The following points highlight the top eight roles of commercial banks in a developing country.
Some of the roles are: 1. Mobilising Savings for Capital Formation 2. Existence of a Large Non-monetized Sector 3. Financing Industrial Sector 4. They Help in Monetary Policy and Others.

Role # 1. Mobilising Savings for Capital Formation:

People in developing countries have low incomes but the banks induce them to save by introducing variety of deposit schemes to suit the needs to individual depositors.

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To mobilize dormant savings and to make them available to the entrepreneurs for productive purposes, the development of a sound system of commercial banking is essential.

Role # 2. Existence of a Large Non-monetized Sector:

A developing economy is characterized by the existence of a large non-monetized sector, particularly, in the backward and inaccessible areas of the country. The existence of this non-monetized sector is a hindrance in the economic development of the country. The banks by opening branches in rural and backward areas can promote the process of monetization in the economy.

Role # 3. Financing Industrial Sector:

Commercial Banks provide short-term and medium- term loans in the industry. In India, they undertake financing of small scale industries and also provide hire-purchase finance. These banks not only provide finance for industry but also help in developing the capital market which is underdeveloped in such countries.

Role # 4. They Help in Monetary Policy:

The Commercial Banks help the economic development of a country by following the monetary policy of the Central Bank. The Central Bank is dependent upon those Commercial Banks for the success of the monetary management in keeping with requirements of a developing economy.

Role # 5. Commercial Banks Help in Financing Internal and External Trade:

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The banks provide loans to wholesalers and retailers to stock goods in which they deal. They also help in the movement of goods from one place to another by providing all types of facilities such as discounting and accepting bills of exchange, providing overdraft facilities, issuing drafts etc. They help by giving finance both exports and imports of developing countries.

Role # 6. Provision for Long-term Finance for the Improvement of Agriculture:

Normally, commercial banks grant short-term loans to the trade and industries in developed countries. But in developing countries new businesses and improvement in agriculture need long-term loans for proper development. Therefore, the commercial banks should change their policies in favour of granting long-term loans to trade and industries.

Role # 7. They Help in Financing various Consumers' Activities:

People in developing countries do not possess sufficient financial resources to buy costlier goods like house, scooter, refrigerator etc. They help by giving loans to purchase these items which raises the standard of living of the people in developing countries

Role # 8. Need for Sound Banking System:

For the improvement of the banking system in a developing country the following points need special stress:

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(i) In developing countries, there should be proper facility of cheap remittance facilities to enable the movement of funds from one place to another, so as to meet the requirements of trade and industry.

(ii) It should always be remembered that in developing countries loans should be given for productive purposes only and not for consumption and speculative purposes.

(iii) It will be better and encouraging if long-term credit is given to agriculture and small scale industries.

(iv) The use of cheques, drafts etc. is popularized among the people.

Financial Institutions and Economic Development of India

Some of the financial institutions are: 1. Industrial Finance Corporation of India 2. National Industrial Development Corporation 3. Industrial Credit and Investment Corporation of India 4. Industrial Development Bank of India and Others.

Financial Institutions of India

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1. Finance Corporation of India (I.F.C.I)
2. National Industrial Development Corporation (N.I.D.C)
3. Industrial Credit and Investment Corporation of India (ICICI)
4. Industrial Development Bank of India (I.D.B.I)
5. Unit Trust of India (U.T.I.)
6. Life Insurance Corporation (L.I.C.)
7. State Financial Corporation of India (S.F.C.)

Financial Institution # 1. Industrial Finance Corporation of India (I.F.C.I.):

The Industrial Finance Corporation of India was established in 1948 under IPC Act 1948. The main objective of the corporation has been industrial concerns in India.

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The financial assistance of the corporation is available to limited companies or cooperative societies registered in India engaged or proposing to engage in:

(i) Manufacture, preservation or processing of goods.

(ii) Mining Industry.

(iii) Shipping business.

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(iv) Hotel industry.

(v) Generation and distribution of electrical power.

The management of the corporation is vested in a Board of Directors consisting of a whole time chairman and twelve "Directors".

Functions:

The corporation performs the following functions:

:

(1) Guaranteeing loans raised by industries from the capital market, scheduled banks or state cooperative banks which are repayable within a period not exceeding 25 years

(2) Under writing the issue of stock, shared bonds or debentures by industrial concerns

(3) Granting loans or advances or subscribing to debentures of industrial concern

(4) Extending guarantees in respect of defined payment by importer.

Capital and Financial Resources:

The IFCI was set up with an authorized capital of Rs.10 crores consisting of 20000 shares of Rs. 5000 each. The authorised capital has now been increased to Rs. 20 crores, 50 percent of the paid up capital of IFCI is half by IDBI and the other 50 percent by scheduled banks, corporative banks, LIC and other insurance companies trusts etc.

The financial resources of the corporation other than share capital are retained earnings, sale of investments and repayment of loans from central government, borrowings in foreign currency issue of bonds and acceptance of public deposits.

Financial Institution # 2. National Industrial Development Corporation:

The N.I.D.C. was established by the Central Government in 1954 which has been regarded as the instrument to achieve a balanced development of industries in the private as well as the public sector.

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The NIDC plans and formulated projects for setting up new industries. The main objective of the corporation is promotion of industries rather than granting finance. It can also provide assistance for modernisation of industries.

The corporation was set up with the authorized capital of Rs. 1 crore out of which Rs. 10 lakhs have been issued and paid up by the government. It can also borrow from the government.

The management of NIDC is entrusted to a Board of Directors consisting of total 8 members including its Chairman and a Managing Director. All the appointments are made by the central government.

Financial Institution # 3. Industrial Credit and Investment Corporation of India:

The Industrial Credit and Investment Corporation of India (ICICI) was established in year 1955 under the Companies Act as public limited company.

Any industrial concern may approach ICICI for assistance in financing a sound proposal for the establishment, modernisation or expansion of the company.

In order to promote new industries to help in the expansion and modernisation of existing industries and to provide technical and managerial assistance, the ICICI grants long term and medium term loans subscribes debentures and shares and guarantees loans from private finance source.

ICICI also provides assistance by way of suppliers' credit, equipment leasing, and renders merchant banking services.

The corporation was registered with an authorized capital of Rs. 25 crores divided into 5 lakh equity shares of Rs. 100 each. It has also raised money by issuing debentures.

Financial Institution # 4. Industrial Development Bank of India (I.D.B.I.):

Industrial Development Bank of India was established by Govt. of India in 1964 under the IDBI Act as a wholly owned subsidiary of Reserve Bank of India to provide credit and other facilities for the development of industrial sector. It coordinates the activities of the other financial institutions and banks which provide term finance to industries.

It has also been assigned the responsibility of providing financial and technical assistance for the promotion of certain basic and key industries like pharmaceuticals fertilizers, mining, shipping power generation and setting up industrial estates etc.

Objectives and Functions:

(i) To coordinate activities of other financial institutions and banks etc. which help industries by providing finance

(ii) To promote the industrial structure of the country by planning promoting and developing industries

(iii) To provide technical and administrative know how for expansion of industry

(iv) To undertake investment research, market research, technical and economic studies in connection with industrial development and

:

(v) To finance projects which are in confirmation with national priorities.

Services Provided & Nature of Assistance:

IDBI provides finance for establishment of new industrial units as well for expansion, diversification and modernisation of existing industrial concerns. IDBI currently offers the following services for extending assistance to industrial enterprises.

1. Project Finance:

IDBI provides direct financial assistance to medium and large scale units for the establishment of new projects as well as for expansion, diversification, modernization and renovation of existing units.

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IDBI provides direct financial assistance to all viable projects which are in conformity with national priorities decided by central Govt. and with special preference to projects which are:
Labour intensive and employment oriented.

Located in industrially backward areas export oriented.

Developed by entrepreneurs.

Based on indigenous technology or aimed at energy conservation and pollution control.

2. Equipment Finance:
IDBI provides rupee and foreign currency loans to industrial units for purpose of financing acquisition of specific machinery and equipment items.

3. Long Term Working Capital Loans:
IDBI provides loans for augmenting long term working capital requirements and for meeting additional margin of money needs for working capital arising out of increase in production volume, expansion or diversification etc.

4. Bridge Finance:
IDBI extends the facility of bridge finance to assist companies in meeting their funding needs pending in raisin of money from capital market.

5. Refinancing of Industrial Loams:
IDBI grants refinance facilities to SFC's SIDC's and banks etc. against their assistance to mediums sized industrial units throughout the country at concessional rate of interest (12.5 percent) for a maximum period of 10 years.

6. Bills Rediscounting:
IDBI rediscounts bill of exchange discounted by banks and approved financial institutions arising from the sale of indigenous machinery of deferred payment terms.

7. Export Finance:
IDBI plays an important role in export by providing finance as follows:
(i) Direct loans to exporters and

(ii) Direct credit to foreign buyers.

8. Technical Development Fund Scheme:

The Govt. of India set up a technical development scheme in 1976 in order to promote technological up-gradation, export activity, and optimize capacity utilization,

Under this scheme, foreign exchange is provided to the existing industrial enterprises for the import of the following items for the purpose of modernization and up-gradation of technology:

Technical equipment.

Technical consultancy services.

Capital equipment.

Help in product development and design.

The proposed modernization/upgrading of technology should aim at the followings results like:

Productivity Improvement.

Enhancement of export potential.

Energy conservation.

Quality improvement of products manufactured and cost reduction.

9. Technical Consultancy Organisations (T.C.O.):

The government, IDBI, association of banks and financial institutions has set up TCO, which is meant for providing assistance in the field of preparation of feasibility reports, project report, covering all technical and managerial factors. In addition to these jobs they are undertaking rehabilitation programmes for sick units providing design engineering services plus motivation and training courses of entrepreneurs etc.

10. Development Assistance Fund:

IDBI has also established Development Assistance Fund in order to provide assistance to industries of national importance which are import substitution oriented.

Financial Institution # 5. Unit Trust of India (U.T.I.):

The Unit Trust of India was set up in 1964 under the Unit Trust Act of 1963. The main objective of the UTI is to encourage and mobilize saving of the companies and to make diversified investment for the economic growth of the country.

It accumulates the saving of the community through the sale of units and invests the finance collected in various types of securities in such a way which may be advantageous to the individuals. The investible funds of UTI are usually invested in preference shares, debentures or bonds. The returns on these investments provides main source of income to U.T.I.

The surplus funds for short periods are placed with commercial banks in call loans.

The management of the trust is entrusted to the Board of trustees. The chairman of the Board and other trustees are appointed by R.B.I. One trustee each is nominated by L.I.C. and State Bank of India and two others elected by other subscribers to the capital of the trust.

Financial Institution # 6. Life Insurance Corporation of India (L.I.C.):

The L.I.C. of India was established under the Life Insurance Corporation Act 1956 under which the life insurance business was nationalized. The L.I.C. of India provides long term finance to industry.

The L.I.C. of India helps in mobilization and investment of individual on a diversified basis; it is primarily concerned with promotion of life insurance India business and the protection of the interests of the policy holders.

It provides financial assistance for the development of socially desirable sectors such as housing, water supply, electricity and private sector industries.

The L.I.C. funds are specified invested according to the investment policy as specified in the L.I.C. Act. The directions of assistance such that about 85% at the discretion of the investment committee.

Financial Institution # 7. State Financial Corporation's (S.F.C.):

The government after independence realized the need of creating financial corporation at the state level for catering to the financial requirements of industrial entrepreneurs. In 1951 the Government of India passed "The State Financial Corporation Act".

This act empowered the state Governments to establish separate State Financial Corporation in their respective states. These were established to meet the requirements of medium and small scale industrial sectors.

SFC provides financial assistance to limited companies, partnerships organizations, and cooperative societies. State proprietor ships and Hindu undivided families etc.

The following types of industrial enterprises are eligible to get assistance from SFC's:

1. Units manufacturing, processing or doing preservation of goods.

2. Generation and distribution of power.

3. Hotels.

4. Mining.

5. Transport of goods or passengers by road, air or water etc.

6. Fishing.

7. Repair maintenance, testing and servicing of machinery of vehicles.

The financial assistance is available for new units as well as existing units for their renovation, modernization or expansion etc.

Term loans are provided in rupees as well as foreign currency at normal rate of interest 14%. Financial assistance is also provided to industries through subscription on shares and debentures issued to public by companies.

It also provides under writing services to the eligible industrial enterprises for the shares and debentures issued by them. SFC guarantees the loan raised by industrial concerns from commercial banks and other financial institutions.
