

Impact of economic liberalization on development banking in Sri Lanka

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Economic development requires funding of important projects in agriculture, industry and infrastructure facilities which have a fairly long gestation period and the returns of which are spread over a long period of time. Since Commercial Banks are not equipped to provide long term financing in the form of capital or equity, and other services such as project consultancy, planning and implementation, development banks have been established in developing countries in order to fill this gap.

This paper analyses the impact of economic liberalization on development banking in Sri Lanka with the objective of assessing their role in an open market economy. Research was mainly based on information gathered through interviews with high-ranking officers of the development banking industry and secondary data from various sources.

The history of development banking in Sri Lanka goes back to the colonial period. The first long term financial institute was set up in 1931. Before the free economic policy was introduced Sri Lanka had only three development banks.

The impact of economic liberalization on development banking at the initial period was impressive. A new dimension was brought into the development banking industry by creating new institutions, restructuring existing institutions and increasing the availability of funds during this period. Part of the increased demand for capital needed to finance the economic liberalization was met by the development banks. One of the conclusions reached at the end of this study was that development banks have performed their role effectively during the initial period of economic liberalization.

But, at present, the role played by these banks has diminished due to their tendency to conform to commercial banking norms, privatization of the ownership of these banks, the availability of long term finance through the equity market and bond market etc. The final conclusion of this study is that the development banking system of Sri Lanka is not longer meet its original objectives or expected goals.

Key words: Development banking, Long term, Economic liberalization, Banks and banking, Financing

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