INTRODUCTION

The organisation of industrial finance of a country is a reflection of its historical background; a product of its socio-political-cum-economic endowments. This explains why the organisation of industrial finance varies widely even among countries pursuing the identical path to development. For example, the organisation of industrial finance that evolved and came to stay in England, because of the availability of merchant capital for investment in industries, is fundamentally different from many of its counterparts under free enterprise system in Europe where such merchant capital was not available. Similarly, the organisation of finance, consisting of an elaborate system of specialised banking institutions that developed in Japan, is in no way similar to the unit banking system of the United States of America.

In India, the English traders, who in course of time became the rulers of the country, brought with them not only the system of organisation of business that had evolved in England but also developed in India a banking system with which they were familiar in their home country. Managing agency houses, the principal organisation of English traders, with their ability to mobilise merchant capital from the overseas and investible surplus of the Europeans working in India, were in a position to meet the requirements of long-term fund for investment in industries promoted
or managed by them. Thus the commercial banking system that developed in India under the patronage of English traders was designed to facilitate foreign trade and commerce and was looked upon as the suppliers of short-term working capital only. Banks were established mostly in and around the port cities and thus the overwhelming majority of Indians living in rural areas remained outside the purview of the organised banking system and their surplus income over consumption continued to languish in stagnant and sterile traditional economic activities.

Modern joint stock companies, having been formed since the passing of the Companies Act in 1850, assumed the principal form of the organisation of business in India by the end of the nineteenth century. The activities which yielded easy profit or had good overseas market attracted maximum investment in the absence of any policy of the State with respect to industrial development. Thus, trade, finance and banking, commercial fibres and extractive activities had the credit of having the maximum number of joint stock companies and the lion's share of capital invested in the corporate sector by the end of the century.

Twentieth century brought immense hope for Indian industries, as under the influence of the Swadeshi Movement (the movement for the independence of India), the hitherto hidden enterprise and investible surplus of the people of India came to be
foregrounded in a pronounced manner. The overwhelming success of some of the exclusively Indian initiatives, including the initiative undertaken by the Tatas for the first ever steel mill in the country, proved beyond doubt that under ideal conditions low per capita investible surplus of ignorant and unorganised people can be pooled for investment in industries.

In 1920s and 1930s a number of banks and financial companies were formed for providing the Indian entrepreneurs with necessary fund for investment in industries. The fire of patriotism, however, failed to compensate for the absence of experience in industrial banking; hence, the attempts failed, leaving behind insatiable demand for specialised financial institutions capable of meeting the requirement of industrial finance. Meanwhile, however, against the background of a favourable atmosphere for industrial development provided by World War I, preceded by the opening of stock exchanges in Bombay, Calcutta and Madras provided the first ever opportunity to the Indian investors to invest directly in shares of companies.

The Government of independent India realised that the industrial development of the country could not obtain without having provisions for finance. It was found that with the exception of companies under the leading managing agents, industries in India generally found it difficult to raise long-term capital. Thus, in order
to make such capital available to the industrial concerns, particularly in circumstances where accommodation from commercial banks were either insufficient or unavailable and recourse to capital issue was inappropriate, the Central Government decided to set up development banks. To begin with, the Industrial Finance Corporation of India was set up in 1948, within a year of the independence of the country, by an Act of Parliament. In 1951, State Finance Corporations Act was passed for enabling the State Governments of India to set up finance corporations in each State for providing term loans to medium and small-scale industries within their respective States. With the opening of a few more development banks in subsequent years there are, at present, a chain of development banks in the country which not only provide term finance but also invest directly in corporate securities, underwrite the new issues of securities, provide managerial and technical guidance and guarantee repayment of loans taken by industrial and business entities from other sources, including the foreign ones. Development banking has assumed a new dimension in the recent past with the inclusion of merchant banking within the scope of its operations.

For creating an orderly financial system, along with the nationalisation of the Reserve Bank of India, the Banking Companies Act was passed in 1949, which invested the Reserve Bank of India with extraordinary powers of supervision and control over the banking and financial system of the country. Subsequent extension of direct
control of the State over the commercial banking system of the country, through the nationalisation of principal commercial banks in different stages, was yet another milestone in the direction of the State's endeavour to make the banking and monetary system subservient to the needs of national development.

For making the insurance sector more responsible, and also a dependable tool for mobilisation of savings of the household sector, the life insurance business was nationalised in 1956. Nationalisation of general insurance business in 1973 ensured investment of the profits of insurance business according to plan priorities. Perhaps the most significant innovation in the sphere of mobilisation of small savings for investment in corporate securities is represented by the setting up of the Unit Trust of India in 1965 as the first ever State-owned organisation exclusively for operating mutual funds in the country.

Besides creating an elaborate network of development banks and other non-banking financial intermediaries for providing directly the much-needed capital for industrial development and indirectly helping and assisting the development of corporate securities market, the State also endeavoured to create an atmosphere of trust and faith through protecting the interests of investors in corporate securities. A number of legislations were passed for ensuring discipline in dealings in corporate securities and affording
protection to investors and owners of corporate securities.

THE OBJECTIVE AND SCOPE OF THE STUDY

Thus the policy for industrial development pursued since the attainment of Independence received solid support from a meticulously-spun network of development banks which sought to meet the diverse needs of the corporate sector, principally the need for long-term fund. The horizon of operation of other financial intermediaries, banking and non-banking, were either extended or so designed as to make them helpful instruments in the process of economic development. The present study seeks to identify, analyse and evaluate the specific role of development banks in India against the background of the circumstances mentioned above.

It is modestly claimed that the study is a significant attempt to provide an integrated factual analysis of the different aspects of the role of development banks, since their inception in India, in financing the growth of private corporate sector in the midst of a host of other State-owned financial intermediaries. Development banks not only confined their activities to the direct supply of finance for industrial development but also engaged themselves in other activities designed to facilitate the growth of the
corporate securities market in the country in harmonious conjunction with other banking and non-banking financial intermediaries.

THE PLAN OF THE STUDY

The study is divided into seven different chapters. Chapter one gives a detailed account of the emergence and growth of the corporate form of organisation of business in India since the days of the East India Company and the process of financing the growth. Chapter two examines the role of Managing Agents in promoting and financing the private corporate sector in India. The chapter also underlines the different aspects of the role of this unique European innovation in India. Chapter three makes an indepth analysis of the changing role of commercial banks in India since the days of their inception in the early nineteenth century. Developed under the initiatives of English traders, the Indian commercial banks had all the attributes of British orthodoxy. But, the Independence of the country as well as the subsequent extension of the control of the State over the banking system has changed, to a considerable extent, the course of their operations with respect to industrial finance. Chapter four depicts the increasingly important role played by the principal State-owned non-banking financial intermediaries in meeting the needs of the private corporate sector. The financial
intermediaries included in this chapter are the Life Insurance Corporation of India, the General Insurance Corporation of India and the Unit Trust of India. Development banking is not an Indian innovation. Countries throughout the world, the developed and developing, have set up specialised financial institutions for taking care of the financial needs of the corporate sector ever since they came into being. A brief history of the emergence and growth of the specialised financial institutions and development banks in the countries of Asia, Africa, Europe and America has been provided in Chapter five. A critical appraisal of the different aspects of the emergence and growth of development banking in India has been presented in Chapter six. The programme of industrialisation introduced through five year plans called for investment in massive doses which far exceeded the capacities of traditionally operating institutions in India. Under these circumstances the development banks had to shoulder the responsibility of not only providing the long-term fund for industrial development but also developing the corporate securities market and other ancillary facilities through such services as underwriting of new issues and merchant banking and so on. All these aspects of development banking have been examined in this chapter. Chapter seven contains conclusions drawn on the basis of the facts and analyses presented in the preceding chapters and also incorporates suggestions for further enhancing the effectiveness of development banks in the context of the changes that are taking place in Indian economy.
Almost all the statistical data on which the study is based are original. These data have been collected mainly from the publications of the Reserve Bank of India, Department of Company Affairs, Ministry of Finance (Government of India), Department of Company Law Administration (Government of India) and Department of Commercial Intelligence and Statistics (Government of India). Information about different development banks and non-banking financial intermediaries were collected from the Annual Reports and other periodical and occasional publications of the Industrial Development Bank of India, the Industrial Finance Corporation of India, the Industrial Credit and Investment Corporation of India Ltd., the Life Insurance Corporation of India, the General Insurance Corporation of India and the Unit Trust of India. For ensuring accuracy and continuity of data, very often more than one source have been consulted for the same piece of information. Reports of different agencies of the Government of India, the World Bank and the United Nations have also been consulted. Supplementary information obtained through personal interviews with the executives of some development banks and financial intermediaries enriched our study. Newspapers and Journals of repute, publishing relevant data, continued to provide current information. In spite of our best efforts, collection of data uniformly upto 1992-93 could not be made in all cases mainly because
of irregularity in the periodicity and form of publication of data by the relevant agencies and departments. Changes in the form of publication of data also prevented us from using the same sources all through in some cases. However, utmost care has been taken in using and analysing the data to do away with even minor distortions.