

ROLE AND FUNCTIONS OF DEVELOPMENTS BANKS

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Abstract: Development banks are those which have been set up mainly to provide infrastructure facilities and other promoting facilities for industrial growth of the country. These banks are those financial institutions that provide funds and financial assistance to new and upcoming business enterprise. Development banks like IDBI, IFCI, ICICI, IIBI provide long term and medium terms funds. And SIDBI provide fund basically for small scale sectors. NABARD is an apex development bank for extending support to rural areas. The purpose of this paper is to elaborate the different function, activities and financial resources of different development banks.

Index Terms - MGNREGA, Credit Syndication, Refinance, MSME.

I. INTRODUCTION

DEVELOPMENT BANKS: development banks are specified banks which are established for the development and stabilization of particular sectors such as agriculture, small scale, finance sectors etc. some of the specialized and development banks are as follows:

1. IFCI (INDUSTRIAL FINANCE CORPORATION OF INDIA)

- Established in 1 July, 1948.
- Headquarter in New Delhi.
- Original authorized capital of IFCI was 100 cr. But later increased to 259 core.
- Aim to provide financial assistance (medium & long term) to large scale industries.

DEVELOPMENT OF IFCI

- ✓ India's first development bank called industrial finance corporation of India.
- ✓ IFCI was established under IFCI Act 1948.
- ✓ Until the establishment of ICICI in 1955, IFCI was solely responsible for implementation of government's industry policy implementations.
- ✓ In 1993, it was reconstituted as company under Indian Companies Act, 1956 to impart higher degree of operational flexibility.
- ✓ IFCI was allowed to access capital market directly.
- ✓ In 1986 IFCI Act was amended in order to make it possible to provide assistance, inter alia, for medical, health or other allied services.
- ✓ It was renamed as IFCI limited with effect from October, 1999.
- ✓ IFCI will soon merge with PNB.

ACTIVITIES OF IFCI

1. Soft loan assistance
2. Entrepreneur development
3. Industrial development in backward areas.
4. Management development- to improve professional management, IFCI sponsored MDI (management development institute) in 1973 and established development banking center.
5. Established risk capital foundation in 1976.
6. RGVN (Rashtriya Gramin Vikas Nidhi) promoted by IFCI.
7. Subsidized consultancy:
 - small entrepreneur for meeting the cost of projects.
 - promoting ancillary industries.
 - to do the market research.

- reviving sick units.
- Implementing modernization.
- controlling pollution in factories.

7. Sequence for major sources of funds for IFCI limited (during the year 2011-2012) are

- (i) borrowing in rupees
- (ii) reserve & surplus
- (iii) share capital
- (iv) borrowing in foreign currency.

FUNCTIONS OF IFCI

1. Granting loans and advances to industrial concerns repayable within 25 years.
2. **Underwriting** the same of industrial securities disposed of within 7 years
3. Subscribing directly to shares and debentures of **public limited companies**.
4. Guaranteeing of deferred payments for the purchase of capital goods from abroad or within India.
5. Acting as agent of central government or the world bank in respect of loans sanctioned to the industrial concerns.
6. Facilities and services provided by IFCI can fall under: a) project finance, b) financial services, c) promotional services.

FINANCIAL RESOURCES

- Ownership capital
- Borrowing from RBI.
- Borrowing from central government.
- Borrowing from world bank.
- From the market by issue of bonds.

2. IDBI (INDUSTRIAL DEVELOPMENT BANK OF INDIA)

- Established on 1 July, 1964.
- Headquarter in Mumbai.
- Authorized capital of 3,000 crores.
- Aim: IDBI was established as **principal** financial institution for coordinating the activities of institutions engaged in financing, promoting and developing industries in India.
- Also called apex development bank.

DEVELOPMENT OF IDBI

- ✓ Established in 1964 as wholly owned subsidiary of RBI.
- ✓ Became independent in 1976.
- ✓ Considered as government of India owned bank.
- ✓ 10th largest development bank in world in reach.
- ✓ Regarded as public financial institution.
- ✓ Continued to serve as DFI for 40 years till 2004 when it transformed into a bank, under Repeal Act 2003.

Narsimham committee (1991) – suggested that IDBI should give up its direct financing function and perform only promotional apex and refinancing role in respect of other like SFCs and SIDBI.

SUBSIDIARIES OF IDBI

- IDBI capital market services ltd. (ICMS)
- IDBI asset management ltd. (IAML)

- IDBI Intech Ltd. (IIL)
- IDBI mutual fund trustee co. ltd (IMTCL)
- IDBI Trusteeship services ltd. (ITSL)

ROLE OF IDBI

1. **DIRECT ASSISTANCE:**
 - Grants loans and advances to industries.
 - Guarantees loans raised by industries in open market from co-operative & other schedule banks.
2. **INDIRECT ASSISTANCE:**
 - Provide refinance facilities to IFCI, SFC & other financial institutions approved by government.
 - Subscribe to shares and bonds of financial institutions and thereby provide supplementary resources.
3. **MAJOR ACTIVITY:** Confined to financing, developmental, co-ordination and promotional functions.
4. IDBI is leader, coordinator and innovator in the field of industrial financing in our country.
5. Planning, promoting and developing industries with a view to fill gaps in the industrial structure by conceiving, preparing and floating new projects.
6. IDBI has shown particular interest in **development of SSI** by-
 - Setting up small industries development fund (SIDF) in 1986.
 - National equity fund scheme (NEFS), 1988.
 - Voluntary executive corporation cell (VECC) for providing support in nature of equity to tiny & SSI engaged in manufacturing, cost not exceeding Rs. 5 lakhs.
 - This scheme is administrated by IDBI through nationalized banks.
7. IDBI has introduced **single window assistance scheme** for grant of term loans and working capital assistance to tiny and SSI.
8. As per data available, IDBI has extended about 1/3 of total assistance to SSI alone.
9. Scope of IDBI extended to cover consulting, merchant banking & trusteeship activities.
10. IDBI has started special refinance scheme for the resettlement and rehabilitation of voluntary retired workers of the national textile corporation of India (NTCI).

FEE BASED SERVICES PROVIDED BY IDBI

- Credit syndication
- Custodial services
- Foreign services.

3. ICICI (INDUSTRIAL CREDIT AND INVESTMENT CORPORATIONS OF INDIA Ltd.)

- Established on Jan 5, 1955 on the joint agreement of India, U.S.A. and U.K.
- Headquarter in Mumbai.
- Aim: -To give loans to **private sector industries** for the development and modernization.
-To encourage the **private** ownership of industries.
- ICICI is an international institution of private sector.
- Shipping credit and instrument corporation of India (SICI) has been merged with ICICI.

FUNCTIONS

1. ICICI purchase new shares and debentures of private sector and underwrite their liabilities.
2. It gives loans for a period of upto 15 years.
3. It helps in modernization and development of industries.
4. ICICI helps in guaranteeing of loans.
5. It gives managerial and technical expertise to industries.
6. ICICI perform the function as mutual fund.
7. It gives loans to small and backward industries also.

ICICI AND ITS ASSOCIATE INSTITUTIONS

- ICICI securities and finance co. ltd
- ICICI asset management co. ltd
- ICICI Premier

- ICICI Investors services ltd
- ICICI banking corporation ltd.

4. INDUSTRIAL INVESTMENT BANK OF INDIA (IIBI)

- Established on 27 march, 1997
- Headquarter in Kolkata.
- Aim: - to give financial assistance for the reconstruction of sick or closed industrial units.
 - To offer technical and managerial facilities.

DEVELOPMENT OF IIBI

- ✓ Industrial reconstruction corporation of India (IRCI) 1997 for rehabilitation of sick industrial units.
- ✓ It was reconstituted as industrial reconstruction bank of India in 1985 under IRBI Act, 1984.
- ✓ With a view to converting the institution into a full-fledged development financial institution, IRBI was incorporated under the companies Act 1956, as industrial investment bank of India (IIBI) in March, 1997.
- ✓ As effect from budget 2012, IIBI closed.

5. SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

- Established in 1989 and started functioning on 2 April, 1990.
- Started working as wholly owned associate institution of IDBI.
- Headquarter in Lucknow.
- Aim – to provide adequate financial and non-financial aid to small scale industries.

FUNCTIONS

- It helps in modernization and technical upgradation of present industrial units.
- It provides special help to labor intensive industries which enable them to provide more employment.
- It provides leasing, refinancing, factoring, and services to small sector.
- SIDBI provides financial assistance in following forms:
 - Refinance assistance
 - Bills financing
 - Resource support to institutions.
 - Project financing
- SIDBI is the principal financial institution for financing, promotion and development of micro, small and medium enterprises (MSME) sector.
- SIDBI introduced two schemes: Equipment financing scheme and Venture capital scheme.
- It provides loan under its SINGLE WINDOW SERVICES.
- SIDBI amended bill 2012 introduced by Pranab Mukharji in loksabha on 22 May, 2012 1) expand activities to floriculture, 2) development of tourism related, 3) entertainment facility.
- It also accepts repayment of foreign currency loans in foreign currency.

6. STATE FINANCIAL CORPORATION (SFCs)

- Established in 1951.
- Aim – to provide long term loans to small scale and medium sized industries at state level.
- Capital – SFCs can have minimum capital Rs. 50 lakhs and maximum capital to 5 crores. This can be increased upto Rs. 10 crores with the prior sanction of the central government.

FUNCTIONS

- It provides special help for the growth of regional industries.
- SFCs can guarantee loans upto maximum period of 20 years.
- It advances loans to service industries also.

- SFCs can take loans from central bank and other financial institutions to buy shares of the sick industries at the state level.
- It functions as finance, project advisory and provides legal advisory services.
- It underwrites the issue of shares, bonds and debentures of industrial concerns.

7. NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

- Established on 12 July, 1982.
- Headquarter in Mumbai.
- Initial capital of Rs.100 crores under NABARD Act, 1981.
- NABARD was established on the recommendations of Shivaraman committee and Crafi card committee. This committee was appointed by RBI.
- Aim: to provide all type of assistance in agriculture and rural department.
- Established as apex bank for agriculture credit.

NABARD took over the following departments of RBI:

- 1) Agriculture Credit Department (ACD)
- 2) Rural Planning and Credit Cell (RPCC)
- 3) Agriculture Refinance and Development Corporation (ARDC).

FUNCTIONS

- 1) Credit distribution
- 2) Inspection of regional rural banks.
- 3) Rural credit to institutions.
- 4) Credit to production units
- 5) Agent of central bank and government of India
- 6) Foreign help.
- 7) Others:
 - Regulation of RRBs and cooperative societies except primary cooperative banks.
 - NABARD is also known for its 'SHG Bank Linkage Program' which encourage India's banks to lend to self-help groups (SHGs).
 - NABARD also has a portfolio of Natural Resource Management Programs.
 - NABARD set up following:
 - Rural Innovation Fund (RIF)
 - Rural Infrastructure Development Fund (RIDF)
 - In 2007-08 NABARD has started new direct lending facility under Umbrella Program for Natural Resource Management (UPNRM).
 - NABARD introduced **kisan credit card** to provide credit to farmers.

8. REGIONAL RURAL BANKS (RRBs)

- Established on 2 Oct, 1975 under Act 1976.
- Aim: Focus on rural banking.
- Established on the recommendation of Narsimham committee 1991.
- May have branches set up for urban operations and their operational areas may include urban areas too.
- Head office have 3 to 7 departments.
- At present, there are 56 RRBs in India.
- Limited area as notified by Government of India for working its operations.

FUNCTIONS

- Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions, etc.
- Providing para banking facilities like locker facility, debit & credit cards.
- RRBs are recognized by law and have legal significance.

- Equity of rural banks were divided in a proportion of 50: 35: 15 among the central government, the sponsor banks and concerned state government.

9. UNIT TRUST OF INDIA (UTI)

- Established in 1964 under UTI Act 1963.
- Initial capital Rs. 5 crores contributed by RBI, LIC, SBI and its subsidiaries.
- UTI is managed by board of directors.
- First private bank & popular in west.
- On 31 July, 2007, UTI was renamed as AXIS Bank.

OBJECTIVES

- To encourage and pool the savings of low and middle income groups.
- To enable them to share benefits and prosperity of industrial development in country.
- To mobilize savings of community by offering savers the triple benefits of safety, liquidity and profitability of investment.
- To channelize the pooled savings into productive outlets
- To give everyone a chance to indirectly own shares & securities in large number of selected companies.

FUNCTIONS

- UTI accepts discounts, purchase and sell of bills of exchange, promissory notes, warehouse receipts, bill of lading, etc.
- To grants loans and advances.
- To provide merchant banking and investment advisory services.
- To extend portfolio management services to persons residing outside India.
- To invest in any securities floated by central government, RBI or foreign bank.
- To supplement its financial resources, UTI can borrow from RBI, being repayable on demand.

II. CONCLUSION

This is how we can know about the functions and objectives of various development banks and specialized banks. After knowing about their functions and objectives we can take advantages of these services and can fully utilize their resources.

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