

DEVELOPMENT BANKING IN INDIA

ROLE AND PROBLEMS

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The creation of the machinery of the special financing institutions, more appropriately designated in economic literature as 'development banks', as an integral part of the deliberate and conscious attempt by the Government to orient the financial system to the requirements of planned economic development, has been, indeed, an outstanding institutional development in the emergence of an efficient industrial financing mechanism in India. From a modest beginning in 1948, with the setting up of the Industrial Finance Corporation, the machinery has been strengthened from time to time both by the addition of newer institutions with more flexible structures and by enlarging the resources and the scope of operations of the existing institutions¹. The present structure comprises three all-India institutions, namely, Industrial Finance Corporation of India, Industrial Credit and Investment Corporation and the Industrial Development Bank of India and two state-level/regional development banks: (i) State Financial Corporations and (ii) State Industrial Development/Investment Corporations. The object of this paper is to outline the role of development banks, as a group, in India and draw attention to the deficiencies that characterise the present structure.

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With a variegated structure, the development banking institutions, as a group, have played a significant part in the economic development of India via the investment market and have emerged as the backbone of the financial system. Their aggregative role falls into two broad groups: (i) Quantitative and (ii) Qualitative.

Quantitative Role:

The term 'quantitative', with reference to the part played by the development banks, as a constituent of the industrial financing system in India, refers to the magnitude of funds provided by them jointly to industrial enterprises. The amount of industrial financing by them, in quantitative terms, has, indeed, been massive. In fact,

¹ For an exhaustive account of, and the considerations underlying, the diversification of the development banking institutions, please refer to Khan, M. Y., *Indian Financial System*, 1979, Chapter VIII.