBI) to provide medium and long-term loans to Small Scale Industries (SSI) units. SIDBI provides direct project finance, and equipment finance to SSI units. It also refinances banks and financial institutions that provide seed [capital](#), equipment finance, etc., to SSI units.

Development of Housing Sector

Development banks provide [finance](#) for the development of the housing sector. GOI started the National Housing Bank (NHB) in 1988. NHB promotes the housing sector in the following ways:

- It promotes and develops housing and financial institutions.
- It refinances banks and financial institutions that provide credit to the housing sector.

Large Scale Industries

Development banks promote and develop large-scale industries. Development financial institutions like IDBI, IFCI, etc., provide medium and long-term finance to the corporate sector. They provide [merchant banking](#) services, such as preparing project reports, doing feasibility studies, advising on location of a project, and so on.

Agriculture and Rural Development

Development banks like National Bank for Agriculture & Rural Development (NABARD) helps in the development of agriculture. NABARD started in 1982 to provide refinance to banks, which provide credit to the agriculture sector and also for rural development activities. It coordinates the working of all financial institutions that provide credit to agriculture and rural development. It also provides training to agricultural banks and helps to conduct agricultural research.

IFCI (Industrial Finance Corporation of India):

- It is a [Non-Banking Finance Company](#) in the public sector.
- Established in 1948 as a statutory corporation,
- It is currently a company listed on [BSE](#) and [NSE](#). IFCI has seven subsidiaries and one associate.
- It provides financial support for the diversified growth of Industries across the spectrum. The financing activities cover various kinds of projects such as airports, roads, telecom, power, real estate, manufacturing, services sector and such other allied industries.

ICICI BANK LIMITED

- Was established as a wholly-owned subsidiary of **Industrial Credit and Investment Corporation of India (ICICI) an Indian Financial Institution** in 1994.

-The bank was founded as the Industrial Credit and Investment Corporation of India Bank, before it changed its name to the abbreviated ICICI Bank. The parent company was later merged with the bank.

-**ICICI Bank Limited** is an [Indian](#) multinational [banking](#) and [financial services](#) company headquartered in [Mumbai, Maharashtra](#) with its registered office in [Vadodara, Gujarat](#). As of 2018, ICICI Bank is the second largest bank in India in terms of assets and [market capitalisation](#).

-ICICI Bank is one of the [Big Four banks](#) of India

- The bank has a network of 5,275 branches and 15,589 ATMs across India and has a presence in 17 countries including India.

The ICICI Bank performs the following functions:

- ICICI Bank provides finance in the form of long term or medium term loans or equity participation.
- Sponsorship and underwriting on new issues of shares and other securities.
- Guarantees loan from other private investment sources.
- Provides funding for reinvestment by increasing investment rapidly.
- It offers a wide range of banking products and financial services for corporate and retail customers through a variety of delivery channels and specialised subsidiaries in the areas of investment banking, life, non-life insurance, venture capital and asset management.

Industrial Development Bank of India/ IDBI Bank Limited

-Established in 1964 by an Act to provide credit and other financial facilities for the development of the fledgling Indian industry.

-It is operated as a subsidiary of Reserve Bank of India and later RBI has transferred it to Government of India.

-On June 29, 2018 [Life Insurance Corporation of India](#) (LIC) has got a technical go-ahead from Insurance Regulatory and Development Authority of India (IRDAI) to increase stake in IDBI Bank up to 51%. LIC completed acquisition of 51% controlling stake on January 21, 2019.

- Re-categorized as a Private Sector Bank for regulatory purposes with effect from January 21, 2019.

State Financial Corporations (SFCs):

- They are an integral part of institutional finance structure of a country. In 1951 the State Financial Corporations Act was passed.
- First Corporation by Punjab Government was set up in 1953.
- At present there are 18 such corporations.
- SFC helps in ensuring balanced regional development, higher investment, more employment generation and broad ownership of various industries.
- SFC provides loans mainly for the acquisition of fixed assets like land, building, plant, and machinery.

Small industrial Development Bank of India (SIDBI):

- It was established on April 2, 1990, and operates under the Department of Financial Services, Government of India.
- Headquartered at [Lucknow](#) and having its offices all over the country.
- Its purpose is to provide refinance facilities and short term lending to industries, and serves as the principal financial institution for the Micro, Small and Medium Enterprises (MSME) sector.
- It is active in the development of Micro Finance Institutions through SIDBI Foundation for Micro Credit, and assists in extending microfinance through the Micro Finance Institution (MFI) route.
- Its promotion & development program focuses on rural enterprises promotion and entrepreneurship development.

Export–Import Bank of India

- It is a finance institution in India, established in 1982 under Export-Import Bank of India Act 1981.

-EXIM Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment.

Functions of the EXIM Bank are:

1. Financing of export and import of goods and services both of India and of outside India.
2. Providing finance for joint ventures in foreign countries.
3. Undertaking merchant banking functions of companies engaged in foreign trade.
4. Providing technical and administrative assistance to the parties engaged in export and import business.

National Bank for Agriculture and Rural Development (NABARD) 12 July 1982

- Apex [Development Financial Institution](#) in India.
- The Bank has been entrusted with "matters concerning [Policy Planning](#) and Operations in the field of credit for [Agriculture](#) and other [Economic](#) activities in Rural areas in India".
- NABARD is active in developing [Financial Inclusion](#) policy.
- It undertakes [monitoring and evaluation](#) of projects refinanced by it.
- NABARD refinances the financial institutions which finances the rural sector.
- NABARD partakes in development of institutions which help the rural economy.
- NABARD also keeps a check on its client institutes.
- It regulates the institutions which provide financial help to the rural economy.

Role of development banks in financial system

