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Development Finance Institutions of India: An-Overview

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Abstract

Original Research Article

The Ministry of Finance plays a very crucial role in development planning in India. It supervise the financial institution and is responsible for the overall financial management of the country. The Industrial Development Bank of India (IDBI) which in the initial years was a subsidiary of the Reserve Bank of India (RBI) was separated from it in July 1975 and since then has been operating as an apex financial institution engaged in financing the industrial sector, in accordance with national priorities. The Reserve Bank of India which was created in April 1935, with a share capital of Rs. 5 crore and nationalised in 1949 is the central arch of the Indian money market. It issues currency, buys and sells Government securities, regulates the volume, direction and cost, credit, manages foreign exchange and supports institutions financing agriculture and industries. According to the preamble to the Reserve Bank of India Act, 1934 the main function of the bank is "to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage". The Industrial Financial Corporation of India (IFCI) which was established in 1948 accounted for over 8 percent of the total financial assistance to the industrial sector in 1994. The State Bank of India (SBI), set up in 1955. The objective of this major reform of the Indian banking system was that the State Bank with its large network of branches should provide directly and indirectly through provision of remittance facilities to cooperative and commercial banks and to increase banking facilities in the rural areas. The financial institutions have had a long history of public ownership with existing insurance companies being nationalized in 1956 to form the Life Insurance Corporation of India (LIC).

Keywords: Financial Institutions, L.I.C, IDBI, IFCI, RBI, Finance Ministry

INTRODUCTION

The organisation of the financial administration on modern lines can be traced to the British period. When the British Crown took over the administration from the East India Company, the financial administration was in a mess, so much so that it was a common talk in England that anybody, who could procure a job with the East India Company, could come back to England sufficiently rich to spend the rest of his life like a lord. It is this state of affairs which prompted the British Government to evolve a sound system of financial administration, which can command credibility among the people. A sound and centralised system of financial control was also considered an imperative to serve the colonial interests.[I]

The mistrust of local officials was also responsible for introducing an element of centralisation in administration, more so, in financial matters. The budget was utilised to further tighten the control over finances. The Department of Finance, in the process, emerged as a powerful instrument in the management and regulation of finances. It was mandatory on the part of a spending department to get all expenditure proposals included in the demand for grant which was required to be submitted to the Department of Finance for its scrutiny and approval.

The Finance Department would then examine these proposals in the light of consistency with the policy of the government and the modalities of economy as laid down by the Department itself.

After independence when a large number of programmes, schemes and projects for socio-economic development, involving huge investments, were launched under successive five year plans, the administrative culture for financial administration as inherited from the British was found quite out of tune with the changed political, economic and social scenario. A major breakthrough, however, was made in August in 1958 when the Government of India introduced schemes of budgeting and financial control, delegating powers hitherto not available to the administrative ministries/ departments in certain vital matters, like appropriation of funds, creation of posts etc.[2]

Post-independence Finance Ministry:

The origin of the Ministry of Finance can be traced to 1810 when a separate Department of Finance was first set up in what was then called the Supreme Government of India. Till 1846, it did not have the services of a full time secretary. In 1843 when the joint secretariat for the Supreme Government and the Government of Bengal was abolished, the Department of Finance of the Supreme Government came under the charge of a- separate secretary. In 1947, the Department of Finance was redesignated as the Ministry of Finance, consisting of three main wings, viz. expenditure, economic affairs and revenue. In 1949 the Ministry of Finance was organised into two departments, the Department of Economic Affairs and the Department of Revenue And Expenditure. [3] The Ministry of Finance is presently organised into Department of Economic Affairs, Department of Expenditure and Department of Revenue.

Department of Economic Affairs

This Department monitors economic trends in the country and advises the Government on all matters having a bearing on internal external economic management, including the working of commercial banks, lending institutions, external assistance, etc.[4] It is also responsible for the preparation of the budget of the Union Government, and also the budgets of States under President's rule. It has six main divisions; Economic Division, Banking Division, Insurance Division, Budget Division, Investment Division, and External Finance Division.

Department of Expenditure

This Department controls the entire expenditure of the Union Government. It consists of five divisions; Plan Finance Division, Establishment Division, Cost Account Branch, Organization of the Comptroller - General of Accounts, and Staff Inspection Unit. [5]

Department of Revenue

The Department of Revenue controls matters relating to direct and indirect Union taxes. It exercises this control through two statutory boards - the Central Board of Direct Taxes and Central Board of Excise and Customs. The department is also entrusted with the administration and enforcement of controls and regulatory measures concerning excise duty, stamp duties, gold control, foreign exchange, etc.[6]

Financial Institutions in India

The banks constitute the major financial institutions in India catering to the requirements of the industrial infra and suprastructures. Seen in this perspective, their role in the economic development of the country, is of immense value. The future of the country is linked with the performance of these institutions. Notable among these institutions is the Industrial Credit and Investment Corporation of India (ICICI) set up in 1955. Since then it has become the main channel of foreign exchange for the private sector in India. The Industrial Development Bank of India (IDBI) was set up in 1964. The Refinance Corporation for Industries (RCI) was merged with IDBI. The IDBI, till date, is a subsidiary organization of the
(RBI).

One more important financial institution is the Life Insurance Corporation (LIC) which was formed in 1956 as a result of nationalization of 245 life insurance companies. The main purpose of nationalization was to eradicate the evils associated with the operation of the privately owned Insurance Companies. Besides, the UTI was also established in 1964 to encourage private investment and to make the investment business less risky and reasonably profitable. [7] The overall results were encouraging. During 1993-94, the total financial assistance sanctioned by all financed institutions (IDBI, IFCI, ICICI, UTI, LIC, RBI, IRBI, NABARD, SIDBI, RCTC, TDICI, SCICI, TFCI, GIC, SFCs and SIDCs) was P.s. 43310.8 crores as against Rs. 34210.0 crores in 1992-93 [8] The aim is to inspire confidence and to attract investments and to help in the development of industries in every possible manner through provision of technical advice, machinery and finance. Most of these institutions provide both loan and equity capital. [9]

There are various types of financial institutions in the country,

IDBI, IFCI, ICICI, RBI, SBI, SIDBI, LIC, UTI, NABARD, IRBI catering to

the fiscal needs of the country. These institutions have financed many core area projects, especially in the power sector. Their clientle include both longterm or shortterm industries. [10] The banking division is responsible for the formulation of policy and banking service system in the public sector. The division is responsible for 28 public sector banks, State Bank of India, its seven associate banks and twenty nationalised banks, 196 RRBs in 380 district in the country. [1 1]

Institutions set-up for financing and promoting industries comprise three all India development banks, namely, Industrial Development Bank of India (IDBI), Industrial Financial Corporation of India (IFCI) and Industrial Credit and Investment Corporation of India (ICICI), three investment institutions, namely, Life Insurance Corporation of India (LIC), Unit Trust of India (UTI) and General Insurance Corporation of India (GIC), eighteen state financial corporations of India (SCs); and twenty six State Industrial Development Corporations (SIDCs). Above all, there is the industrial Reconstruction Bank of India which is engaged mainly in the rehabilitation of sick industrial units. The IDBI (established in 1964) is the principal one and act as an open body. It has larger resources than any other financial institution. [12] Apart from the IDBI, the National Bank for Agriculture and Rural Development (NABARD) and KVIC are also engaged in providing loans for the industries under the Composite Loan Scheme. [13]

Reform in the Indian Financial Sector, 1947-1995

The evolution of the Indian financial sector in the postindependence era can be divided into three distinct periods. The first period, 1947-68, saw the consolidation of the RBI in its role as the agency in charge of the supervision and control of banks. In this period, the Indian banking sector operated in a fairly liberal environment. The nationalization of 14 commercial banks in 1969 was a turning point in the financial sector policies in India. The Reserve Bank of India now began to play a more direct and active role with banking policies re-oriented to act 'as an active instrument of growth. [14] The Reserve Bank of India was set-up on 1st April 1935 with the enactment of the Reserve Bank of India Act, 1934. Initially the bank was not completely state owned. It was only after India attained independence that the bank was nationalized on I January 1949. Its origin can be traced to January 1773, when Warren Hasting, Governor of Bengal, placed before the Board of Revenue his scheme for a 'Central Bank of Bengal and Bihar'. In 1921, the presidency banks were amalgamated into the Imperial Bank but the amalgamated bank was not charged with central banking functions. In 1926 the Hilton Young Commission recommended the setting up of the Reserve Bank of India. [15]

The RBI bill was largely modelled on the recommendations of the London Committee and was introduced into the Legislative Assembly by Finance Member, Sir George Schuster, on September 8, 1933. The bill was referred to a joint select committee on September 13, 1933 and after modifications was reintroduced in the Legislature in November 1933. The bill was passed by the Assembly on December 22, 1933 and received the assent of the Governer-General on March 6, 1934 but it took another year before the bank was actually inaugurated. It started functioning from 1st April, 1935 as a Shareholders' bank with a paid up capital of Rs. 5 crores. Each share was of the value of Rs. 100 and was fully paid up, The Government of India also transferred securities worth Rs. 5 crores to the

RBI to form its reserve fund. In 1949, the Reserve Bank was nationalised. [16] The Tata Consultancy Service bagged a prestigious project from the RBI for the computerization of its Public Debt Office (PDO) and to provide an electronic negotiated dealing system for money market instrument. [17] The legislation to set-up the Reserve Bank of India was first introduced in January 1927. [18] There had been from time to time discussion on ways and means of ensuring availability of adequate finance, especially medium and long term, for the development of Indian industries and the role of commercial bank in the area. [19] However, progress in the direction of establishing adequate institutional facilities for industrial finance was made only after independence.

The industries began getting assistance mainly through special long-term financing agencies with Reserve Bank of India. The first of these institutions, IFCI the Industrial Finance Corporation of India was set-up in 1948 at Madras. [20] The Bank also played an important role in the formulation of the proposal, as part of post-war planning, for establishment of special institutions for financing of industries [21] The RBI was also confronted with the very important task of initiating the deliberate promotion of development finance. The Planning Commission too, emphasized that the more positive role of the central government bank in a planned economy should ensure that finance is made available for development activities within the framework of the priorities of Planning Commission, the institutional facilities for financing the agriculture sector.22

Since the mid-eighties, the RBI has implemented in a phased manner several of the key recommendations of the London Committee and Joint Select Committee. In the Government securities markets, a scheme for T bills of 182 days was introduced in November 1986. The RBI also took several steps to develop the money markets. In April 1988, the RBI instituted the Discount and Finance House of India (DFHI), to provide liquidity to the money markets. In May 1989, as a further step towards the libralization of the money markets, the ceiling on the call money rate was withdrawn [23] The Ministry of Finance maintains the necessary supervision over the policies and functioning of the RBI [24] Recently, the RBI has sanctioned the schemes of amalgamation of the Times Bank Ltd with the HDFC Bank Ltd. The scheme came into force with effect from February 26, 2000. All the branches of the Times Bank Ltd, shall, from February 26, 2000, function as branches of HDFC Bank Ltd [25]

The monetary and credit policy for 2000-01 unveiled by the country's apex bank, the Reserve Bank of India (RBI) on April 27, 2000 centered around three important issues, an assessment of the economy, its impact on the people including management of inflation and policies relating to foreign exchange and reforms in the key areas of financial sector. The Reserve Bank of India also resolved to provide financial institutions with the flexibility to fix interest rates on terms, deposits since currently the (FIS) have to ensure that the interest rates offered by them do not exceed that of State Bank of India. [26]

Recognising that rapid changes engulfing the financial sector, the RBI policy has outlined its new concept of 'universal banking'. Any financial institution that seeks to convert itself into a universal bank would have to prepare a transition plan and elicit the open bank's approval as the policy has clearly laid down a road map on the eventual conversion of FIS into banks. The RBI has also announced that it might selectively relax the 50 per cent equity cap on the commercial banks in the insurance joint venture. The 50 per cent equity holding will be subject to the Insurance Regulatory and Development Authority (IRDA) Act, which stipulates a dilution of equity by the promoters to 26 per cent at the end of ten years. [27] The economy on the whole is marching towards progress. The trade deficit however, has increased to US $ 1.027 billion against $ 0.757 last year. [28] The RBI performs several developmental and promotional functions such as promoting banking habits, expanding banking facilities to rural areas and has established new financial agencies, such as Deposit Guarantee and Credit Insurance Corporation, NABARD, Export Import Bank (EXIM), Unit Trust of India etc. [29]

Industrial Development Bank of India (IDBI)

The Industrial Development Bank of India (IDBI) was established in July 1964, as a wholly owned subsidiary of the Reserve Bank of India (RBI) in terms of the Industrial Development Bank of India Act 1964 [30] It was separatcd from the RBI (i.e. its ownership was transferred from the RBI to the Government of India in February 1975. Since then it has been operating as the apex financial institution which is responsible for the coordination for all financial institutions engaged in financing the industrial sector, in accordance with national priorities. As the apex financial institution, the IDBI has over the years, also financed other institutions by refinancing loans granted by SFCs, SIDCs and commercial banks, and by subscription to the share capital and bond issues of other all India development banks. Till 1990, the IDBI refinanced loans provided to the small scale industries by the SFCs, SIDCs and commercial banks. In April 1990, the IDBI set up a subsidiary company called SIDBI to which it handed over all operations pertaining to the financing of small-scale industries.

The policy of financial liberalization has resulted in interest rate deregulation, and contraction of subsidized and captive sources of funds [3 1] The interest rates of the IDBI (and other all India Development Banks) are fixed by the Government. The basic lending rates for direct loans was fixed at 14 per cent and the interest rate on refinance of loans was fixed at 10 per cent with a ceiling on the primary lending rate at 14 per cent. Both these rates had remained constant over a long period.

In August 1990, as a part of the libralization programme, the IDBI and other Development Banks (except SIDBI) introduced a two-tier interest rate structure. The first tier covered the initial two years of the loan period or the implementation period (whichever was shorter of the project, over which the interest rate was retained at 14 per cent. The second tier applied to the remaining period of the loan over which the interest rate was raised to 15 per cent. The interest rate charged by the IDBI on refinanced loan was raised to 12 per cent, with the two-tier interest rate system applying to the primary lender. The changes in the interest rates applied to new loans only and not to outstanding loans. In August 1991, the government permitted all term lending institutions to charge interest rates in accordance with the perceived risks interest in the projects. [32]

In the post-liberalization period, the IDBI has attempted to transform itself into a financial institution with a reduced dependence on the government for subsidized and captive sources of funds and having a diversified field of activity. [33]

IDBI: A Subsidiary of the Reserve Bank

The IDBI was set up as a wholly owned subsidiary of the Reserve Bank with a common Board of Directors for a variety of reasons. The IDBI is, in a sense, a lender of the last resort and its role with regard to term finance is in some respects akin to that of the Reserve Bank in the field of short term finance. Secondly, with the passage of time, the operations of the IDBI were expected to assume considerable dimension which would
12

Require to be regulated within the framework of proper monetary and credit management. Thirdly, the Reserve Bank had, for a long time been helping the Central and State Governments in evolving an appropriate structure of financial institutions over the years, the Reserve Bank of India has assumed a pioneering role as far as developmental activities are concerned. By and large, its working is largely free of political interference" . [34]

Promotional Function of the IDBI

The years 1970-71 and 1971-72 represented a landmark in the evolving role and functions of the IDBI. This was the period of consolidation as well as exploration as far as its promotional functions are concerned. The IDBI was expected to play an active promotional role for facilitating a widely diffused process of viable industrialization. This function was taken up by the IDBI in 1970 after it attained a degree of maturity in the field of development finance. For this purpose, it was essential for the IDBI to streamline its organisational and functional aspects to meet the requirements of different regions and states of the country. To begin with, the IDBI opened three regional offices - one each in the Eastern region (Calcutta), Southern region (Tamil Nadu) and the Northern region (New Delhi). Another major step related to the identification of project ideas in backward areas. The IDBI has been keenly aware of the limitations of financial and fiscal incentives in promoting industrial development in the backward areas [35] The IDBI has reported that a loan of Rs. 24 crores was sanctioned to Jain Studio Ltd in September 1999 for a project for setting up gateway earth station. [36] (This question was raised in the Lok Sabha on May l , 2000).

A major institutional development in the sphere of industrial finance was the enactment of legislation for the setting up of the Industrial Development Bank of India, in 1964. The authorised capital of the IDBI has been fixed at Rs. 50 crores, but, with the prior approval of the Government, it may be increased to Rs. 100 crore by the RBI [37] The RBI's long-term, medium term and short term financial assistance to the IDBI, IFCI and the SFCs through subscription, to their share. The performance of the IDBI, a wholly owned subsidiary of the Reserve Bank of India has been disappointing. The bulk of the financial assistance was sanctioned to traditional industries such as cotton textile, cement, paper. [38]

In a bid to maximise return in the investment portfolio of coalmines, provident and pension fund, the Industrial Development Bank of India, has approached the coalmines company for disposing off its longterm low yielding government securities. The IDBI had generated close to 13% returns for the coalmines provident and pension fund during 1998-99. The coal mines fund was earlier jointly managed by the Reserve Bank of India (RBI) and the Bank of India and the IDBI took it over with effect from April l, 1998. The bank is currently making a strong pitch for larger public sector companies - ONGC and NTPC, for management of their provident and pension funds [39] The IDBI has introduced a 13.50 percent floating rate bond linked to 10 year government papers under its Rs. 1,000 crores Omini

Bond Series (OBS) stated to hit the private placement market. During 1999-2000 the IDBI had sanctioned advances worth Rs. 28,305 crores which are likely to exceed in the years to come. The disbursement is likely to come down from Rs. 17,059 crore [40] The IDBI has opened three more branches at Borivali (Mumbai) Jodhpur (Rajasthan) and Gwalior (Madhya Pradesh) in August 2001. These new branches will provide wide spectrum of services including ATMS [41]

Industrial Finance Corporation of India (IFCI)

The IFCI was established in 1948. The IFCI is the pioneer among these institutions. It was established to initiate a new pattern of industrial finance in the country different from what existed in the pre-independence period. The nature of pre-independence industrial score has been aptly summarised by an observer as follows: "In the pre-independence days industrial enterpreneurship in India was a close preserve of a few already established business houses, as evidenced by the extreme concentration of industry in the hands of few managing agents".

The nationalisation of the RBI and the commencement of the IFCI, both in 1948, were the first steps in the new direction. The IFCI was set up under the provisions of the IFCI Act, 1948, with a view to provide medium and long term credit to industries, especially when accommodation from normal financial sources was inappropriate or recourse to the capital market was impracticable. The functions of the corporation listed in the Act are : (i) guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding 25 years and are floated in the public market; (ii) underwriting the issue of stock, shares, bonds or debentures by industrial concerns, but to be disposed off within seven years[42] ; (iii) granting loans or advances to or subscribing to debentures of industrial concerns repayable within a period not exceeding 25 years; and (iv) extending guarantees in respect of deferred payments by importers who are able to make such arrangements with foreign manufacturers.

The Corporation has an authorised capital of Rs. 10 crores divided into 20,000 shares of Rs. 5,000 each, only $ 51,000 shares were issued initially, but a second series of shares for Rs. 2 crores was issued in 1962. This paid up capital was raised to a total of Rs. 8.35 crores in 1964 when the IDBI was set up so as to provide to it 50 per cent of the ownership. The ownership pattern of the IFCI before the establishment of the IDBI, is shown in table | [43]

Table 1: Shareholders of the IFCI

Class of Shareholders	Percentage of shares	
	As on 30.6.1964	As on 30.6.1973
l . Central Government	20.0	
2. R.B.I.	20.7	
3. Commercial Banks	24.3	20.0
4. L.I.C	25.3	22.0
5. Co-operative Banks	9.7	8.0
6. IDBI		50.0
Total	100.0	100.0

In 1970, the IFCI started a new policy of special assistance to backward states/areas in the form of reduced interest, and extention in the initial grace period for repayment in the case of projects whose costs do not exceed Rs. I crore. These measures have resulted in some change in the regional concentration of assistance, but in 1973 the picture is not very different from that of 1963 [44] The IFCI has decided to enter into a strategic alliance with KFW, which is a leading firm of lending financial institutions of Germany. The IFCI is India's oldest term lending institution, it has decided to raise the Rs. 189.4 crore as tier I capital from KFW. The IFCI has played a very important role in the emerging scenario. [45] The IFCI was restructured from a statutory corporation to a company from 1st July, 1993 [46] It has also decided to settle all defaulting cases which were given under government guarantee. Such cases alone contributed Rs. 619.4 crore to the institution's Non-Performing Assets (NPA's).

The IFCI has returned nearly Rs. 600 crore worth of high interest bearing debts in its books by February 2000. In some of the cases, the interest is as high as 16.5 per cent. These funds were raised from the market during 1995-96 period. The IFCI has progressively moved towards lowering the cost of debts. The Development Financial Institutions (DFI) have been very successful in raising 2-5 year money at an annual interest rate of 11-13 per cent. These institutions are now tapping market more frequently than approaching the market once in a year. The ICICI has been very successful in this regard and IDBI is also following the suit. The IFCI is in the process of launching a few short-term product like working capital loans, deposits schemes and other corporate products. It has also been decided to provide 50 percent of the fresh sanctions towards short term products. IFCI had disbursed close to Rs. 200 crores towards short term finance and the target for the fiscal 1999-2000 has been raised at Rs. 500 crores. The focus of the Corporation in the new millennium has shifted to industries like pharma, Biotech, IT, Sugar and infrastructure sectors. [47]

Industrial Credit and Investment Corporation of India (ICICI)

This is the second largest development bank with diversified areas of activity. It is top most financial institution for development for the major or large projects industries.[48] It was established in 1955 as part of the efforts to build the financial infrastructure needed for industrial development. It was in this spirit that the ICICI was set up as an instrument for promoting investment in the private sector.[49] In the establishment of the ICICI, an important role was played by the International Bank for Reconstruction and Development. The world bank had initially considered utilizing the IFCI as its agency for providing foreign exchange assistance to industrial concerns in India. However, this idea was given up and a mission was sent to India in 1953 "to explore the possibilities of establishing a privately owned and operated development corporation to finance expansion and modernisation of private industry 50

The central objective of ICICI was to encourage and assist industrial investment in the private sector. This was to be accomplished by providing long-term and medium term loans in rupees and foreign currencies by equity participation, by underwriting new issues of securities and by guaranteeing loans from other private investment sources. The scope of operations has been extended recently to include joint sector enterprises. The primary objective for which the ICICI makes available funds is for the purchase of capital assets in the form of land, building and machinery. Though there are no fixed limits on the size of assistance granted, ordinarily Rs. 5 lakhs was deemed to be the lower limit for a loan. For a long time, the ICICI provided assistance only to limited liability companies. Since 1969, however, the Corporation has started providing foreign currency loans to proprietary and partnership concerns either directly or in association with state financial corporation and banks. [51]

The ICICI, which assists the private sector enterprises by providing finance in both rupee and foreign currencies in the form of long or medium term loans, etc. gave the less developed state only 8.1 per cent of its total assistance. Although 126 projects were assisted in the backward districts, a majority of them were located in the more developed states.

State-wise distribution of financial assistance by the ICICI for the backward regions as on March 31, 1972 (as percentage of total)

State	Percentage
Group A	
Andhra Pradesh	9.1
Assam	4.1
Bihar	0.2
Madhya Pradesh	0.6
Orissa	13.5
Rajasthan	2.7
Uttar Pradesh	3.9
Group B	
Gujrat	8.0
Maharashtra	13.0
Punjab	0.1
Tamil Nadu	9.6

West Bengal	10.7
Others	
Kerala	1.3
Mysore	13.0
Goa	5.8

Sources: ICCI, Annual Report, 1971-72.

The Corporation provides finance in the form of long or medium term loans or equity participation. It will also sponsor and underwrite new issues of shares and securities issued by the private sector. It will also provide managerial, technical and administrative advice and assist the industries in obtaining managerial technical and administrative service."

The Tata Engineering, India's second largest manufacturers of cars and utility vehicles, has appointed ICICI Ltd. one of India's leading financial service provider as a preferred financer for customers buying its range of vehicles. The ICICI car loan will be available within Tata Engineering car dealership showrooms. [53] The ICICI is allowed to raise upto Rs. 4,000 crores by way of bonds with a right to retain over subscription upto Rs. 4,000 crores in branches over a period of one year. [54] The ICICI has, for example, already put aside Rs. 2,000 crores for this sector, while others like the IDBI, Infrastructure Development Finance Corporation (IDFC) and

Unit Trust of India are expected to follow suit. [55]

The ICICI also offers both online and offline investment mechanism. The initiative is in the line with the ICICI strategy to act as a virtual university bank - a single source of financial fulfilment. [56] The Government proposed to divert its controlling state in public sector corporation bank in favour of another leading public sector development financial institution ICICI Ltd. It will also help the government in meeting its disinvestment target. The move will help ICICI in strengthening its network which will be of great advantage."

State Bank of India

There has been a revolutionary change in the banking industry in India since 1951 which marks the beginning of planned economic development. On 1st July 1955 the undertaking of the Imperial Bank of

India was transferred to the new 'State Bank of India' [60]

The State Bank of India has grown into a giant institution and has taken the lead in the banking system of the country. Though, it is the function of the Reserve Bank of India to maintain the stability of the currency and credit, to regulate the affairs of the other banks and help in the development of banking institutions, the State Bank of India has assumed a predominant role. The objective of this major reform of the Indian banking system was that the State Bank with its large network of branches should provide, directly and indirectly, through provision of remittance facilities to co-operative and commercial banks and accelerate the banking facilities in the rural areas. [61]

The bank's total advances in India increased from Rs. 99 crores as at the end of 1955 to Rs. 1,582 crores as at the end of December 1973. The bank's share in the total credit of all scheduled commercial banks stood at 23.0 per cent at the end of 1973. The bank has been the major financer of the public sector in India and has been meeting the credit needs of public purposes such as food procurement operations, financing of sick cotton mills, etc [62] Many large industries in the private sector also are depending on the State Bank of India for their credit requirements. In respect of financing large scale industry both in public and private sectors, the important point is how credit supply will be adjusted to the credit needs for production. With the emphasis on industrialisation in the country's development plans, the State Bank of India, as apremier banking institution, started financing the credit needs of the industries in a big way and there was a marked shift in its credit policies in favour of industries.

As the first public sector bank, it has been a pioneer in many fields of activity, shifting the focus of commercial banking in the country from purely profit making operation to nation-building developmental banking. The bank has thus, been functioning as a pace-setter and patternmaker for the Indian banking system."

Small Scale Industries:

Soon after the State Bank of India was formed, a scheme for financing small scale industries was evolved, reflecting the awareness on the part of the bank of the weakness common to small scale units which necessitated adoption of liberalised norms and procedures [64] The scope of the bank's scheme was extended in 1960 to cover the grant of term loans for purchase of fixed assets by small scale units.

At centres where relatively larger scope for financing small scale industries exists, branches are provided with specialised staff to handle the work. At each of these centres, a local working group comprising representatives of the small industries service institute, co-operative bank and the national small industries corporation is functioning. At the end of 1973, the outstanding advances to small scale industries stood at Rs. 251 crores.65

Rural Credit:

Rural credit was generously provided by the State Bank of India. In the beginning, these efforts was through co-operative credit societies as it was felt that the work in rural areas was the domain of co-operative societies and not of commercial banks. In the seventies, Commercial Banks were asked to undertake the activity directly and several important steps were taken in this direction. For example, the State Bank of India has agricultural development branches and village adoption schemes besides the usual bank schemes. An increasing proportion of its loans is being diverted now for agricultural development." In view of its enormous responsibilities, the State Bank of India has now more than 3,000 branches throughout the country and the programme of further expansion continues. This policy is equally true of other Commercial Banks, which have also considerably expanded the number of their branches in recent years. It is imperative to develop banking habit among the rural inhabitants by making banking facilities available to them [67] The State Bank of India is, thus, the largest public sector bank catering to the requirements of a developmental polity. The bank has a massive and unmatched distribution network of 9035 domestic branches reaching every hook and corner of the country, 51 foreign offices spread over 30 countries with a fast growing technology.[68]

Industrial Reconstruction Bank of India (IRBI):

This institution was set-up jointly by IDBI, Life Insurance Corporation of India and Commercial Banks in 1971, with the main objective of creating a specialized institution which concerned itself solely with rehabilitation of sick units. It is a much smaller institution compared to the major development banks [69]

The sick units under IRBI assistance

There were 328 sick units (large and medium) in the IRBI portfolio with outstanding amount of Rs. 423.32 crore at the end of March 1994. Of these 256 units 78% were under nursing.

In terms of sick (large and medium) units under IRBI's nursing programme, the largest number of the units (43 units) were situated in West Bengal followed by Maharashtra (33 units), Gujrat (30 units), U.P. (28 units) A.P. (24 units) and Tamil Nadu (19 units). These six states accounted for 69% units under nursing programme with outstanding advances of Rs. 157.14 crores (71%). [70] The Industrial Reconstruction Bank of India sanctioned loans amounting to Rs. 425.78 crores during 1993-94 (April-March) as against Rs. 294.29 crores during 1992-93 (AprilMarch). The overall financial assistance sanctioned by the Bank during 1993-94 was Rs. 425.18 crores as against Rs. 294.29 crores during the previous years. The total financial

assistance sanctioned and disbursed by the Bank as at the end of March 1994 stood at Rs. 21,58,67 crores and Rs. 1476.81 crores respectively, as against Rs. 1785.16 crores and Rs.
1288.21 crores as at the end of March 1993.

The industrial units assisted by the Bank cover a fairly wide range of industries, which-include food manufacturing industries, cotton and textile, Jute, paper and paper products, Rubber products, chemicals and pharmaceuticals, fertilizers, cement, basic metals, Iron and steel, metal products, machinery (other than electrical), automobiles, wagon and ships building, electricity generation etc. etc. [71]

National Bank for Agriculture & Rural Development (NABARD)

The National Bank for Agriculture And Rural Development

(NABARD) is the all India level apex Bank set up for agriculture, small scale industries, cottage and village industries, handicrafts and other allied economic activities in rural development. The first task of NABARD was to bring about the merger of these three constituent units. Agriculture Refinance and Development Corporation (ARDC) and Agriculture Credit
Department and Rural Planning and the Credit Cell of the Reserve Bank of India.

The NABARD was set up on July 12, 1982 with an initial capital of Rs. 10 crores which will be shared between the Reserve Bank of India and the Union Government. The establishment of the NABARD is a milestone in the history of banking institutions in india as it aims at meeting the hopes and aspirations of the rural people in general and accelerating the pace of development especially of agriculture, rural industries and allied activities [73] The NABARD has set up a Micro Finance
Development Fund[74], for this purpose. Besides, the Rural Infrastructure Development Fund (RIDF) managed by NABARD has emerged as a popular and effective scheme for financing rural infrastructure projects in the year 1999. It announced an enhanced allocation of Rs. 3,500 crore from the banking sector for RIDFV and extended the repayment period of loan to 7 years.[75] It also provides 100 percent refinance to bank on their on-lending to Self Help Groups (SHGs)/ Voluntary Organisations (VAs)/ NonGovernment Organisations (NGOs). A wide variety of support services is also extended by NABARD to all agencies involved in the promotion of
SHGS.

To evolve supportive policy and regulatory framework, a High Powered Task Force was set up by NABARD. The Task Force Report was submitted by NABARD to RBI in October 1999. To give further boost to this programme, the NABARD has set up a Micro Finance Development Fund (MFDF) with an initial contribution of Rs. 100 crores from the RBI, NABARD, banks and others. This fund is provided to micro financing institutions for infrastructural support for training and systems managements and data building. [76]

The savings of over Rs. 3.5 million mobilized and distributed as loans for income generating activities to more than 5200 members (NABARD 97) explain the success of the strategy. The programme was then replicated to Malappuram, one of the most backward district from 1994. [77] The National Bank For Agriculture and Rural Development (NABARD) has also shown interest in organising in programmes and workshops at different places of the country to popularise banking institutions.78

The NABARD has suggested adoptation contractual farming to supply raw materials to the agro processing units and provided refinance assistance of Rs. 30.85 crore during 1997-98 for agro-processing. [79]- The Rural Infrastructural Development Fund (RIDF) managed by the NABARD has emerged as a popular and effective scheme for financing rural infrastructure projects. In 1999, the Government has announced an enhanced allocation of Rs. 3,500 crores from the banking sector for RIDF. [80] The NABARD has sanctioned Rs. 651.88 crores for rural infrastructure including drinking water schemes and road connectivity in 14 states. The bank has extended loans worth Rs. 194.57 crore to West
Bengal and Rs. 182.52 croress to Gujrat. [81]

Life Insurance Corporation of India

The LIC was set. up under the LIC Act 1956 by nationalising private insurance companies. It represents the single largest reservoir of saving in India. It is the biggest buyer of shares, an important underwriter of new issues and also a direct lender. [82] The business of LIC has increased tremendously, particularly after the nationalization. Other financial institutions are also gaining ground with the development of corporative spirit and greater diversification of national income. [83] It is the biggest single investor in long-term securities. [84]

The Public Sector Bank, the Life Insurance Corporation and the Provident Funds together accounts for 85 per cent of the Securities•held by the Public, most of these institutions invest in securities only to hold them until maturity. [85] The Life Insurance Corporation of India successfully spread the message of Life Insurance in the country and has mobilised people's saving for nation building activities. The total business of the Life Insurance Corporation as on 31 March 1985, amounted to Rs. 44,169 crores of which individual insurance accounted to Rs. 33,951 crores. After nationalisation, the tremendous progress made by Life Insurance Corporation is reflected in the fact that during 1985-86 it is an individual insurance business of Rs. 7,059.47 crores under 3283 lakh policies. [86]

The LIC schemes aim at providing long term financial insurance to the families and dependents of individuals in the age group of 18-60 years. In the event of death of the members, Rs. 20,000 will be payable to the nominee. On death due to accident Rs. 50,000 will be payable to the nominee. In case of loss of two eyes, or two limbs or one eye and one limb in accident, Rs. 50,000 will be payable to the nominee. [87] The Union Government on June 2000 announced a group insurance scheme for those below the poverty line. Under this scheme the Life Insurance Corporation will cover people below the poverty line in the 18-60 age group, group consisting 25 or more people will be eligible for the scheme which is likely to cost about Rs. 150 crores in the first year. The premium payable to insurance companies will be Rs. 200 per annum of which the Centre will foot Rs. 100. The cost will be met from the social security fund of the LIC. The scheme will provide insurance cover of Rs. 20,000 for natural deaths, Rs. 25,000 for partial or permanent disability from accidents, Rs. 50,000 for deaths or total permanent disability in accidents. [88] The scheme is targeted at six crore individuals below the poverty line to be administered by the LIC [89]

Unit Trust of India (U.T.I.)

The Unit Trust of India (UTI) actually commenced its operations from July l, 1964 with an initial capital of Rs. 5 crores contributed by the RBI, the State Bank of India and its subsidiaries, the LIC of India and certain other scheduled banks and specified financial institutions. The general superintendence, direction and management of the affairs and business of the trust is vested in a Board of Trustees. The Board consists of ten trustees including a chairman and an executive trustee both of whom are appointed by the Reserve Bank of India. Four of the remaining trustees are nominated by the RBI, one each is nominated by the State Bank of India and the Life Insurance Corporation of India and the other two are elected to represent the rest of the contributing institutions.

An executive committee consisting of the chairman of the Board of Trustees, the executive trustees and two other trustees nominated by the R.B.I. have been empowered to deal with all matters within the competence of the Board subject to the Board direction of the Ministry. The Trust can borrow from the Reserve Bank, other banks and lending institutions. It can borrow from the Reserve Bank for a period not exceeding 90 days against trust securities. The Trust may, in special circumstances, also borrow from the Reserve Bank for a period up to 18 months against its own bonds issued for this purpose with the approval and guarantee of the Central Government.90

The UTI was established as a public sector investment institution for mobilising the savings of the community and channelling them into productive corporate investment so as to provide for the growth and development of the economy. It has several schemes towards this end.

Notable among them is the Units Scheme 1964, Mutual Fund, 'Master Gain', Master plus, etc.etc. [91]

It operates India's largest mutual fund. It offers schemes for every section of society. Balanced funds, regular income plans, schemes for children, schemes for women, post-retirement schemes, tax saving schemes, sectorial funds, Index fund, liquid funds, gift fund, funds for trust and societies equity funds, cater to the requirements of different sections.

The Unit Trust of India's US-64 Unit Scheme found favour with the middle class. It started with a big bang but could meet the aspirations and hopes of the investors. The Government had to intervene to bring back the Scheme to the tracks. It provided the necessary funds to the UTI to overcome its difficulties with regard to US-64 so as to gain public confidence and regain the credibility of the UTI. Despite ups and downs, it still commands the confidence of the investors, although there is a slight dent in its image created by the scams. It is time for the political executive to ponder over the problems with which the financial institutions in India are confronted. There is a need to restructure them as so to make them more efficient so that they can compete with the multinationals in the market. A businessman's approach in lieu of bureaucratic approach is an imperative. The infrastructure services have to be improved.

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