OBJECTIVES AND IMPORTANCE OF CAPITAL MARKETS AND THE ROLE OF FINANCIAL INSTITUTIONS

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ABSTRACT

The term capital market refers to the institutional arrangements for faciitating the borrowing and lending oflong-term funds. It is concerned with those private savings, individuals as well as corporate, that are turned into investments through new capital issues and also new public loans floated by government and semi-government bodies.

Index Terms: financial institutions, capital markets, objectives

I. INTRODUCTION

Development Financial Institutions

Role of financial institutions

Financial institutions provide means and mechanism of transferring resources from those who have an excess of income over expenditure to those who can make productive use of the same. These institutions help economic development in the following ways.

1. **Providing funds:** these institutions help large number of persons for taking up some industrial activity. The addition of new industrial units and increasing the activities of existing units will certainly help in accelerating the pace of economic development. Financial institutions have large investible funds which are used for productive purposes.
2. **Infrastructural facilities**: financial institutions prepare their investment policies by keeping national priorities in mind. The institutions invest in those areas which can help in increasing the development of the country.
3. **Promotional activities:** financial institutions have the expertise and manpower resources for undertaking the exercise of starting a new unit. So these institutions take up this work on behalf of entrepreneurs. The promotional role of financial institutions is helpful in increasing the development of a country.
4. **Development of backward areas**: in order to help the development of backward areas financial institutions provide special assistance to entrepreneurs for setting up new units in these areas. IDBI, IFCI, ICICI give priority in giving assistance to units set up in backward areas and even charge lower interest rates on lending. Such efforts certainly encourage entrepreneurs to set up new units in backward areas.
5. **Planned development**: different institutions earmark their spheres of activities so that every business activity is helped. Some institutions like SIDBI, SFCI's especially help small scale sector while IFCI and SIDC's finance large scale sector or extend loans above a certain limit. Some institutions help different segments like foreign trade, tourism etc.
6. **Accelerating industrialization:** the setting up of more industrial units will generate direct and indirect employment make available goods and services in the country and help in increasing the standard of living. Financial institutions provide requisite financial, managerial, technical help for setting up new units.
7. **Employment generation**: they have employed many persons to man their offices. Besides office staff institutions need the service of experts which help them in financing lending proposals. They also help in creating employment opportunities in backward areas by encouraging the setting up of units in those areas.

II. INDUSTRIAL FINANCE CORPORATION OF INDIA

The objective of the corporation as laid down in the preamble of the IFC Act 1948 are " making medium and long term credits more readily available to industrial concerns in India particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable."

Functions of IFCI

The functions of the IFCI can be broadly classified into:

1. Financial assistance:The IFCI is authorized to render financial assistance in one or more of the following forms.

- Granting loans or advances to or subscribing to debentures of industrial concerns repayment within 25 years.
- Underwriting the issue of industrial securities to be disposed off within 7 years.
- Subscribing directly to the shares and debentures of public limited companies.
- Guaranteeing of loans raised by industrial concerns from scheduled banks or state cooperative banks.
- Guaranteeing of deferred payments for the purchase of capital goods from abroad or within India.
- Acting as an agent of the Central Government or the World Bank in respect of loans sanctioned to the industrial concerns.

Financial assistance is available from IFCI for the following purposes:

- For setting up of new industrial undertaking.
- For expansion or diversification of the existing concerns.
- For the modernization and renovation of the existing concerns.
- For meeting existing liabilities or working capital requirement of industrial concerns in exceptional cases.

III. CAPITAL MARKETS

A capital market may be defined as an organised mechanism for effecive and efficient transfer of money capital or financial resources from investing parties, i.e, individuals or institutional savers to the enterpreneurs engaged in industry or commerce in the business either be in the private or public sectors of an economy.

Objectives and Importance

An efficient capital market is a pre-requisite of economic development. An organised and well developed capital market operating in a free market economy.

1. Ensures best possible coordination and balance between the flow of savings on the one hand and flow of investment leading to capital formation on the other.
2. Directs the flow of savings into most profitable channels and thereby ensures optimu utilisation of financial resources.

Characteristics of Capital Market

The following are the important features of a developed capital market

- Market for long term funds.
- Important component of financial system.
- Facilitates borrowing and lending of funds.
- Helps in raising capital.
- Involves both individual and institutional investors.
- Meets demand and supply of long term capital.
- Involves intermediaries.
- Deals in marketable and non-marketable securities.

IV. FUNCTIONS OF CAPITAL MARKET

1. Helps in capital formation.
2. Act as a link between savers and investors.
3. Helps in increasing national income.
4. Facilitates buying and selling.
5. Channelizes funds from unproductive to productive resources.
6. Minimises speculative activities.
7. Brings stability in value of stocks.
8. Promotes econmic growth.
9. Play important role in underdeveloped country.

V. STRUCTURE OF THE INDIAN CAPITAL MARKET

The capital market in India may be classified into categories, organised and onorganised. In organised sector of capital market demand forlong term capital comes from corporate enterprises, public sector enterprises, government and semi-government institutions.
In India even the organised sector of capital market was ill developed till recently because of the following reasons;

- Agriculture was the main occupation which did not lend itself to the floatation of securities.
- The foreign business houses hampered the growth of securities market.
- Managing agency system also accounted for ill-development of capital market as managing agents performed both activities of promotion and marketing of securities.
- The investment habit of individuals
- Restrictions imposed onthe investment pattern of various financial institutions. The unorganised sector of the capital market consists of Indigeneous Bankers and Private Money-lenders.

Broad Constituents in the Indian Capital Markets

A capital market constitutes the following;

1. **Fund Raisers**: Companies that raise funds from domestic and foreign sources, both public and private.
2. **Fund Providers:** The entities that invest in the capital markets.these includes subscribers to primary market issues, investors who buy in the secondary market, traders, speculators, foreign institutional investors, mutual funds, venture capital funds, NRIs, ADR/GDR investors, etc.
3. **Intermediaries:** Are service providers in the market, including stock brokers, sub-brokers, financiers, merchant bankers, underwriters, depository participants, registrar and transfer agents, portfolio managers, custodians, etc.
4. **Organizations:** Include various entities such as MCX-SX, BSE, NSE, other regional stock exchanges and the two depositories National Scurities Depository Limited(NSDL) and Central Securities Depository Limited (CSDL).
5. **Market Regulators**: Includes the securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI) and the Department of Company affaires (DCA).

Components of Capital Market

The Indian Capital Market is broadly divided into Gilt-Edged Market and the Industrial Securities Market.

1. **Gilt-Edged Market**: Refers to the market for government and semi-government securities backed by Reserve Bank of India (RBI). Government securities are tradable debt instruments issued by the Government for meeting its financial requriments. It is also called gilt edged securities market. The term gilt-edged means " of the best quality".

2. **Industrial Securities Market**: Refers to the market whic h deals in equities and debentures of the corporate. It comprises of the most popular instruments ie, equity shares, preference shares, bonds and debentures. It is further divided into three types.

- New issue market or primary market.
- Stock market or secondary market.
- Financial institutions.

VI. CONCLUSION

The authorized capital of the corporation was Rs.10 crore which was divided in equities of Rs. 5000 each. Later on the authorized capital was increased to Rs. 20 crore. Since july 1, 1993 this corporation has been converted into a company and it has been given the status of a limited company with the name Industrial Finance Corporation of India Ltd.

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