Chapter-X

Summary of Conclusions,
Findings, Suggestions and Recommendations

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CHAPTER-X

SUMMARY OF CONCLUSIONS, FINDING, SUGGESTIONS AND RECOMMENDATIONS

10.1 Introduction

In the entire analytical study in the preceding chapters different dimensions of activities of development banks with a comparison of the pre and post liberalisation performance have been presented. The impact of reforms on different sectors, regions, industries, component and purpose wise lending has been presented in general and IDBI in particular. The present chapter comes out with the summary of conclusions along with the major findings petered out through study. The suggestions and recommendations have also been offered with direction for future researches.

10.2 Summary of Conclusions

The pre-liberalisation of Indian economy has witnessed the strong government restriction and control over the financial institutions and the markets, lending and credit programmes and other financial services. The strong government control over the financial sector resulted in lacking the market efficiency and global competitiveness. The financial institutions within the country restricted their span of competitions among themselves due to this government interference which caused highly segmented financial markets.

The need for a policy change from the existing format became much stronger and a policy shift was proposed by many reports and researches. In wake of balance of payment crisis of Indian economy in early 1990s followed by the East Asian economic depression, the government of India went for liberalizing the market. Immediately after industrial liberalisation the government took further step to for a systematic shift from the existing automated system with greater reliance upon market forces.
The mode of reforms that India adopted and incorporated since 1991 has been very much different from most other emerging market economies. It has been measured, gradual, cautious, and steady process. The subject matter is very clear 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. The reforms have been well sequenced in these sectors, considering the state of the markets in the various segments. The basic motto behind the financial sector reforms in India enhanced in the year 1991 was to contribute greater measure to stimulate growth through creation of an efficient, competitive and stable financial sector. Financial sector reforms in India targeted a complete revival of the banking system which was in a dilemma of strong government control. Further to endorse the restructuring of capital and insurance markets and to enhance the services for grass root level. But the process with reforms in insurance introduced at a later stage.

The liberalisation processes with a set of objectives especially the financial market has witnessed a strong revival of the economy since 1991 especially the banking, insurance and capital market. The banking sector in India consists of scheduled commercial banks, development banks, cooperative banks, regional rural banks, and even non banking financial companies. The reforms in this sector introduced a new creative and competitive environment for the affluence of banking sector as a whole. The committees set up for further recommendations for revival of banking sector has deliberately induced the development banks to come out of the periphery to explore the market characteristics with their sound institutional base.

However the reforms with deep-routed in banking sector have had its competitive advantage but the case of development banks which are established with a set of development objectives could not attain the synergy. Since 1991, all the governments; both state and central, took major steps to enhance their targets in process of reforming the financial sector of the country. The development banks with a strong interference and support of government for
various purposes were isolated from the other banking activities where the scope of those traditional activities was outdated by the restructuring of capital and financial market.

The reforms in the financial sector had its own function in reducing the importance of development banks on the one side and on the other hand, it has encouraged the development banks to diversify themselves. The overall lending activities of development banks i.e. the sanctions and disbursements witnessed a continuous decrease for last few years. But in case of individual performance they are still going ahead through diversification and strategic business practices. Since liberalisation, the pattern of sanctions and disbursement is continuously changing with a multiple shifts from one to another. The basic objective of development banks i.e. funding for regional imbalance, promotion of public, joint and cooperative sector other than private sector and priority sector lending, has also witnessed the shift following the policy framework.

The present study makes an earnest attempt to examine these reforms processes and its impact on the development banking based on the objective of finding the new dimensions of business sphere. The new business dimensions of development banks in India had a positive impact performance and efficiency analysis. However to find out the real benefit of these reforms for a particular segment, it is necessary to analyze how much worthwhile those diversifications are in fulfilling the basic objectives of development banks and how far they have diverted from its basic targets. The present study has considered the cases of all India financial institutions in general and Industrial Development Bank of India in particular to find out the degree of changes characterized by the reforms. The study has taken span of two and a half decades of development banking in India which covers the first ten years of pre-liberalization and the one and a half decades of post reforms. The Researcher has presented analysis based on secondary data with a prepared hypothesis that there is no impact of reforms. The Researcher has used
appropriate statistical tools to prove the hypotheses for making the research more pregnant and result oriented.

The concept and evolution of development banks starts from post colonial Europe when the countries faced the difficulty of choosing an appropriate mechanism for channelizing resources into the development efforts. Most of the countries were having a lot of resources with a well supported technological and monitory system but they were lacking in coordination of entrepreneurs and these supports. In such a situation several governments in Continental Europe and East Asian economies decided to take matters into their hands and established institutions specifically to cater to the requirements of financial resources for developmental effort. Such institutions were called Development Financial Institutions. The government of India established Development Financial Institutions (DFIs) with a strong Government support for underwriting their losses and for making available low-cost resources for lending at a lower rate of interest than that demanded by the market for risky projects. The process initiated by the government worked for the affluence of industrial development of India.

In the initial years of post independence period, the economy witnessed absence of technology and money where the country was fully self-sufficient with raw material and unlimited manpower. The industrial development of a country requires the all four elements. To fulfil the financial as well as the consultancy needs of entrepreneurs and technocrats the government set up various financial institutions with different aims and objectives. In 1948 IFCI, and in 1956 ICICI and in 1964 IDBI and in 1971 IRBI were the major foundations for the institutionalization of economic development. Furthermore the government took major steps to encourage the export and agriculture through setting up of EXIM bank and NABARD. Altogether the government in different years established the LIC, GIC, and UTI and various state level financial institutions for further prosperity of investment atmosphere within the country.
The basic agenda behind each institution was different where the development banks particularly meant for developmental funding for new and existing business firms. All the six development banks are now in a way to diversify their business fortes in the current business environment after liberalization. The development banks are now in a turn to be transformed to commercial banks or non banking financial companies (NBFCs). Among the six development banks ICICI has already transformed to pure commercial bank and IDBI has acquired IDBI bank and started the combined business of commercial bank and project financing. The other banks except SIDBI and IDFC are now looking for the suitable merger options. Nevertheless the major steps taken by the government to revive the banking sector as a process of financial liberalization has its major impact in transforming the business domain of the development banks to various other activities which ultimately resulted in retreating the lending activities which is the basic objective of the research study.

The study further highlights the important landmarks of development banks in pre and post reforms period. The banking sector reforms have prompted a competitive system driven by market forces. However, the process has never marginalized social objectives, such as, maintenance of the wide reach of the banking system or channelization of credit towards disadvantaged but socially important sectors. The same time a strong growth in the balance sheet of the Development Banks has been witnessed by the environment of operational flexibility. In line with increased competitiveness, an improvement in efficiency of the banking system has been reflected and reduction in interest spread, operating expenditure and cost of intermediation in general as well. Furthermore the improvements in other areas as well including technological deepening and flexible human resource management have been visualized.

The Researcher has further divided the post and the pre reform regime into four phases in accordance with the major landmarks in the business dimensions and environment of development banks. The post independence era, when establishment of these financial institutions and their gradual
development was witnessed is considered to be the first phase. The era of these establishments i.e. between 1948 and 1974 witnessed establishment of the apex development banks with certain objectives. The phase between 1974 and 1991 is being considered to be the second phase where the major achievements of these financial intermediaries took place. The IDBI and some other DFIs transferred their stakes from government of India to RBI and the banks became the wholly owned subsidiary of Reserve Bank of India. The important subsidiaries of these development banks and various other joint venture arrangements as well as the establishment of state level institutions are the important milestone of the second phase.

The period in between 1991 when the financial liberalization initiated up to 2001 has been considered as the third phase of development banking. In this first decade of financial liberalization most of the development banks flourished their diversified business forte and all the development banks entered into secondary market to secure the advantage of cheap sources of funds, and as a result the total market capitalization of these banks, especially development banks, were restructured. The banks further established their commercial banking business through their subsidiaries that helped the banks to survive. The second decade of liberalization i.e. from 2001 onwards when most of the development banks themselves emerged as full-fledged commercial banks can be considered as the fourth phase. The neo-liberal policies of government backed by committees for harmonizing the development banks in India enabled the Development Banks to corporatize themselves. Some exceptional cases of IIBI and IFCI which could not merge with any commercial banks are under proposal of merger with either IDBI or Punjab National Bank. The impact of changes in the business environment led them to diversify themselves but in fact they are still under adjournment process.

There were a number of committees which were established for further suggestions to the survival of these all India development financial institutions in all these phases. The initial stage of development financing in India which was having a sound financial support from the government with strong
interference. As in total banking sector the strong control of government with large amount of operational barriers led for continuous decline in financial highlights and huge losses of profit.

However, the reforms initiated in the year 1991 have their positive impact that they facilitated the survival of these development banks and they could dominate in the commercial banking business with a high degree of operational flexibility and strong market efficiency. The case of ICICI after the merger with ICICI bank is the best example for that where the bank became the second largest commercial bank in India after State Bank of India. The changes in the regulatory structure of these financial institutions by means of financial liberalization further facilitated the development banks to elaborate their capital base which is discernible from the example of ICICI and IDBI. Both were the apex institutions of Indian financial system before liberalization, availed a strong source of cheap funds for their future institutional development in without much interference. It is matter of concern that these liberal financial policies affected the prime objectives of the financial institutions, which can be seen by the pattern and trends in development financing i.e. the overall lending activities of development banks since liberalization.

The analysis of overall lending activities of development financial institutions highlights the impact of financial sector reforms. The reforms process has its impact on the overall ending activities of development banking where the total funds for developmental activities have diverted to other business activities. The comparative tables regarding the sanctions, disbursements, and utilization rate envisioned that the total sanctions of development banks are not utilized by the applicants where the utilization rate is as low as 66 percent for the whole period. The analysis of individual cases of IDBI, ICICI and IFCI etc have also had an inference that the total sanction and disbursements after the liberalization is going down. The figures of pre and post liberalization regime have been further analyzed by applying the dummy variable for the pre and post liberalization regime to find out the implication of first and second generation reforms. The fragmented analysis on impact of first
and second generation indicates that the impact is much visible after 2000. The analysis has constituted the significant impact of reforms and supported the approval of alternative hypothesis where the impact of reforms was embedded. The significant impact is discernible on the overall sanctions and disbursements of the DFIs despite the decline in lending activities. This decline is attributed to the fact that the other sources of finance, such as, Corporate Bonds, Mutual Funds, Pension Funds, Life Insurance and General Insurance Funds have appeared on the horizon of financing arena. The policy packages and measures have therefore pronounced impact on the overall development banking activities. Furthermore, developed, well structured and admirable secondary market and further institutionalized development of economy has made the development finance matured enough resulted in saturation of the development banks and the banks further diverted their business fortes to various other segments.

The phased analysis of region wise sanctions and disbursements of development banks has found that the post liberalization globalization regime has witnessed the shift of sanctions and disbursements from backward states to forward regions of the country. The test of significance of means of both the pre and post liberalization regime by independent sample test supports the acceptance of alternative hypothesis that there is impact of reforms in regional disparities of development finance. The reasons behind the regional disparities after the reforms are that the risk element of sanctions to the backward areas. The profit was only the last preference of development finance in pre-reforms period which diverted to the first preference after the reforms. Most of the development banks were facing the complexities of Non Performing Assets. The competitive business environment forced the development banks to further reduce the sanctions for backward regions and to concentrate on new arena of investments.

The downward trend of overall lending activities of development banks witnessed in post reforms period especially after 2000. Altogether the impact has materialized in case of sector wise sanctions and disbursements of development
banks. As in case of region wise sanctions, the priority sectors are dismantled in case of sector wise sanctions. Tables and figures of sectoral implication of development finance have picturised the degree of changes in overall development finance which has become more sector specific. The financial sector reforms and its implication to the secondary market development as well as other financial services have an indirect win over the traditional sources of finances and its segmental attraction. However, the financing of the development banks, one of the traditional sources of debt capital of all the entrepreneurs has now gone for sectoral selection. The Researcher differentiated the sectors into public, private, cooperative and joint. The data of sectoral sanctions and disbursals of development finance in India through the comparison of pre and post reforms period have been analysed by independent sample test of significance of equality of means. The result of hypothesis testing has also approved the acceptance of alternative hypothesis where the impact of reforms process was assumed in sectoral disparities of development finance.

In case of industry wise development finance in India it is more evident after liberalisation. The impact of reforms on industrial selection can also be seen which is showing a shift in sanctions and disbursals. Tables and figures emphasized the industrial shift where the agriculture and consumer goods segments availed the least share of development finance. The share of agriculture was higher than any other segments in post reforms period which further decreased after liberalization. The statistics in test of significance in pre and post reforms period have also supported the acceptance of assumption of significance in impact of reforms process on industrial selection of development finance. The various factors, such as, elimination of priority sectors and risk elements of agriculture financing have adversely affected the selective sanctions and disbursals. The major finding of industry wise lending activities is that the importance of infrastructure financing has increased and now a large chunk of share of development finance going towards the infrastructural funding. Institutionalization of infrastructure development and
setting up of Infrastructure Development Financial Corporation (IDFC) resulted in a positive trend in infrastructure funding. The infrastructure development became the important target of both state and central governments as a matter of fact of global competitiveness in post liberalization regime.

The component wise lending activities of development banking have been analyzed to demonstrate the degree of changes in the lending components. The changes took place in case of lending components due to the changes in format of financial market as a matter of fact of liberalization. The underwriting subscription related activities increased in the post reforms period due the development of structured secondary market. In the initial years of liberalisation the initial public offers of the most of the companies came through these financial institutions or their subsidiaries. Later on when the market attained a sustainable growth other companies as well as the foreign players entered in the market to enhance their scope of business which ultimately amplified the competitive business environment. The Tables support the diversion of funds of development banks from one segment to another. The case of purpose wise sanctions indicates the poor performance in new and start-up financing where the need of the hour deserves. The expansion as well as the supplementary sanctions increased in the post reforms period which ultimately reduced the share of entrepreneurial funding.

The entry of development banks in secondary market to avail of the cheep sources of funds prepared the development banks to avail of the maximum benefit of the competition with the existing capacity by introduction of new services and promotion of owned subsidiaries. Furthermore when the development banks corporatized and went for Initial Public Offers (IPOs) resulted in government interest in those financial institutions. The second generation reforms prepared the banks to transform into fully devoted commercial bank or non banking financial corporation has further influenced the business fortes of development banks. The transformation of development banks into the commercial banks further affected the needy social sectors.
10.3 Findings of the Study

The entire research work carried out by the Researcher entitled ‘the impact of financial sector reforms on Indian development banking,’ has been described in ten chapters including the five major analytical chapters. From the entire study the Researcher points out the major findings of the study in the following paragraphs.

As regards the overall lending activities of development banking, the Researcher failed to observe the acceptance of null hypothesis which presumed the impact of financial sector reforms on overall lending activities. The multiple regression tests in hypothesis regarding overall lending activities of development banks resulted that the t-statistic in most of the observations is more than the table value at 5 percent level of significance during the referred time span. The adjusted $R^2$ in all the observations also justify the result that post reforms policy measures have the direct impact on overall lending activities. The significant impact is discernible on the overall sanctions and disbursements of the DFIs despite the decline in lending activities. This decline is attributed to the fact that the other sources of finance, such as, Corporate Bonds, Mutual Funds, Pension Funds, Life Insurance and General Insurance Funds have appeared on the horizon of the financing arena. The policy packages and measures have therefore pronounced impact on the overall development banking activities. Furthermore the developed, well structured and admirable secondary market and further institutionalized development of economy have made the development finance matured enough resulted into saturation of the development banks and the banks further diverted their business fortes to various other segments.

The analysis of region wise lending activities of development bank observed that in most the cases the t-statistic of presuming the equality of means is more than the table value. As far as the t-statistic is concerned the impact is visible in regional attraction of development finance and therefore the Researcher failed to observe the acceptance of null hypothesis.
The analysis of sector wise lending activities of development banks observed that the impacts of financial sector reforms are visible in selection of sectoral sanctions and disbursal. As far as the independent sample test of significance is concerned, computed t-statistic is more than the table value at 5 percent level of significance in most of the observations, the impact of financial sector reforms and policy measures on sectoral selection of development finance is approved. The Researcher has failed to accept the null hypothesis.

The analysis of industry specific lending activities of development banking is evident enough to observe the impact of reforms on it. As far as the t-static (two-tailed) of sanctions and disbursals is concerned it mostly lies above the table value. The impact of reforms in industrial segments, such as, Agri-Food, Industrial goods, Infrastructure, Consumer goods, Health care and Allied is significant at 5 percent level of significance. The independent sample test of significance of mean differences, the industry specific lending activities are found to be impacted and the Researcher is unable to accept the null hypothesis.

The analysis of purpose and component wise sanctions of development financial institutions in accordance with the independent sample test of significance indicate that the impacts of financial sector reforms on both are visible. The t-statistic in most of the cases lay above table which justifies the assumption of impact of reforms on the purposes and component wise lending activities of development banks. However the Researcher failed to observe the approval of null hypothesis in component and purpose wise lending activities as a whole.

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The changing business environment in Indian financial market pressurized the development banks to come out with competent financial services either by themselves or by their wholly owned subsidiaries.

The process of financial liberalisation has a positive impact on the performance, efficiency, as well as the profitability of development banks as against the profit making was only a complementary objective of development banks in pre reforms period. The financial sector reforms have their positive impact in supplying high degree of operational efficiency, internal autonomy, as well as greater reliance upon market forces in the routine activities of development banks. The implication of financial sector reforms resulted in the liberalisation of banking, insurance, capital market and allied sectors encouraged the development banks to target further business fortes.

The basic measures of financial liberalization, such as, dismantling the complex system of interest rate controls, eliminating prior approval of the Reserve Bank of India for large loans, and reducing the statutory requirements to invest in government securities; and measures designed to increase financial soundness, like introducing capital adequacy requirements and other prudential norms for banks and strengthening banking supervision; other measures for increasing competition like more liberal licensing of private banks and freer expansion by foreign banks, have produced too much positive outcome in the business of development banks. The development banks witnessed a sharp reduction in the share of non-performing assets in the portfolio and now they are capable enough to meet the new capital adequacy standards.

The global standard in case of above said figures are much better than Indian banks. A country with strong belief in welfare state has improved the status equalant to many developed countries within short span of time, it is also appreciable. Liberalisation of all the financial service sectors , such as, :
insurance, banking, secondary market, asset management and pension funds, government security market and other financial services have influenced the business dimensions of development banks either direct or indirect.

The entire financial sector reforms have visible impact on the overall lending activities of development banks of India in post liberalization regime. The reforms augmented in the second decade of post liberalisation so called second generation reforms further influenced and caused decline of sanctions and disbursals of development finance due to the diversified funding requirements. The corporatization of development banks which permitted them to avail cheep sources of funds from the secondary market increased the commitments of development banks more to the secondary market operations other than traditional financing.

The region wise sanctions and disbursals of development finance are asymmetric in distribution where the backward states are being neglected by the banks from their priority lists. The basic objective of development bank is to eliminate regional imbalance in entrepreneurship developments. Major portion of development finance has now moved towards highly forward and forward regions where the pre capita GDP is already higher than other states. The concept of promoting regional balance has been wiped out by replacing the concept of profitability. The changes in perception of development banks in risk taking, political instability of backward states and border tensions of north east states influenced the regional selection of development finance by development banks which have negatively affected the sanctions of backward regions.

Sectoral distribution of development finance in pre and post liberalisation regime has been found to be asymmetric where the joint and cooperative sectors are being neglected. However the development finance became much evident in case of private sector where the private firms are
availing their financial requirements through other secondary sources other than development banks.

The emergence of well organized security market and money market has negatively affected the traditional sources of financing where the development finance is being considered to be the last resort for the businesses. In fact the case of sick and weak companies where the expansion of debt or equity capital base is very difficult, the firms usually approach the development banks. Such cases trouble the development banks and increase non performing assets (NPA).

In industry wise promotional activities of development banks, it has been found that the agricultural and small scale credit is continuously decreasing. The priority sectors of development finance have been redefined by the banks themselves following the recommendation of Narasimham committee 1997. In industrial selection of development finance infrastructural financing has predominant share in post liberalisation regime. The setting up of Infrastructure Development Financial Corporation and institutionalization of infrastructure development inspired the development banks for further funding for infrastructure companies or projects.

Post liberalisation globalization has witnessed a major achievement in public-private participatory developments and privatization of government projects as well. It resulted in development of Build Operate and Transfer (BOT), Build Own Operate and Transfer (BOOT), and Build Operate Own and Management (BOOM). Such formats of infrastructural development are most successful in developing countries where the role of government is restricted to the facilitator or regulator. The state and central governments of India since liberalisation have been trying these means with the help of development banks and the establishment of IDFC for the specific purpose further encouraged the financing for infrastructure.
Industry wise sanctions and disbursements of development banks since liberalisation has further expanded its span of activities to other industrial sectors which does not come under traditional classification. The emergence of modern services sector increased the scope of development banks to finance through risky formats, such as, venture capital and private equity. Most of the development banks started their different subsidiaries for financing different purposes or different modes, such as, asset management companies, venture capital funds.

The component wise analysis reveals that the importance of rupee loan and indirect assistance has decreased in post reforms period where the importance of underwriting and subscription related services has increased. The process of financial liberalisation has caused to establish a well organized secondary market with a wide network all over the world. These developments resulted in attracting foreign players as well as Indian private giants to the security market which produced further competition for development banks to protect the national interest. Such activities influenced the banks to concentrate more in secondary market operation. The component wise sanctions and disbursements of development marginalized the indirect assistance after the financial liberalisation which resulted in further increment in secondary market operations, such as, subscription of shares, debentures, underwriting of the both and guarantee services up on securities. The establishment of subsidiary as asset management companies by the development banks endeavoured to extend the financial services on behalf of development banks.

From the purpose wise assistance rendered by development banks, it is discernible that the banks reduced their fund for entrepreneurship and start-ups after the liberalization due to high end risk element. The development banks since liberalisation concentrated only in financing expansion and diversification where the fund is more secured. As in case of component wise
classification of development finance the development banks are more concentrating in supplementary assistance other than new and start-ups, modernization, rehabilitation, and expansion purposes.

10.4 Suggestion and Recommendations

The post liberalisation regime of development financing highlights the importance of infrastructure financing. Infrastructure is the next generation arena for huge investment. Therefore the need of an hour is to deploy internal as well as external sources of funds for infrastructure development. Foreign Direct and Indirect Investments, (FDIs and FIIS) one of the significant sources of funds for infrastructure is ultimately unbearable at a particular level which emphasise the importance of internal source of funds. But the sizes of Indian development financial instructions are very small which cannot afford the future requirements in infrastructure. Therefore the need of the hour is to join three-four institutions together to become a big giant that can make available of the internal infrastructure requirements of the country up to a certain extent.

The big giants jointly established by the Development Financial Institutions should further put emphasis on the entrance to the other developing countries to explore the galore opportunities favouring to the national interest. The most successful models of development of Taiwan and Singapore i.e. Build Own Operate Transfer (BOOT), Build Operate Transfer (BOT) are now being encouraged and embedded by the government of India. The financial institutions in India should join together to frame such financing plans for the big and risky projects by deployment of funds within the country and employ those funds using these successful and profitable models.

The development banks in India have now diversified their business fortres in the post liberalisation regime. The transformation of development banks into commercial banks produced a gap of financial intermediary for long
term lending activities. Therefore the government should further initiate to extend the scope of SIDBI, and State level financial institutions to include infrastructure as well as development finance and go for long-term project financing. The post liberalisation globalisation period has witnessed a impulsive growth of Indian capital market. The liberalisation and the entry of foreign players (FIIs) and other institutional investors manipulated the market which resulted in boosting of all the indices. Now the control of government on the market forces is very weak where the foreign institutional investors dominate the market with their huge capital base. Therefore the government should initiate to promote some big institutional giants either by merger of the existing development financial institutions or by joint ventures of financial institutions. The government can regulate the market only by Indian players who can protect the interest of Indian investors. Had such institutions existed, The recent downfall of the security market due to the irrelevant reasons would have been averted by the timely interference of these market giants.

The interference of Indian financial institutions and government institutions in Indian capital market is not sufficient to regulate the market forces. The continuous loss of small investors in security market ultimately resulting in foreign outflows. Therefore the need of the hour is to encourage collective investment through mutual funds or any other institutional investment which can be materialised only by the sincere intervention of development financial institutions.

In backward states and even in some other forward states, the state governments should initiate the revival of their concerned financial institutions to finance the small and medium entrepreneurs within their states. The main emphasis of development finance is long-term loans and investments where the element of risk and chances for NPA is more. The portfolios of these development financial institutions are not balanced. Therefore the financial institutions should also go for short-term instruments that can enable the banks to balance their portfolio. From region wise lending activities of development
banks it is understood that the backward regions are still in nascent stage of industrial and entrepreneurial development. For sustaining the regional balance the government should introduce some new packages joined with the existing financial institutions and the lead banks. The university-industry interface with well buffeted institutional support should be introduced with immediate effect especially in the backward states.

The sector wise sanctions and disbursals of development banks reveal the fact that the co-operative and joint sectors are being neglected. The role of co-operative sector in the rural development of the country cannot be neglected. The small savings of rural people along with the strong government support have been enlarging the rural development in India since independence. The long term finance of Development financial institutions is very essential for the existence of co-operative sectors which enables the rural people to make them self-reliant. The rural agriculture and allied activities are always dependent on co-operative sectors. But in the era of post liberalisation globalisation upliftment of a weak segment cannot be done only by funding but the need of the hour is to make a hierarchy of co-operative sectors under the control of any financial institution or the lead bank. That will encourage these different co-operative business entities to join together to become at least medium size businesses and to avail the benefit of economies of large-scale.

The banking system has acquired the skills of managing risks in extending finance to different sectors of the economy including long-term finance and the capital market. Most of the commercial banks increased their huge capital base either by mergers or acquisitions. Now most of the banks provide significantly larger resources to the corporate sector. Now the purpose of development banks to deal with exclusive development finance has diminished. Therefore the need of the hour is to enhance the lending activities of commercial banks for high risk project financing with adequate government support.
As per the recommendation of Narasimham Committee to transform the development banks either into commercial bank or NBFCs the government has repealed the act of IDBI and ICICI in accordance with the requirement. But the other two exclusive development banks i.e. IIBI and IFCI are still under a process of transforming themselves due to their weak performance. In order to revive both the development banks the government should initiate to merge those banks with any of the small public sector banks which enable both the banks to come out with high end opportunity of growth.

The absence of research and development in India forced the country to back seat where the developed countries are getting the advantage of quality researches. Out of the total patent applications in the world (PCT) India is at the bottom with less than 700 whereas USA is on the top with more than 45000 applications. It is one of the real impacts of quality researches. The government of India is spending only 0.81 percent of its GDP for research and development whereas it is 3.13 percent and 2.60 percent in Japan and USA. The reason for the lacking in quality researches is the non availability of funds the government itself cannot afford the huge expenditure. Therefore the need of the hour is that the Government with development financial institutions and banks jointly with corporate bodies should deploy fund for research and development activities.

One of the important challenges of Indian economy is the brain drain. The recent studies reveal that more than 30 percent of scientists in National Aeronautic Scientist Administration (NASA) are Indian. Therefore the need of the hour is to protect Indian brains from departing the country by providing better research atmosphere. The improvement of research environment is not possible only by the government funding. Therefore the government should further regulate the financial institutions to maintain better research ambiance.

Another important aspect of the economic development is of risk financing. The overall trends in development financing in India highlight the
diminishing pattern of risk capital since liberalisation. The purpose wise sanctions indicate the negative trend in seed and start-ups financing. The entrepreneurial developments as well as the technological innovations are dependent on risk financing. Most of the venture capital funds in India belong to foreign players through Mauritius route, which are availing the advantages of risk financing by private investment in public equities. However for the entrepreneurship as well as innovations it is necessary to promote the risk capital in form of venture capital. Therefore the development financial institutions should enhance their business forte to venture funding at sky-scraping level that enables the funding of start-ups and innovations which ultimately fabricate the research and developments.

The industry wise sanctions indicate the poor performance of agriculture financing after liberalisation. As per the recommendation of Narasimham committee that to redefine the priority sector lending with special reference to agriculture has its impact in demise of agriculture sanctions. The various budgets in the last decade emphasise on agriculture financing which remained as slogans. In fact it is the responsibility of the government to establish specialised state level financial institutions to coordinate the agricultural landings joined with local self governments. The activities of NABARD, the specialised financial institution for agriculture now emphasise for rural infrastructure which has increased the scope of one specialised institution for agriculture which accounts more than 55 percent of the total employment in the country.

Now the emergence of information technology and liberalisation of the service sector encourages more service providers in higher education service sector where the need of the hour is that the government should permit the development financial institutions to enter into the field of higher education services.
10.5 Direction for Future Researches

The impact of financial, sector reforms on Indian development banking covers the various aspects of changes in the business dimension of development banks in India on a whole. The comprehensive analysis of the total development banks and major changes in overall lending activities have been emphasised to find out the impact of reforms. Therefore the scopes of further research still remain to study the inter-institutional cases followed by the transformation process. The financial sector reforms have their impact on all the segments of financial services especially the banking sector. Therefore future studies can also be taken up in case of banking sector as a whole. The major reason behind the financial liberalisation was the revival of banking sector that was showing a poor performance in pre-liberalisation period due to the strong government control.