

Notes by Dr Ram Lochan Mishra

Associate Professor

Head of Commerce department

J K college Biraul Darbhanga

B. Com part-2 subsidiary paper -4 Monetary Theories and financial institutions

Unit-3 Commercial Bank

Introduction : A financial institution which performs the functions of Accepting deposits and giving loans is called as 'Bank'. Banks are classified on the Basis of their functions and nature. For example, Commercial Bank, Investment Bank, Saving Bank, Foreign Exchange Bank, Development Bank etc. Development Bank is thus a type of bank.

Industrial Revolution in Europe coincided with the establishment of development Banks. Such a bank was established in Belgium in 1822. In France it was established

In 1852, in Japan in 1920, in Canada in 1944, in England in 1945 and it was set up In India in 1948.

Definition :

- i) According to Prof. Shirley Bosky, a financial institution providing loans to Developmental projects and other banking services in accordance with The banking rules is called as Development Bank. In other words, a Financial institution which functions in accordance with the banking rules And distributes loans to economically viable developmental projects after Careful study and also provides other banking services is termed as a Development bank.***
- ii) In view of Prof. William Diamond, development bank is one which Encourages new enterprises, provides them capital and thus helps in Industrial development.***
- iii) Dr. K.V. Prabhakar opines that development bank is a multipurpose Institution, which shares the organizational risk, changes its policy as Per the industrial environment and encourages new industrial projects.***
- iv) According to Shri B.K. Madan, development bank is an institution which Not only supplies capital to industries but also provides them technical And managerial advice and helps in sale and management.***

From the above definitions, it can be argued that development bank is one Which encourages industrial progress by supplying long term capital and by guiding Industrial units about technology, management and other relevant aspects and thus Speeds up the economic development of a country.

Development bank is established with the intention of providing long term Loans to industrial units, and units engaged in trade and agriculture. It provides Medium or long term loans for setting up production unit, expansion of the existing Unit or for increase in production. It buys shares or debentures of companies, helps In the sale of share and debentures and provides other banking services. Some Countries have seen establishment of the development banks in the private sector, While some in public sector. These banks provide loan assistance to economically Viable units, provide them advice and guidance, solve their problems and therefore, Help in their development and the development of the economy. It is because of this

That they ar termed as partners in development.

Features of Development Banks :

1. It is a financial institution : It distributes its share capital, debentures to people and collects funds, which are used for

giving loans. It is an institution functioning in accordance with the banking rules.

2. Multipurpose financial institute : These banks help in starting new projects, in raising capital, guide in the purchase of machines, vehicles etc., provide advice for running an enterprise, guide in the purchase of raw material and sale of finished products and help in other respects also.

3. Medium & Long-term loans to business firms : These banks provide medium and long term loan assistance to economically viable business units.

4. Don't accept deposits : These banks don't accept deposits from the people like commercial banks. General public cannot open current, savings or recurring accounts with these banks.

5. Expert institution : These banks appoint experts from various fields like Industry, commerce, agriculture and take their help. These banks function in Consultation with these experts. Borrowers therefore, can avail their advice at Concessional rate fee.

6. Developmental finance : These banks help in the process of economic Development by making finance available to the productive units. These units, which Have the potential of survival, which can withstand competition, are assisted by the Development banks.

7. Encouragement to the investment and entrepreneurship : *These Banks not only assist existing units but also motivate setting up of new units, and Help them in their further development.*

8. More stress on implementation : *These banks do not merely provide Finance, but guide industrial units in deciding location of plant, in the purchase and Installation of machinery, in the production and management of the unit and also in The sale of final produce. Development banks assist industrial & other units so that They will succeed and others will draw lessons from them.*

9. Inspiration to new and small units : *Experts of these development Banks motivate new and small business units for their development.*

10. Social & economic objectives : *These banks work for the achievement Of those objectives which will promote overall development of the country.*

11. Encouragement to saving and investment : *As these banks promote The development of new and existing business units,*

they indirectly help in improving Savings and investment levels in the economy.

12. Objective of social well-being : The development banks function for The social well-being by assisting in the development of both public and private Business units from industry, commerce and trade, agriculture, services. They provide Advice and guidance for the success of these business units. Thus, these banks Work for the improvement of social well-being.

Functions of the Development Bank :

- 1) Selecting economically viable business units after careful study and Providing them loan assistance.***
- 2) Providing risk capital to the business units***
- 3) Providing medium and long tem loans to projects***
- 4) Investing in the share capital or debentures of business firm***

- 5) Helping business firms in the sale of shares and debentures**
- 6) Providing guarantee to the loans raised by business units**
- 7) Providing guidance to the management regarding technology, market, Labour etc.**
- 8) Finding developmental projects and encouraging their initiation and Implementation by making loan assistance available**
- 9) Designing developmental projects and evaluating them after they start Functioning**
- 10) Appointing experts from different fields for providing guidance to the Entrepreneurs**
- 11) Conduct of surveys and research**
- 12) Coordinating among the financial institutions working in the field of Agriculture, industry and trade and other development institutions**