

ORIGIN OF DEVELOPMENT BANKS IN INDIA

Ms. Rakhi

¹(Research Scholar M.Com, Faridabad, India, rbhati4547@gmail.com)

ABSTRACT-The purpose of this research paper is to evaluate the overall scenario of development bank in India. The main focus of this paper is on the evolution and functioning of principal development banks which plays crucial role in economic development in India. Development banks give strengthen to industries by providing finance at subsidize rate.

Keywords- development bank, History, India, Growth

INTRODUCTION– development bank took birth in India after independence. It had been seen that commercial banks eligible to grant only short term credit to industries and agriculture for their working capital requirement . after recognized the need of such institution which provide long term finance to industrial and agriculture sector, government of India established a number of institutions since independence to provide long term finance to industries and agriculture such as IFCI, SFC, IDBI, ICICI provide credit to industrial sector, NABARD bank is an apex institute which provide finance to agricultural sector and EXIM bank is specialized in international trade.

LITERATURE REVIEW-

Madhu and Vijay (2018) in his paper discussed the concept of development banking originated during the post second world war period. Many countries of Europe were in the stage of industrial development and special financial institutions known as development banks were set up to foster industrial growth. In the US, development finance institution came into existence for special purpose such as economic, rehabilitation and filling gap in traditional financing pattern. Not only developed countries, but several underdeveloped countries in Asia, Africa and Latin America establish special financial institution to fasten the pace of industrialization and growth.

N.Pragash(2016) , in his paper about, investigate the role of development banking in current market trend. The main focus of this research is on Indian economic scenario and development bank in India.

R.Bandyapadhyay(1978), define development banking as practiced by major Indian commercial banks since 1969. It then goes on to discuss how or can be useful in tackling problems of development banking. Planning, operational and organizational

design problem in relation to development banking are discussed. Potential area of application of or in each problem class are also identified. The paper then summarizes the experience gained so far and recommends the action to be taken for the more effective application of or in developing economics.

MEANING OF DEVELOPMENT BANK

Development bank is specialized financial institution which provide financial assistance (medium and long term) to industrial and agricultural sector for their development.

FEATURE OF DEVELOPMENT BANK

- 1) It is multipurpose financial institution which engaged not only in financing activities but also engaged in other activities like investment, guarantee and underwriting etc.
- 2) It's prime object is to promote economic development by promoting investment activities and entrepreneurial activities.
- 3) It does not accept deposit from public like commercial bank.
- 4) It provide medium and long term finance to private and public business unit for development purpose.

HISTORY OF DEVELOPMENT BANK IN INDIA

Origin of development bank in India may be traced with the establishment of IFCI in 1948. This institution was set up to provide medium and long term finance to industrial unit . But with single institution, it was not possible to cater all needs of different states. Government felt the need of development financial institution at state level and passed state financial corporation(SFC) act in 1951. At present, 18 SFCs are working (including Tamil nadu industrial investment corporation set up

in 1949 under the company act 1949). after that, at nation level, NSIC(national small industrial corporation) was set up in 1955 to promote small scale industry and creation of ICICI in 1955 as a public limited company without any direct equity participation from govt. or RBI.

PRINCIPAL DEVELOPMENT BANK IN INDIA

Some of the principal financial institutions are explained here.

INDUSTRIAL FINANCIAL CORPORATION OF INDIA(IFCI)- government of India established IFCI on 1 July, 1948 as first development bank to cater the long-term financial needs of industrial sector. In 1993, constitution of IFCI was changed from a statutory corporation to a company (under Indian company act 1956). Subsequently, the name of the company was also changed to IFCI Limited. IFCI is also a systemically important non-deposit taking non-banking finance company (NBFC-ND-SI), registered with RBI. Primary business of it is to provide long and medium term finance but now it has diversified into range of other businesses including broking, venture capital, financial advisory, depository services, factoring etc. IFCI subsidiary IFCI venture capital funds Ltd. Is the investment manager of the fund. Govt. of india has also provided Rs.200 crore to IFCI Ltd. In march 2015 under the scheme of credit enhancement guarantee for scheduled caste entrepreneurs for providing guarantee to bank against loan to young and start-up entrepreneurs belonging to schedule caste.

INDUSTRIAL DEVELOPMENT BANK OF INDIA(IDBI)- IDBI was established in 1964 under IDBI act 1964 as wholly owned subsidiary of RBI to provide credit and other facility for development of industry. In 1976, ownership of IDBI transferred to govt. of India. But now, LIC acquire majority shareholding of IDBI on Jan 21, 2019 and RBI declares it as a private sector bank for regulatory purpose. It is a principal financial institution for coordinating the activities of institutions engaged in financing, promoting or development of industries. It's headquarter situated in Mumbai.

SMALL INDUSTRIAL DEVELOPMENT BANK OF INDIA(SIDBI)- SIDBI was set up on April 2,1990 through the act of parliament. Initially, it was wholly owned subsidiary of IDBI. But now, there are many stakeholders, out of which SBI is a largest individual shareholder with holding 16.73% shares followed by GOI and LIC. SIDBI has been supporting various GOI schemes like 'make in India', 'startup India', 'MUDRA'

and so on. In order to boost the make in India program of GOI , SIDBI launch " SIDBI make in India soft loan fund for MSME(SMILE).It developed www.udyamimitra.in which is universal loan market place offering MUDRA loan, startup India loan and MAME loan.

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT(NABARD)-RBI constitute a committee to review arrangements for institutional credit for agriculture and rural development(CRAFICARD) headed by B. shivaraman in 1979. The committee recommended the formation of NABARD as national level organization. Subsequently, NABARD act 1981 was passed by parliament and national bank came into existence on 12 July, 1982. Initially, paid up capital of bank was 100 cr. Which was equally subscribe by GOI and RBI. It replace the agriculture credit department(ACD), rural planning and credit cell(RPCC) of RBI and agricultural refinance and development corporation(ARDC).

The banking regulation act 1949 empowers NABARD to undertake the inspection of RRB and cooperative bank(other than primary cooperative bank). It act as an apex institution concerned with policy, planning and operation in field of agriculture credit and other economic activity in rural area. Its head office is located at Mumbai and regional office is headed by chief general manager. RBI sell entire stake in NABARD in phased manner to Govt.

IMPORT-EXPORT BANK OF INDIA(EXIM)-during 1978-79, the ministry of finance convened the meeting to discuss the proposal regarding setting up of an export-import bank. In this meeting, it was agreed that there should be a separate institution that would be able to devote concentration attention to the needs of exporters and explore new methods for augmenting credit on reasonable term. Subsequently, the export-import bank of India act was passed in 1981 and bank commenced its operation in March 1982.

The operation of bank are governed by a board of director. The board of director consist of a chairman, a managing directors, one director, two deputy managing director, one director each nominated by reserve bank of India, IDBI bank Ltd. And ECGC Ltd. And not more than 12 director nominated by central govt. as on March 2019, bank's total paid up capital of Rs.123.59 billion and reserve of Rs. 23.14 billion, aggregating rs.146.73 billion.

New initiative of EXIM- Export leading index(ELI) is a new initiative to track and forecast the movement in India's export . the ELI drive from the in-house model and forecast the growth in total merchandise and non oil export of the country, on quarterly bases, based on several external and domestic factors that could impact export of country.

NATIONAL HOUSING BANK(NHB)- It was established on July 1988 under NHB act, 1987 as wholly owned entity of RBI on recommendation of Dr. Rangarajan committee. But, RBI divest 100% shareholding in NHB on March19, 2019. Now it is wholly owned entity of govt. of India. NHB established with objectives to promote a sound, healthy, viable and cost effective housing finance system, to cater all segments needs of population, to make housing credit more affordable , to regulate activities of housing finances etc.

CONCLUSION-development banks play a vital role in economic development through providing assistance to small scale industries in developing country. Development banks bring changes in their functioning and position according to changing circumstances. They design their products in such manner that cater all needs of different segments as well as they launch new initiatives and schemes which benefitted to poor segment of country. Since Independence, they have contributed more in industrialization.

REFERENCE-

- 1) Mr.N.Pragash(2016).” Impact of the development banking in current trend”. IJIR, vol-2,issue3,pages55-59.
- 2) Madhu kumar and vijay Prasad(2018).”performance evaluation of development financial institution in india”. IJMS. Vol-v,issue-1(4),pages 67-72.
- 3) Rajkumar, K. prabhakar(2005).”A study on role of NABARD in providing refinance for agriculture and rural development in india with special reference Tamil nadu”.
- 4) <http://financialservices.gov.in>
- 5) Rakesh kumar gupta(1993) “development bank and industrial development”. Deep and deep publication.
- 6) Annual report of SIDBI F.Y.2018-19.
- 7) Annual report of EXIM F.Y. 2018-19.