

UPSC Civil Services Examination

UPSC Notes [GS-III]

Topic: Development Finance Institutions - UPSC Economy Notes

The development finance institutions or development finance companies are organizations owned by the government or charitable institution to provide funds for low-capital projects or where their borrowers are unable to get it from commercial lenders.

Types of Finance provided are – Medium (1 – 5 years) and Long term (>5 years)

This is an important topic for the [IAS Exam](#).

Objectives of Development Finance Institutions

- The prime objective of DFI is the economic development of the country
- These banks provide financial as well as the technical support to various sectors
- DFIs do not accept deposits from people
- They raise funds by borrowing funds from governments and by selling their bonds to the general public
- It also provides a guarantee to banks on behalf of companies and subscription to shares, debentures etc.
- Underwriting enables firms to raise funds from the public. In Underwriting a financial institution guarantees to purchase a certain percentage of shares of a company which is issuing IPO if it not subscribed by Public.
- They also provide technical assistance like Project Report, Viability study and consultancy services.

Some Important DFIs (Sector Specific)

Industry

IFCI – 1st DFI in India. Industrial Corporation of India established in 1948.

ICICI – Industrial Credit and Investment Corporation of India Limited established in 1955 by an initiative of World Bank.

- It established its subsidiary company ICICI Bank limited in 1994.
- In 2002, ICICI limited was merged into ICICI Bank Limited making it the first universal bank of the country.

Universal Bank – Any Financial institution performing function of Commercial Bank + DFI

- It was established in private Sector and is still the Only DFI in private sector.

IDBI – Industrial Development Bank of India was set up in 1964 under RBI and was granted autonomy in 1976

- It is responsible for ensuring adequate flow of credit to various sectors
- It was converted into a Universal Bank in 2003

IRCI – Industrial Reconstruction Corporation of India was set up in 1971.

- It was set up to revive weak units and provide financial & technical assistance.

SIDBI – Small Industries development bank of India was established in 1989.

- Was established as a subsidiary of IDBI
- It was granted autonomy in 1998

Foreign Trade

EXIM Bank – Export-Import Bank was established in January 1982 and is the apex institution in the area of foreign trade investment.

- Provides technical assistance and loan to exporters

Agriculture Sector

NABARD – National Bank for agriculture and rural development was established in July 1982

- It was established on the recommendation of Shivraman Committee
- It is the apex institution in the area of agriculture and rural sectors
- It functions as a refinancing institution

Housing

NHB- National Housing Bank was established in 1988.

- It is the apex institution in Housing Finance