Chapter-I
Introductory Background and Framework of the Study

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CHAPTER-I
INTRODUCTORY BACKGROUND AND FRAMEWORK OF THE STUDY

1.1. Introduction

The Indian financial system of the pre-reform period essentially catered to the needs of planned development in a mixed-economy framework where the Government sector had a predominant role in the economic activity. As part of planned development, the macro-economic policy in India moved from fiscal neutrality to fiscal activism. Such activism meant large developmental expenditures, much of it to finance long-gestation projects requiring long-term finance. The sovereign was also expected to raise funds at fine rates, and understandably at below the market rates for private sector.

Financial sector reforms, as a matter of fact, are at the center stage of the economic liberalization that was initiated in India in mid 1991. This is partly because the economic reform process itself took place amidst two serious crises involving the financial sector: at the first instance, the balance of payments crisis that threatened the international credibility of the country and pushed it to the brink of default. At the second stance, large-scale pre-emption of resources from the banking system by the government to finance its fiscal deficit, besides, excessive structural and micro regulation also inhibited financial innovation and increased transaction costs. Relatively inadequate level of prudential regulation in the financial sector; poorly developed debt and money markets; and outdated technological and institutional structures. It made the capital markets and the rest of the financial system highly inefficient, buffeted the crisis deepen further to feint the economy at a critical juncture.

It was only in July 1991 that the paradigm shift in the economy took place with the introduction of New Economic Policies (hereafter NEPs) focusing on financial sector reforms to create an efficient competitive and
stable financial sector, which could then contribute in greater measure to stimulate growth. Concomitantly, the monetary policy framework made a phased shift from direct instruments of monetary management to an increasing reliance on indirect instruments. Since the initiation of reforms the Indian economy has achieved high growth in an enabling environment of macroeconomic and financial stability.

The post-reform period has been marked by broad-based economic reform that has touched every segment of the economy. These reforms were designed essentially to promote greater efficiency in the economy through promotion of greater competition. The one and a half decades of the post reforms have seen major improvements in the working of various financial market participants. The government and the regulatory authorities have followed a step-by-step approach, although not a big bang one. The entry of foreign players has assisted in the introduction of international practices and systems. Technology developments have improved customer service. Some gaps however still remain. On the whole, the cumulative effect of the developments since 1991 has been quite encouraging. An indication of the strength of the reformed Indian financial system can be seen from the way India has been growing incredibly achieving approximately 9.4 percent growth in GDP. The projection of GDP growth in the 11th plan is 10 percent on an average; no mean achievement by any standard for any individual economy.

1.2. Statement of Problem

Financial sector reforms have its ultimate impact on banking sector especially development banking in India. The last decade of the 21st century witnessed the maturity of India's financial markets. Since 1991, all the governments; both state and central, took major steps in reforming the financial sector of the country. The last few years witnessed a consecutive decrease in the sanctions and disbursements of the development banks and in case of performance they are still going ahead due to diversification and other strategies. Since liberalisation, the pattern and trends in sanctions and
disbursement is continuously changing. The backward areas are found to be neglected by these primary sources of their development funds.

As a result of the financial sector reforms and follow up activities, the development banks in India are now converting themselves towards pure commercial banks, which is already in later stage of development in India. The changing trends of these institutions have not happened by a single incident but it was the result of the policies initiated by the government from time to time to safeguard the interest of public without any forward looking to the future. The various committees, such as, Narasimham Committee (1991 and 1997)\textsuperscript{d}, set up for the revival of banking sector and financial institutions in India recommended strongly to convert all these financial institutions into NBFCs or commercial banks to avail the cheap sources of funds, which are already available in the market, and also to enable them for the survival in the future.

However, these banks have now entered into a new era of business forte, which enabled them to be more competitive, and to dominate in the financial market with their strong capital base, which has already been developed by them through their sound institutional set up and framework. But the modus operandi of these banks is now continuously changing towards class banking, targeting only a particular class. However, the current pattern and trends in the business dimensions of these development banks are now going to achieve high growth rate through their high degree of operational efficiency and strong marketability and efficiency.

These aspects of problems regarding their operational highlights and contributions to the institutional development of Indian economy, changing of their policy matters due to the reformist movement of the total economy, achievements in institutional building are going ahead to the mark-up. Therefore, it is necessary to recheck the activities of these development banks in the new era of third generation reforms, which seem to be more reliable for further development for both the economy without omitting the concept of welfare state.
The thesis in question would seek to go into the nitty-gritty of the aspects pertaining to the financial sector reforms vis-à-vis the modus operandi and their performance appraisal in the post economic reforms era. The following paragraphs present a comprehensive literature review on financial sector reforms and their impact on various institutions especially the Development Financial Institutions (hereafter DFIs) in India.

1.3. Review of Literature

A good number of studies have been conducted in the areas of both financial sector reforms and their impact on development banking in India, consisting of number of research articles, books, theses and various other government and non-government publications. Notwithstanding the fact, the studies are comparatively a few in the particular area, which have combined both impacts of the reforms and its impact on development banking. The present research work is related to both the aspects of development banking and reforms. The following comprehensive review of literature is discussed in two categories i.e. reforms related and banking and development finance related.

1.3.1. Review of Literature on Financial Sector Reforms:

Peter Lawrence, Ibotombi Longjam⁵ (2003), in their paper entitled “Financial Liberalization In India: Measuring Relative Progress” analyse different aspects of the development of India’s financial sector particularly after 1990 when financial liberalization began, focusing on the ratios of private sector credit to GDP, liquid liabilities of the financial sector to GDP, commercial bank assets to total banking sector assets, and stock market capitalization to GDP. The authors provide evidence that though there is a general rise in the trends of all the financial indicators, yet liquid liabilities and private credit grew slowly after financial liberalization. However, the bank assets and stock market capitalization have shown significant increases during the 1990s. The cross-country analysis shows that Indian performance in the financial sector is slow compared to the high-income and fast growing countries. Thus keeping in view the current trend of Indian performance in the financial sector, this paper
calls for greater attention to the development of India’s banking and financial institutions.

Another study on banking sector reforms is of Jayanth R. Varma, V. Raghunathan, A.Korwar and M.C. Bhatt, (1992). The authors make an attempt to give some additional ramifications and suggestions agreeing with the general thrust of the Narasimham Committee Report. This analyse some possible fallout from implementing the report. The authors agree with the view that control of banking system should be under an autonomous body supervised by the Reserve Bank of India (hereafter RBI). However at the level of individual banks, closer scrutiny of lending procedures may be called for than is envisaged in the report. They recommend freeing up the operation of pension and provident fund to enable at least partial investment of such funds in risky securities, such as, equity shares and innovative investments and venture capital. In the corporate sector, the current 2:1 debt equity norm is too high and not sustainable in the long term. The study envisages that high debt levels and higher interest rates, combined with higher business risk may result in greater incidence of corporate sickness. This may call for various schemes for retrenched workers and amendment to land laws for easy exit of companies. On account of interdependencies across different policies, any sequencing of their implementation may be highly problematic. The study also therefore suggests a near simultaneity in the implementation of various reforms in order to build up a momentum which would be irreversible if people are to have confidence that the reforms will endure.

Jayanth R. Varma, (2002), in his paper brought to fore that hopes that were raised by the impressive progress in the initial years of the reforms have not been fulfilled. The state has not relinquished its grip on the financial sector. Except in isolated pockets, competition has not been unleashed in the financial sector on a scale sufficient to produce visible benefits in terms of efficiency, innovation and customer service. The paper outlines the unfinished agenda of reforms in the financial sector. The most important and urgent task that remains to be done is that of dismantling the structural and micro regulations that have
accumulated over several decades of a command economy. The author emphasizes on the pressing problems of the financial institutions need to be addressed by radical restructuring, downsizing of the balance sheet, re-capitalization and eventual privatisation. All quantitative credit controls and measures related to direct credit should be withdrawn. The payment system must be modernized rapidly by the rapid adoption of technology.

Jayanth R. Varma\(^8\), (1997) in his another study evaluates the context of the relatively recent deregulation of interest rates in India, and analyses the structure and inter-relationships of money market interest rates and studies the extent to which covered interest parity holds in India. The paper shows that there was a major structural break in September 1995 when in the wake of turmoil in the foreign exchange markets, covered interest arbitrage came into play in a big way for the first time. However, the covered parity violations also reflect distortions in the money market rates and in the formation of expectations. Though the money market is free from interest rate ceilings, structural barriers and institutional factors continue to create distortions in the market. Apart from the overnight inter-bank (call market) rate, the other interest rates in the money market are sticky and appear to be set in customer markets rather than auction markets. It concludes with an assumption that a well-defined yield curve does not therefore exist in the Indian money market.

One of the important studies on Indian policy reforms was made by Singh Nirvikar, Srinivasan T. N\(^9\), (2002). The authors in the paper endeavoured to focus upon the different dimensions of economic reforms in India. The paper examines several dimensions of economic reform in India, in the context of the country’s federal system and of globalization, i.e., it explicitly recognize that the national government has sub national governments below it, and that all these layers of government simultaneously interact with foreign governments and corporations in a global economy. It also examines two groups of reforms, the first involving redrawing of state-market boundaries, and the second is concerned with reconfiguring federal institutions themselves. The first group includes financial sector reforms, assignment of
regulatory powers, infrastructure reform and development, and privatization. The second group of reforms includes tax reforms, reform of center-state fiscal transfer mechanisms, and local government reforms. To some degree, these reforms in federal governance hold the key to opening the door to further reform elsewhere, by reducing the fiscal burden placed on the private sector by government deficits. The paper further discusses the possibility that growing regional inequalities might require the intergovernmental transfer system to be more efficient and effective in its objectives.

A study on impact of liberalisation of Sonia Bhalotra's (2002) assesses changes in the level and structure of employment and wages in India, relating them to trends in productivity. The discussion is set in the context of the ongoing economic reforms in India. It therefore focuses on developments through the 1980s and 1990s relative to the previous period. In reviewing available studies of liberalization and the labour market in India, the paper argues that they suffer from a failure to recognize the importance of theory in formulating hypotheses and in offering a framework within which to cast opposing views. The study has made an attempt to discern important features of the data and to summarize what have been learnt so far, while delineating directions (and methods) for further research. It is important to stress that it is almost impossible to ascribe causality to relations that describe changes that have occurred since the start of the reform process and to note that the reforms are still in progress. It concludes that the experience of economic liberalization in India appears to have been better than in many other countries. In the economy as a whole, the worker-population ratio fell in the mid-90s after having increased for the previous two decades. The unemployment rate increased at this time but it is unclear whether this signifies a lengthening of unemployment spells and a worsening of job opportunities or whether it simply denotes a greater degree of transitional or frictional unemployment as labour is reallocated towards the more productive sectors. Average daily earnings per person per annum in the economy increased at a significant pace in rural and urban areas and for men and women. Poverty incidence declined. The paper
has pointed to directions for further research, which remains very relevant as the reforms are continuing.

Mishra Raj\textsuperscript{11}, (1999), in his paper highlights two key elements of the impact of liberalisation and privatisation that are considered being crucial for political intervention by the people at this time. In the backdrop of the East Asian, Russian, and Brazilian crisis, and the impending crisis in the world economy, India is anxiously waiting for what may come its way next. The study describes the political and bureaucratic barriers in the passage of the economic reforms in India that delayed India’s economic growth. The study further focuses to reiterate that the time is now to put the war on poverty on the agenda. It is time to stop treating this as a policy objective, but to make this the program in itself. This means that it is necessary to elaborate on the strategy and tactics of this war, and to organise people behind this.

The study on efficiency evaluation of banks in the post liberalisation regime authored by Paroma Sanyaland, Rashmi Shankar\textsuperscript{12}, (2005), investigates the impact of the 1991 financial sector liberalization on bank performance in India. The policy makers in developing countries have had to confront the issue of financial sector reform and resilience in the light of recent crises in East Asia and Argentina. In addition to the potential role as growth facilitator, an effective and robust financial sector is widely agreed to be a pre-requisite of capital account liberalization especially relevant issue in India, still in the process of integrating with global financial markets after one and a half decades of reforms following the 1991 balance-of-payments crisis. The analysis clarifies both the extent to which reforms have been effective and the strategies that have yielded the highest dividend. The empirical strategy is novel in the paper. The variables have been developed which include measures of competition and diversification that permit us to distinguish between greater profitability through enhanced productivity as well as through output expansion. The measures of performance of the researchers include productivity, profitability and spreads. The estimation sample contains the universe of 299 banks operating in India over the period 1991 - 2001. The
main results of the study are that reforms have significantly enhanced the productivity of private banks vis-à-vis public sector banks. Total assets and total credit advanced have grown over the sample period. The authors found that the foreign banks outperform Indian private banks, and overall competitiveness has improved. Increased competition has had a stronger positive effect on the productivity of domestic banks than on foreign banks. Foreign banks outperform Indian private sector banks. Also the authors found that profitable banks are more likely to be leveraged, to have a diverse range of output, to be operationally efficient, and to have high spreads.

Another study on economic reforms and Foreign Direct Investment (hereafter FDI) by Chandana Chakraborty, Peter Nunnenkamp (2006), describes the FDI has boomed in post-reform India. Moreover, the composition and type of FDI has changed considerably since India has opened up to world markets. This has fuelled high expectations that FDI may serve as a catalyst to higher economic growth. The study also assesses the growth implications of FDI in India by subjecting industry-specific FDI and output data to Granger Causality tests within a panel co integration framework. It turns out that the growth effects of FDI vary widely across sectors. FDI stocks and output are mutually reinforcing in the manufacturing sector. In sharp contrast, any causal relationship is absent in the primary sector. Most strikingly, the report finds that only transitory effects of FDI on output in the services sector, which has attracted the bulk of FDI in the post-reform era. These differences in the FDI-growth relationship suggest that FDI is unlikely to work wonders in India if only remaining regulations were relaxed and still more industries opened up to FDI. On the other hand, the results clearly suggest that the currently prevailing euphoria about FDI in India rests on weak empirical foundations. However, these undisputable achievements of the post liberalisation globalization seem to be highly concentrated in a few clusters, both region-wise and industry-wise, whereas large parts of the economy provided by far less favourable conditions for FDI to have stronger growth effects.
An evaluation of financial liberalisation has been critically done by Ghosh Jayati\textsuperscript{14}, (2005). The author criticizes the neo-liberal economic reform programme which entailed a changed relationship of government interaction with economy and polity. It was not a “withdrawal of the state” so much as a change in the character of the association. Thus, while the state effectively reneged on many of its basic obligations in terms of providing its citizens access to minimum food, housing, health and education, it was still the case that state actions were essential in determining the way in which markets functioned and the ability of capital to pursue its different goals. Government and bureaucracy remained crucial to economic functioning; in fact the overall context became one of greater centralisation of economic and financial power. Many had believed that a "retreat of the state" and the exposure of the economy to the discipline of the market would cut out arbitrariness of decision-making and the corruption that is inevitably associated with it. The paper also criticizes the overall, financial sector reforms took place as partial fulfilment of the steps towards globalisation which affected the financial institutions and commercial banks that run away from common people from their fundamental implications.

The study on co-operative banks under reform agenda by Dr K Ramesha\textsuperscript{15}, (2003), discusses about extension of financial sector reforms programme mainly the prudential standards to cooperative banking segment on par with commercial banks. Logically, if the prudential standards, and supervision and regulation for cooperative banks were same as that of commercial banks, then there would not be any difference worth mentioning between these entities other than the holding pattern. The notion of a code of good practices though intuitively appealing, the temptation to prescribe universally valid model codes which do not allow for differences in institutional development, legislative framework, and more broadly different stages of development must be avoided. The increasing external intervention in the era of reforms, many a times beyond the functional aspects of cooperative banks has resulted in the dilution of cooperative character in terms of their adherence to cooperative principles. The paper identifies several broad
areas for the intervention of researchers under three categories, i.e., prudential standards, professional management and governance, supervision and regulation against the backdrop of financial sector reforms. While maintaining the thrust on cooperative character throughout the discussions, it is argued that if cooperative character of credit cooperatives is to be preserved or promoted, then the prudential norms, system of governance and supervision and regulation, all should emanate from the guiding principles of cooperation.

The Task Force Report\textsuperscript{16}, (2006), on Economic Reform in India, documents current conditions and catalogues still-needed reforms across India. The central question is not what needs to be done. The authors find that there are pockets of innovation throughout the economy, such as, the government’s use of the Internet to fight corruption, but much of the population continues to live in shockingly bad conditions. Moving India forward is one of the great opportunities of the early 21st century. India is emerging as an important trading partner and as a political counterbalance to Chinese power in Asia – but its power depends on its ability to continue growing.

An assessment of total banking sector reforms by Sayuri Shirai\textsuperscript{17}, (2001), states that in many cases, the timing of financial sector liberalization coincided with that of capital account liberalization. Domestic banks were given access to cheap loans from abroad and allocated those resources to domestic production sectors. The paper focuses on India’s banking sector, which has been attracting increasing attention since 1991 when a financial reform programme was launched. It assesses whether the reform programme has been successful so far in restructuring public-sector banks and if so, what elements of the programme have contributed. This paper tackles the said fundamental questions.

The World Bank Report on Financial Sector Reforms by Précis, an Oed Study \textsuperscript{18}(1998), commends on financial sector assistance. It endorses that an emerging wisdom sectoral reform is a long, complex process that requires a sustained commitment by the Bank. As the Asian crisis continues to unfold, the Bank needs to acquire a deeper understanding of the dynamics of sectoral
reform. The track record suggests, in fact, that financial reform has fallen on hard times both across countries and at the Bank. The study further finds that in only 12 of 23 sample countries outcomes of financial sector policy and/or institutional reform can be deemed satisfactory. Financial systems throughout the world have now been undergoing rapid change; technological, institutional, and competitive for the past 15 years. The shift toward financial deregulation and liberalization across the global community has led increasingly to financial integration which has brought crisis to some countries unprepared for it, and highlights the fragility of the financial sectors of some others.

Another policy review study of Raghuram Rajan, Shah Ajay (2003) reveals that the financial sector reforms of the last decade have often been responses to short-term problems. In this article, the authors try to refocus on the two fundamental issues offering some proposals for metrics, which can be used to create a ‘report card’ about how the financial sector is faring, which is focused on these issues. Information processing takes place well when economic agents have sound incentives for engaging in information processing. Every aspect of financial sector policy should be judged in terms of its impact upon the incentives of actors and the impact upon information processing. The study admits that India has a sound foundation of institutional capacity and market design on the equity spot and derivatives markets. The paper, argues that disentangling these problems is closely related to the question of making the arms length securities markets function better, and exploiting their strengths in information processing and risk taking. The study further highlights that there are considerable problems in the regulation of banks, insurance companies and pension funds. The study concludes that in these areas, there is a complex combination of problems including the moral hazard of government guarantees (implicit or explicit), public sector ownership, and a regulatory stance that stifles innovation, information processing and risk-taking. There is a need to initiate a broad range of initiatives in disentangling these problems of these three groups of finance companies, obtaining a sound regulatory architecture, and obtaining world class regulations and regulatory capacity.
Mohan Rakesh (2006\textsuperscript{20}) (2005\textsuperscript{21}), made an effort to illustrate that, India's path of reforms has been different from most other emerging market economies. It has been a measured, gradual, cautious, and steady process, devoid of many flourishes that could be observed in other countries. In his first paper (2005) he argues that reforms in the financial sector and monetary policy framework have been a key component of the overall reforms that provided the foundation of an increased price and financial stability. Reforms in these sectors have been well sequenced, taking into account the state of the markets in the various segments. The paper concludes that as the economy ascends a higher growth path, and as it is subjected to greater opening and financial integration with the rest of the world, the financial sector in all its aspects will need further considerable development, along with corresponding measures to continue regulatory modernization and strengthening.

His one more research paper (2006\textsuperscript{22}), analyses all the current both micro and macro fast developments in terms real, external, fiscal. It envisages the route towards the further developments through widening the reforms agenda towards all areas of economy. The paper summarises that Indian economy maintained impressive growth performance during 2005-06 so far. However the paper concludes that the financial sector has remarkable achievements in India’s financial development and it gives further way to improve the efficiency in all the segments of the country’s economy.

In the paper of Prema-Chandra Athukorala and Kunal Sen\textsuperscript{23}, (1997), the determinants of private corporate investment in India with emphasis on the implications of the policy reforms initiated in 1991 has been covered. The results suggest that the net impact of the reforms on corporate investment has been salutary. The adverse impact of the decline in public investment has been outweighed by the positive effects of the decline in the cost of capital and favorable changes in investor perception brought about by the reforms. While it is not possible to generalize from a single country case, the results cast doubt on the existing cross-country evidence of a negative impact of structural adjustment reforms on private investment.
An analysis of the financial liberalisation by Hrushikesh Mallick, Shashi Agarwal, (2005), attempts to evaluate the impact of short-term real interest rate on growth rate in India in a liberalized financial and trade regime (1993-94 to 2005). The study finds that interest rate does not have a direct impact; rather it may have an indirect and adverse impact on growth rate through the transmission channel of bank credit, thereby neither supporting the arguments advocated by Keynesians nor the explanations offered by the proponents of Financial Liberalisation School. The authors suspect that this incredible result may be due to the poor quality of credit disbursal of the banking sector in India or low credit off take for productive investment purposes. As investment, an important determinant of economic growth is governed by a host of other factors. Rather, it is the growth rate of export, which has got significant impact on growth rate in a financial-trade liberalized regime, strengthening the export-led growth hypothesis in the Indian context. Therefore, the study emphasizes that financial liberalisation has to come with other required reforms or policy changes for hastening the process of growth. As banks are an integral part of financial system, the central bank which is the apex and coordinator of the banking system has to be very cautious about its policy exercises for ensuring the sustainability of the banking system as a whole in the country as their inefficiency may result in precautionary effect on the whole economy or the breakdown of the financial system in the country.

Francis A. Menezes, (1996), in his study on implication of liberalisation narrates that since its financial crisis in 1991, India has slowly travelled down the path of economic liberalization and structural adjustment. Though India has followed these programs, the study tries to criticize and find out what has been the impact on the nation and whether the economic liberalization brings economic equity, prosperity, and growth for all or it led India down the path towards Armageddon. With the financial crisis radiating from South East and East Asia, one continually hears economists and financial leaders pressing these countries toward liberalization of their economies, under the dictation of the International Monetary Fund (hereafter IMF). The study
finds that yet, in the drive for such austere programs, the people those most affected and bearing the greatest burden are forgotten. The notion of economic liberalization is heavily skewed not only in its origins, but also in its practice. And finally it suggests that the greatest proponent of this liberalization is the IMF though the IMF is supposed to represent the global community, for all practical purposes. The IMF takes its “marching orders” from the U.S. Department of Treasury and other Western finance ministries.

One of the significant studies of Patnaik Prabhat, (1999), criticize that the term "financial sector reforms" is a euphemism for "financial liberalisation" which the Breton Woods institutions have been advocating for Third World economies, and which a host of them as well as former socialist countries like Russia have actually adopted. The essence of financial liberalisation consists in three sets of measures; first, to open up a country to the free flow of international finance. Secondly, to remove controls and restrictions on the functioning of domestic banks, and other financial institutions so that they get properly integrated as participants in the world financial markets. Thirdly, to provide autonomy from the government to the central bank so that its supervisory and regulatory role vis-à-vis the banking sector is dissociated from the political process of the country, and hence from any accountability to the people. As against such a regime, the real alternative to the deregister strategy of the Nehruvian kind lies elsewhere. If land reforms, larger public investment and social expenditure financed by direct taxes on the rich and decentralized decision-making by elected bodies constitute the core of an alternative development strategy, then the appropriate financial regime must be one that dovetails with this alternative strategy. Subordination of finance to the needs of production is an essential condition of growth. This is what underlay the Asian miracles and this is also what the Indian deregister strategy brought about. The problem with the latter was not this fact of subordination but the fact that the strategy itself was at fault. The paper also stresses and suggests that it has to be replaced by a democratic re-distributive strategy, and the direction of financial reforms must be, such as, to serve such a strategy. In
other words, what are needed are financial reforms in keeping with an alternative democratic strategy, not financial liberalisation.

B.B. Bhattacharya, Sabyasachi Kar\textsuperscript{27}, (2006), in their study with regards to measure the performance of the Indian economy during the last quarter of a century have brought it to the forefront of discussions on development economics. The authors state that barring China, no other country has evinced as much interest in its growth performance as India has, particularly in the context of its adopting market friendly reforms since the nineties. Part of this interest is due to the fact that even after growing at a fast rate to become one of the largest economies in the world, the Indian economy still has large reserves of untapped human resources and productivity enhancing capabilities to grow even faster and in a sustained manner. The crucial issue is whether the economy is on track to achieve such growth rates in the future. This study looks at the future growth prospects of the Indian economy based on the forecasts of a macro-econometric model. The study forecasts a sharp deterioration in the external balances during the eleventh plan period. The study further warns that unless the capital balance remains robust, the economy may not be able to sustain high oil prices in the long run.

Lahiri K Ashok\textsuperscript{28}, (2006), in his paper examines the future steps for India’s sustained development in the ongoing reforms agenda, through its major sub-sectors; Banking, Insurance, Pension and Capital markets. The study critically evaluates the issues and challenges for of India’s future reforms that maintained the comparison between the world scenarios with Indian outward investment policies. The study is an empirical work on the issues related with Indian currency crisis and its solution for recovery.

The assessment made by Panagariya Arvind\textsuperscript{29}, (2001), in his paper concludes that if India grows at 6 percent per annum on a sustained basis it will take 14 years to reach the current level of per capita income of People’s Republic of China, 36 years to reach Thailand’s, and 104 years to reach that of the United States. Thus, the need for accelerated growth can hardly be overemphasized. The study finds at the same time, the task of implementing
reforms in a democracy is complex. Therefore, those wishing for rapid reforms will need to be patient. The good news, however, is that the experience of the past decade shows that change can occur. The study suggests that the success of the reforms in delivering growth and poverty reduction must make the road to future reforms less bumpy. The study further realizes that the support for reforms today, though far from universal, is fortunately much stronger than it was 10 years ago.

An international comparative study of Philip Arestis\(^3\), (2000), begins with an examination of the experience of a number of countries that implemented financial reforms and were faced subsequently with severe financial crises followed by a discussion of the theoretical problems of the model that underpins the reforms which is essentially the model based on the work of McKinnon\(^3\) (1973) and Shaw (1973\(^3\)). It summarizes that the worldwide financial reforms and financial liberalization in particular; have been at the root of many recent cases of financial and banking crises. In several countries financial reforms allowed real interest rates to reach levels exceeding 20 percent per annum in some cases; in other cases, banking and financial crises led to currency crises. National governments either abandoned attempts at implementing financial liberalization (some countries even re-imposed controls) or were forced to intervene by nationalizing banks and guaranteeing deposits.

The two comparative studies of developing countries with special reference to India made by T.G. Arun J.D. Turner\(^3\), (2002), and R.N. Agarwal\(^3\), (2002), are based on the premise that the success or failure of financial sector reforms depends heavily on country specific factors. The studies make an attempt to examine these factors in the Indian context. The financial sector reforms analyzed in the papers include the deregulation of interest rates, increasing competition and foreign ownership, and the introduction of financial supervision. The studies further argue that an economic rationale for a gradualist approach to financial reform is that it is stability enhancing. Furthermore, the studies suggest that India's complex
political economy has resulted in a gradual approach to reform, and this approach has been successful along the dimension of banking stability. But the second study has a set of objective to analyze the impact of financial sector reforms in India during 1990s on the development of its financial system and to assess the possible vulnerability of the Indian economy to financial crisis as it integrates into the world economy. The Indian financial system is found to have integrated itself, though mildly, with the rest of the world in terms of trade flows, flow of foreign capital and interactions on the stock markets. The studies pointed out that the Export growth has declined drastically in the last two years. Saving rate has not increased in the recent past and the ratio of hot money to the foreign exchange reserves has crossed the danger level of 60 percent resulted in providing a mixed picture of the Indian economy.

One more relevant study on the same aspect authored by Philip A. Restis, Panicos Dem Etriades, Bassam Fattouh, Kostas Mouratidis\(^5\), (2002), provides a novel assessment of the effects of several types of financial policies on financial development in six countries. Specifically, it uses a new data set on interest rate restraints and reserve and liquidity requirements for a period of forty years, the collection of which represented a major research effort. It utilizes modern time series methods to examine the effects of financial policies on financial development, controlling for the level of economic development. The empirical findings demonstrate that the real interest rate has a positive and significant long run effect on financial development in four out of the six countries examined and no significant effect in the other two cases. Interestingly, it finds that while financial restraints in some cases have negative direct effects, there are also cases where their effects are positive. Thus, the empirical findings demonstrate that the main predictions of the financial liberalisation literature do not receive full empirical support, a result that is consistent with the prevalence of financial market imperfections.

Ali Ataullah, Tony Cockerill and Hang Le\(^6\), (2000), in their paper provide a comparative analysis of the evolution of the technical efficiency of commercial banks in India and Pakistan during 1988-1998, a period
characterized by far-reaching changes in the banking industry brought about by financial liberalisation. Data Envelopment Analysis is applied to two alternative input-output specifications to measure technical efficiency, and to decompose technical efficiency into its two components, pure technical efficiency and scale efficiency. The study also checks the consistency of the estimated efficiency scores by examining their relationship with three traditional non-frontier measures of bank performance. In addition, the study examines the relationship between bank size and technical efficiency. The study further finds that the overall technical efficiency of the banking industry of both countries improved gradually over the years, especially after 1995. Unlike public sector banks in India, public sector banks in Pakistan witnessed improvement in scale efficiency only. It also finds that banks are relatively more efficient in generating earning assets than in generating income. The study finally attributes this to the presence of high non-performing loans.

Christian Roland (2006), in his paper states that India and China both have started banking sector reforms after decades of heavy state involvement. This paper takes a comparative perspective on the reforms in the two countries by analyzing the reform progress made since the early 1990s along the lines of the policy recommendations of transformation studies, evaluating the results using the CAMEL framework, and discussing political-economy factors that may have contributed to the respective reform outcomes. The key findings are: India and China have followed most of the policy recommendations in the areas of liberalization, institution building and structural change, while privatization of state-owned banks has lagged in both countries. India has generally proceeded faster with banking sector reforms and outperforms China on most indicators. From a political economy perspective, a common restraining factor on the reforms are the ailing state-owned enterprises that lack hard-budget constraints, and the influence of interest groups in areas, such as, privatization and directed credit, while the political system appears to be less important than commonly assumed. This paper also contributes to the scarce comparative literature on banking sector reforms in India and China in
three ways: it provides an evaluation along the lines of transformation studies on the reform process in the two countries, performance indicators are used to provide a holistic view on the relative performance of the two banking sectors, and political economy factors affecting reform outcomes are evaluated in a systematic manner. The analysis showed that the reforms in both countries have proceeded quite far and that many of the general policy recommendations have been followed. There were however important deviations in areas, such as, stabilization, directed credit and privatization. A likely reason is higher pressure from interest groups in these areas, and the close connections between the ailing SOEs and state-owned banks. In terms of performance, the Indian banking sector is on most indicators ahead of the Chinese banking sector. Several implications for policy makers arise from the reform experiences in India and China.

Ligang Song\(^*, (2005),\) in his paper states that China has taken a cautious approach to financial market liberalization, opting to delay major reforms until after the liberalization of goods and other factor markets was complete. While the reform program may be following the generally preferred sequence, evidence suggests that the financial sector is lagging well behind other parts of the economy. A modern, well-functioning financial system is an essential part of a market economy, and China has arrived at the stage where further financial market reform is critical to its ability to achieve greater structural economic change.

After the comprehensive review of literature focusing mainly on financial sector reforms, a review is made with regard to significant literature available on banking and development finance in the following paragraphs.

II. Banking and Development Finance:

The report of working group under the chairmanship of Shri, N. Sadasivan\(^*, (2004),\) has a set of objectives for DFIs, such as, to review the experience of DFIs, which have transformed as banks; to indicate the status and prospects of those DFIs, which are moving in a similar direction and to assess the financial position and the regulatory framework in regard to all the existing
Financial Institutions (hereafter FIs). The reports recommends a regulatory framework for DFIs in the above light after assessing the current status and keeping in view the need to bring them under the overall regulatory framework of Non-Banking Finance Companies (hereafter NBFCs), but treating the DFIs as a separate category.

The Group examined in depth the issues flagged by the terms of reference, by consulting several experts in the field of DFIs and NBFCs and perusing the available literature on the subject. The Group studied the evolution of DFIs in India in the post independence period as well as elsewhere in the world and the effects of the developments in financial sector on these institutions during the same period. The experience gained in conversion of one of the DFIs into a bank and the useful lessons learnt from such conversion have been captured for future reference. The Group has attempted to delve into the debate raging for and against the sustainability of DFI model and has endeavoured to suggest a way forward, according to the need and imperatives of the current situation and the unfolding scenario. The Group has scanned the existing regulatory framework for DFIs and has suggested an appropriate framework for DFIs, under the changed circumstances. The Working Group has also analyzed some issues, relating to large NBFCs and RNBCs and studied various options, for mitigating the concerns arising from this sector.

In one of his speeches Dr. Reddy Y.V.* (1999), strongly advocates that DFIs should find it easier to move towards universal banking in future, as reserve requirements are brought down. On the issue of reserve requirement on stock of liabilities of DFIs, a view is expressed that such reserve requirements be applied only on incremental liabilities. The suggestion would appeal as a good bureaucratic solution for a DFI problem, but one should pause and consider its acceptability as a defensible and true prudential measure. He expressed that DFI should be permitted to become universal bank immediately with a pre-determined timeframe in which reserve requirements are to be met by DFIs notwithstanding a few felt that DFIs operations themselves are
hindering the development of corporate debt market. There are extreme views also that the demise of DFIs is imminent and the issue is rebirth.

Laveesh Bhandari, Sudipto Dasgupta, Shubhashis Gangopadhyay\(^4\), (2003), in their study evaluate the role of DFIs in India for the period 1989-97 by examining how firms' investment decisions are affected by their ability to access DFIs. The study finds that firms that had prior access to DFIs continue to receive funds from these sources only if they can be classified as a priori more financially constrained. Access to DFIs for funds spurs investment. These results suggest that DFI lending is not governed by considerations of lobbying, precedence or even to sponsor particular types of projects that might be socially desirable but not privately profitable. Rather, the primary role of DFIs has been to reduce financial constraints faced by firms. The study also finds that the drastic contraction of long-term bank lending to industry in India in the early nineties had adverse consequences for firms that were particularly bank-dependent, but only if these firms could be classified as a priori more financially constrained. The study concludes by a supporting view that contrast to firms in well-developed capital markets, in emerging markets, firms with growth potential are likely to rely significantly on debt financing, especially debt that is channelled through financial intermediaries.

The joint paper of Jayant Sathaye and Ashok Gadgil\(^4\), (1999), was prepared as an account of work sponsored by the United States Government. The paper states that IDBI is the premier institution in India purveying financial assistance to the industrial-sector projects. Its annual lending amounts to $6 billion, recognizing the need to increase lending for energy efficiency and environmental management projects.

Maitin P Tarkeshwar\(^4\), (1967), describes the relevant statistics and facts as regards the development financing as well as institutional financing by taking case studies of some selected banks but not of development banks in India. He reveals that the achievement of India’s rapid industrialization is made through institutional assistance and that too investible funds, investible industrial securities, underwriting of securities and terminal loans and therefore
it is necessary to enhance the scope for further sectors where the funds are required notwithstanding the fact that they are still last resort to the countries industrial development.

Another relevant study on development finance in India is of Prabhu Narain Singh\(^4\), (1974), who describes the role of development finance in a country like India and its historical roots of Indian development banks as well as other planned developing countries. The role has emphasized up on rapid industrialization, entrepreneurship initiation in both developing and underdeveloped countries. It outlined the role of these financial institutions in promoting capital markets and rather than capital formation.

Louis Perroy\(^5\), (2005), in his comprehensive study narrates that Asset and Liability Management (hereafter ALM) is extremely important for the management of financial institutions. Institutional investors typically have medium to long-term liabilities (e.g. pensions are times for future retirement), and the duration and return of assets held will have to match these. This exercise typically involves the use of projection models and assumptions. Climate change has an impact on world climate today. This impact grows with the continual emission of greenhouse gas in the atmosphere. The frequency and intensity of weather extremes may increase with climate change and this will affect most sectors of the economy. This report focuses on analyzing the impacts that climate change may have on assets, liabilities and the ALM of financial institutions.

Another important book on institutional financing is of Bhupat Maganlal Desai, John W. Mellor\(^6\), (1993). The authors discuss about vertical integration and density of coverage and multi-product structure of formal rural financial institutions and transaction cost profitability, economics of scale and their effects on development a case study of agriculture and about the response of rural demand for advances and loans.

Das Abhiman, Nag Ashok, Ray Subhash\(^7\), (2004), in their paper estimates and analyzes various efficiency scores of Indian banks during 1997-2003 using Data Envelopment Analysis (DEA). During the 1990s India's
financial sector underwent a process of gradual liberalization aimed at strengthening and improving the operational efficiency of the financial system. It is observed, none the less, that Indian banks are still not much differentiated in terms of input or output oriented technical efficiency and cost efficiency. However, they differ sharply in respect of revenue and profit efficiencies. The results provide interesting insight into the empirical correlates of efficiency scores of Indian banks. Bank size, ownership, and the fact of its being listed on the stock exchange are some of the factors that are found to have positive impact on the average profit efficiency and to some extent revenue efficiency scores. In fine the study observed that the median efficiency scores of Indian banks in general and of bigger banks in particular have improved considerably during the post-reform period.

The report of ADB, edited by Nihal Kappagoda (2001), is based on the multilateral development banks all over the world and the functioning of those banks according to the effectiveness of multilateral borrowing and lending. It examines history, structure, functioning, and development of the Inter-American Development Bank (IDB). Major focus is on evaluating IDB's effectiveness in promoting economic growth, reducing poverty, and improving social (i.e., welfare) indicators”. It gives an idea about multilateral development finances in Asia as well as other nations. The report is a short reference for borrowing country wise experience, resource mobilization and looming development challenges for the Asian development

The reports of UNIDO (1997 and 1998), on Industrial Development provide annual description and analysis of industrial development on both a global and a regional scale. The 1997 Report addresses the challenge of diminishing global economic expansion and the falling per capita income of many developing countries by focusing on the long-term dynamics of investment and economic growth. As its central message, it emphasizes the crucial importance investment as a necessary condition for economic growth. It is a crucial report upon the global industrial finances through development financial institutions all over the world.
Sayuri Shirai\textsuperscript{50}, (2004), in his paper argues that India should build an infrastructure that will foster sound capital markets and strengthen banks’ incentives for better risk management and highlights that India’s financial and capital market reforms since the early 1990s have had a positive impact on both the banking sector and capital markets. Nevertheless, the capital markets remain shallow, particularly when it comes to differentiating high-quality firms from low-quality ones. While some high-quality firms (e.g., large firms) have substituted bond finance for bank loans, this has not occurred to any significant degree for many other types of firms. This reflects the fact that most bonds are privately placed, exempting issuers from the stringent accounting and disclosure requirements necessary for public issues. As a result, banks remain major financiers for both high- and low-quality firms. The paper has found that the weaker substitution relationship for bank loans reflects their short-term nature as a result of the intervention policies of previous governments. As the reforms make further progress, banks should be expected to lengthen the maturity of credit as they diversify. The poor infrastructure is evidenced by the frequent cases of malpractice and price manipulation. The results of this study reinforce the need for further financial and capital market reforms with an emphasis on infrastructure building.

Saibal Ghosh\textsuperscript{51}, (2000), in his paper examines the interaction between a bank and a development financial institution (DFIs) in a macroeconomic set-up both of them can lend for working capital and investment finance purposes. The analysis reveals that the reduction in the interest rate premium on bonds over the deposit rate is an important pre-requisite for the DFI to raise its market share in both investment finance and working capital lending. Also, greater corporate access to bond financing raises investment, output and the bond rate of interest.

Addison Tony, Mavrotas George and McGillivray Mark\textsuperscript{52}, (2005), have contributed a contemporary study on the international development finance. The paper states that understanding the development effects of official aid is crucial to build a better bridge between research and policy. The paper
further reviews the current evidence regarding the impact of aid on growth and poverty reduction, and develops a new narrative. In the light of this narrative, the paper then examines aid trends, focusing on the regions of sub-Saharan Africa and the Pacific. The paper then turns to recent discussion of new and innovative sources of development finance and considers how research has influenced the policy debate through a recent UNU-WIDER study for the UN General Assembly.

Shah Ajay, (1998), in his paper begins discussion from the impact of the East Asian crisis that led to heightened interest in the financial sector. The paper has documented a remarkable episode, from 1993 to 1996, when State interventions had a profound impact upon market quality on India’s equity market. Over this period, Security Exchange Board of India (hereafter SEBI) rose from dormancy, and three new securities market institutions were created – National Stock Exchange (hereafter NSE) and National Security Depository Ltd (NSDL). These changes have taken place over an extremely short-time period. On the subject of the equity market, the two central questions in the reforms agenda concern the initiation and expansion of exchange-traded derivatives, and a complete transition to rolling settlement.

In India, the financial sector (and securities markets in particular) attracted heightened attention from policy makers in the aftermath of the Scam of 1992. The paper summarizes the changes that took place in two ways. The first consists of asking how elements of market design have changed. Improved ideas in market design should generate lower transactions costs using the qualitative classification used. The paper also focuses upon the role of financial institutions in capital market and mainly highlights the impact of financial sector reforms in institutional development in capital market in India. As a consequence of the reforms, India’s debt market is much less vulnerable to systemic crises. However, it is concluded that the reforms have failed to obtain a liquid, efficient bond market.

Octavio B. Peralta, (2003), in his study states that the Asian financial crisis placed a new emphasis on corporate governance in Asia and the Pacific.
At the center of the crisis were companies and conglomerates, owned and controlled by generations of families and interlocking interests, which were brought up in a relationship-based (rather than market-driven) environment. As promoters of economic growth, DFIs in the region took a central role in advocating corporate governance reforms, but DFIs cannot succeed in promoting good corporate governance within the Asian business community until they establish effective governance mechanisms within their own structures. National DFIs were set up by their governments as specialized financial institutions to provide long-term financing and technical assistance to sectors that promote the country’s economic development and growth but which are not normally looked after by commercial banks that are in their formative years. DFIs have an important role to play in a country’s development and are an integral part of its financial system. In some countries, DFIs are deemed “trailblazers” in the sense that they finance start-up projects that other financial institutions shy away from because of inherent risks and long-term gestation.

Capital Plus55, (2004), reflects in their study the collective thought and work of the members of the Development Finance Forum, as developed in the course of their annual meetings. It has been concluded that in various sections: Development finance institutions have a permanently pioneering institutional role and must be managed accordingly, Access to financial services is a necessary but not sufficient aspect of poverty alleviation. Development finance must also be defined as building social capital. Development finance institutions should be responsible for effective financial stewardship and demonstrating social impact and must innovate continually in order to stay relevant to mission and market. Growth of the development finance field requires promotion of social entrepreneurship and appropriate governance systems in order to manage the tensions between markets and public purpose in a transparent manner.

Report on global development finance of World Bank56(2004) is one of the significant studies on the changing face of world development finance as
an impact of liberalization. The external financing environment facing developing countries has brightened. In 2003, as global growth gained momentum, private capital flows to developing countries increased to US$200 billion—their highest level in five years. Harnessing these gains to promote long-term investment and growth is the key theme of the report. With analysis spanning the range of flows from short-term trade to long-term infrastructure finance, it enables government officials, economists, investors, financial consultants, academics, and policymakers in the development community to better understand, manage, and promote the key challenge of financing development in today’s globalised environment.

Don Hanna[^7], (2003), analyses the standards of Indian banking after liberalisation and traces satisfactory changes. It is also about the banking system which consists of Bank Operating Standards, Prudential Standards, Governance Standards and Internal Standards. The paper finds that the disparities are high across banks, Return on Equity (hereafter RoE) respectable, average Return on Assets (hereafter RoA) looks comparable, Operating cost controls look reasonable, Provision expenses look reasonable, and Non Performing Liabilities’ (NPLs) aren’t outsized, but growth Gross Domestic product (hereafter GDP) hasn’t slowed. The study recommends for future, there are regulatory needs for environment consolidated supervision, risk-based supervision; prompt corrective action, legal basis for collection and restructuring, greater reliance on private monitoring, improved information, and exit policy for banks.

Based on the comprehensive review of literature on financial sector reforms and development finance the Researcher has endeavoured to identify the research gap for carving out the need and importance of the present study.

1.4. Research Gap, Need and Importance of the Study

From the forgoing reviews it peters out that the studies made on the areas of both financial sector reforms and its impact on banking and development banking are very few. Most of the studies deal with the varied
dimensions of banking sector with less emphasis on the special case of development banks. No study has been found to make according to the new era of financial sector reforms and its impact on Indian development banking. The current scenario of development banking in India has on the one hand witnessed a high degree of operational efficiency due to the overall financial liberalisation resulted in cross border flow of investments and multidimensional business forte but on the other hand the basic objective of development banking has been dismantled. Thus the study makes an earnest attempt to trace out the major impacts of the financial sector reforms on various activities of All India Development Banks (hereafter AIDBs) since liberalisation for globalisation. Therefore the present study is a bit different from all the previous research analyses that emphasized on the varied dimensions of overall reforms agenda.

1.5. Scope of the Study

The study on financial sector reforms and its impact on development banking would cover a span of two and a half decades, i.e. from 1981 to 2006. This span of period would be more than sufficient to find out the trends in performance related aspects of development banking vis-à-vis the financial sector reforms particularly, banking sector reforms, insurance sector reforms, capital market reforms. The Researcher is fully aware about the fact that the whole sale reforms have affected the banking sector, insurance sector and capital market. Keeping this in mind the present study has focused mainly on these three sectors to find out the impact of the total reforms. The study is mainly focusing on the All India Financial Institutions (hereafter AIFIs) in general and Industrial Development Bank of India (hereafter IDBI) in particular. The Researcher is of a strong opinion that the analyses on the total DFIs as a whole and IDBI in particular would be able to represent the performance of total Development Financial Institutions especially All India Development Banks. The scope can be demonstrated with the following objectives.
1.6. Objectives of the Study

- To find out the major impact of financial sector reforms in the working of All India Development Banks (AIDBs).
- To find out the impact of reforms in the total sanctions and disbursement of the Development Banks and Development Financial Institutions.
- To analyze the pattern and trends in assistance sanctioned and disbursed by all India development banks region specific, purpose wise, component wise sector specific and industry specific.
- To evaluate the performance of all India development banks in the new regime of financial liberalization for globalisation.
- To analyze the degree of changes in the business of financial institutions after the reforms and to investigate into the reasons of difference between the pre and post reforms performance of both banking and non banking businesses.
- To identify the qualitative and quantitative contributions of these all India development banks in post and pre reforms regime and differentiate the major changes due to policy reforms.
- And finally to make suggestions and recommendations for further improvement in the policy reforms for future performance.

1.7. Hypotheses of the Study

To fulfil the ultimate result of the research the study has been made on the basis of certain hypotheses bifurcated into the varied dimensions of financial sector reforms that can assure the quality through means of quantitative measures. The hypotheses of the study are made according to the need and importance of the study. The study has been drawn on the basis of trend and pattern of assistance sanctioned in different segments of the economy.

Hypothesis- I: - “The null hypothesis (H₀) of the study assumes that there is no significant impact on overall lending activities of the development banks during the referred period on account of shift in policy measures as a process of financial sector reforms. On the other hand, the alternative hypothesis (H₁)
presumes that there is a significant impact of financial sector reforms on overall lending activities of the development banks”.

_Hypothesis-II:_ “The null hypothesis ($H_0$) of the study assumes that the financial sector reforms initiated in July 1991 are not having any significant impacts on the region wise lending activities of development banking. On the other hand, the alternative hypothesis ($H_1$) assumes that the impact of reforms is significant in region wise lending activities of development banks”.

_Hypothesis-III:_ “The null hypothesis ($H_0$) presumes that the financial sector reforms is not having any significant impact on the sector wise (Private, Public, Joint, and Cooperative) lending activities of development banking. On the other hand, the alternative hypothesis ($H_1$) assumes that the impact of reforms is significant in case of sector wise lending activities of development banks during the referred time span”.

_Hypothesis-IV:_ “The null hypothesis ($H_0$) presumes that the financial sector reforms are not having any significant impact on the industry wise (Agriculture and Food, Industrial goods, Infrastructure, Consumer goods, Health care and allied and Others) lending activities of development banking since financial liberalisation. On the other hand, the alternative hypothesis ($H_1$) assumes that the impact of reforms is significant in case of industry wise lending activities of development banks”.

1.8. Methodology of the Study

The study is an empirical work based on the secondary data and primary data collected from various sources for the fulfilment of veracity and truthfulness of analysis to ensure the quality of research

1.8.1. Collection of Data

_a) Secondary Data_

The secondary data for the study have been collected from various secondary sources of information, such as, Published Reports, of Various Ministries, Financial Institutions and Various Authorities, Books, Journals and periodicals, Research Papers, Published Theses, Articles, Business Dailies, Financial Dailies and Websites.
b) Primary Data

For the analysis purpose the primary sources of secondary information are being used which are published by the All India Development Banks (AIDBs). The various reports, such as, annual reports of Industrial Credit and Investment Corporation of India (hereafter ICICI), IDBI, Industrial Financial Corporation of India (hereafter IFCI), Small Industries Development Bank of India (hereafter SIDBI), Industrial Investment Bank of India (hereafter IIBI), and several Reports on Indian Development Banking published by IDBI up to 2004 are the major sources of materials for analysis.

1.8.2. Statistical Tools Applied

The statistical tools that have been used to test the hypothesis are as follows.

1.8.2.1. Regression Technique

Regression is one of the important techniques of statistical analysis which assumes a functional relationship between the one dependent variable and independent variable(s). If the number of independent variable is single then it is known to be a simple regression and if the one variable is dependent with more than one variable (for example: growth rate of Gross Domestic Product (GDP) is dependent with a large number of independent factors) then it is known as multiple regressions. The title of the present research suggests that the variable like lending activity of development banks or performance are single dependent variable, whereas there can be many independent variables which can affect the activities and performance like time and policies. The simple regression takes the linear form of functional relations like:

\[ Y = a + bX \]

Where, \( Y \) is the dependent variable,

\( X \) is the independent variable,

‘\( b \)’ is the slope of the straight line
‘a’ is the Y-intercept.

In case of multiple regressions the functional relation takes the following form:

\[ Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + \ldots + b_n X_n \]

Where, Y is the dependent variable

\( X_1, X_2, X_3, \ldots, X_n \) are the independent variables. \( B_1, b_2, b_3, \ldots, b_n \)

are the respective slope of the independent variables \( X_1, X_2, \ldots, X_n \), and, ‘a’ is the Y-intercept.

In the present study an earnest attempt has been made to use the adequate statistical techniques to find the impact of financial sector reforms on Indian development banks. For the analysis of impact of reforms in overall lending activities which is the major role and objective of development banks for the entire two and half decade of development bank; multiple regression has been used between the dependent variable “sanctions/ disbursements with independent variables ‘time’ and reform process (dummy variables one and two)"

The regression equation that:

\[ Y = \hat{\alpha} + \beta t + \gamma d \]

Where \( \hat{\alpha}, \beta \) and \( \gamma \) are constant and ‘t’ = time and ‘d’=dummy variable.

For measuring impact of reforms process two dummies are being assumed i.e. D1 and D2, where if:

\[ D_1 = 1 \text{ if } Y \text{ belongs to 1981 to 1991, '0' otherwise} \]

\[ D_2 = 1 \text{ if } Y \text{ belongs to 1991 to 2001 '0' otherwise} \]

Regression equation \( Y = \hat{\alpha} + \beta t + \gamma d \) would be applied twice to find out the impact of reforms where the second dummy represent the impact of reforms and the first dummy is to differentiate the pre and post reforms period with and without reforms.

1.8.2.2. R-squared

The estimates coefficient of determination (R-squared) is alternatively known as the goodness of fit. The coefficient of determination in regression
analysis measures the strength of linear relationship between the dependent variable and independent variable(s). In statistical terms the coefficient of determination gives the picture that; how much is the degree of changes caused by a particular amount of variation in independent variables that is explained by the regression line. In the present study, r and r² are used simultaneously for the measurement of coefficient of correlation and coefficient of determination.

1.8.2.3. **Independent Sample Test of Significance (T-Test)**

Independent Sample Test of Significance of mean (t-test) for the hypothesis testing is being used by the Researcher for test of equality of two means. The mean for pre-liberalisation period and post-liberalisation period are being tested to know whether the means of two normally distributed populations are equal\(^{59}\).

There are different versions of the t test depending on whether the two samples are:

- a) independent from each other (e.g., individuals randomly assigned into two groups) and
- b) paired, so that each member of one sample has a unique relationship with a particular member of the other sample

In the present study the Researcher has used t-test for testing of significance of equality independently for each segments of development finance, where the pre liberalisation figures and post liberalisation figures are significantly matching. If not matching in what basis it is significant

In case of stage wise investment where the shift of investment is cited by checking difference of the means using t-test

1.8.2.4. **F Test**

The Researcher has used F test for further support of test of independent samples on pre and post liberalisation figures of development finance. In the test, significance of variances is tested. The variances or deviation from mean of each segments of development finance have been
checked to know whether there is significant difference in mean deviation or not.

1.8.2.5. Standard Error of Estimate

The $S_e$ (Standard Error) is similar to the standard deviation in that both are measures of dispersion. When the standard deviation, $\sigma$ measures the variation of the observed values from the mean, the standard error of estimate, on the other hand, measures the variation of observed figures from regression line. The present study has considered the Standard Error Estimate for supporting the regression estimate to point out the variability of observations.

1.9. Expected Contribution of the Study

The study is an empirical work based on both the sources of information. The study would not be only for the fulfilment of the requirement of the academic degree but also it is a part of my social commitment to bring out the facts and realities of the financial liberalisation and its influence on the socio economic aspects of development banking in India since liberalization. The study further makes an attempt to point out and suggest further reforms agenda with a combination of welfare and economic benefits of reforms.

1.10. Limitations of the Study

The study is based on the activities of development banks in general which may differ from individual cases. The Researcher is of the belief that the case of IDBI would represent the whole development banks but limitation of sample errors may occur. The study basically analyzes the lending activities of development banks which would reflect the implication of other activities too. However sector specific cases, such as, technological and communication development, political environment and competitive business environment remain to be studied. The Researcher, notwithstanding the fact opines that the present study would be capable enough to pronounce the maximum possible outcome of financial sector reforms concerned with the development banking in India. The qualitative measures of the impact have been discussed in phased
manner and for the analysis the study focuses only on the lending activities of development banks which are the basic objective.

The financial sector reforms are very wider concept where the routine changes keep on taking place frequently. The Researcher may not be able to consider all the changes. There will be always a gap of time span for further studies in future. However on the whole, the result of the study in no way is affected.

1.11. Conclusion

The reforms initiated in India in the year 1991 followed by the currency crisis compelled the liberalisation of financial market. Reforms with a set of objectives have revived Indian economy especially the financial market. Financial sector reforms have their ultimate impact on banking sector especially development banking in India, other than insurance and capital market. The last decade of the 21st century witnessed the maturity of India’s financial markets. Since 1991, all the governments; both state and central, took major steps for reforming the financial sector of the country. Since liberalisation, the pattern towards sanctions and disbursement has been continuously changing.

The present study makes an earnest attempt to trace out the impact of financial sector reforms on Indian development banking which are based on the objective of finding the new dimensions of business sphere. The study has identified as to how far those diversifications have caused the deference in basic objectives. The Researcher would consider the cases of development financial institutions as a whole along with the individual case of Industrial Development Bank of India to analyze the impact of reforms. The study has covered a span of 25 years which consists 10 years of pre-liberalisation and remaining 15 years of post reforms regime. The study is mainly based on secondary data with suitable statistical tools to prove the hypotheses designed for making the research more pregnant. The next chapter would describe a framework of financial sector reforms in India with its basic issues and objectives.
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