

FIFTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (2001-2002)

(THIRTEENTH LOK SABHA)

INDUSTRIAL DEVELOPMENT BANK OF INDIA

MINISTRY OF FINANCE (BANKING DIVISION)

Presented to Lok Sabha on _____
Laid in Rajya Sabha on _____

25 JUL 2001



LOK SABHA SECRETARIAT
NEW DELHI

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COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS
(2001-2002)

Prof. Vijay Kumar Malhotra — *Chairman*

MEMBERS

Lok Sabha

2. Shri Prasanna Acharya
3. Shri Mani Shankar Aiyar
4. Prof. S. P. Singh Baghel
5. Shri Sudip Bandyopadhyay
6. Shri Ram Tahal Chaudhary
7. Shri Ajay Singh Chautala
8. Shri Shiv Raj Singh Chauhan
9. Shrimati Sangeeta Kumari Singh Deo
10. Shri C. K. Jaffer Sharief
11. Shri K. E. Krishnamurthy
12. Shri Vilas Muttemwar
13. Shri Rajiv Pratap Rudy
14. Shri Tarit Baran Topdar
15. Shri Dinesh Chandra Yadav

Rajya Sabha

16. Shri Suresh Kalmadi
17. Shri K. Kalavenkata Rao
18. Shri Jibon Roy
19. Shri B. P. Singhal
20. Smt. Ambika Soni
21. Shri C. P. Thirumavulcarasu
22. Shri Ranjan Prasad Yadav

SECRETARIAT

1. Shri Rajagopalan Nair — *Joint Secretary*
2. Shri S. Bal Shekar — *Director*
3. Shri Raj Kumar — *Under Secretary*
4. Shri Tirthankar Das — *Senior Executive Assistant*

INTRODUCTION

1. I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Fifth Report on 'Industrial Development Bank of India'.

2. The Committee took evidence of the representatives of Industrial Development Bank of India on 2nd March, 2001. The Committee took evidence of the representatives of the Ministry of Finance (Banking Division) on 12th March, 2001.

3. The Committee on Public Undertakings (2001-2002) considered and adopted the Report at their sitting held on 21st June, 2001.

4. The Committee feel obliged to the Members of the Committee on Public Undertakings (2000-2001) for the useful work done by them in taking evidence and shifting information. They would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

5. The Committee wish to express their thanks to the Ministry of Finance (Banking Division) and Industrial Development Bank of India for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank in particular the representatives of the Ministry of Finance (Banking Division) & Industrial Development Bank of India who gave evidence and placed their considered views before the Committee.

New Delhi;
12 July, 2001

21 Asadha, 1923 (S)

VIJAY KUMAR MALHOTRA
Chairman,
Committee on Public Undertakings.

CHAPTER I

ROLE AND OBJECTIVES

A. General Background

1.1 Industrial Development Bank of India (IDBI) was established on July 1, 1964 as a wholly owned subsidiary of Reserve Bank of India under an Act of Parliament to provide credit and other facilities for the development of industry. In view of the manifold increase in its activities and diverse responsibilities, the ownership of IDBI was transferred to the Government in February, 1976 and it was made the principal financial institution for co-ordinating the activities of institutions engaged in the financing, promotion or development of industry in the country.

1.2 The IDBI Act was amended in 1994 to, *inter alia*, permit IDBI to raise equity from the public subject to the holding of the Government of India not falling below 51 per cent of the issued capital. Pursuant to the amendment to IDBI Act, IDBI made its initial public offering of equity shares in July 1995 aggregating Rs. 2,184 crore. Simultaneously, the Government also offered for sale a part of its holding of equity shares in the capital of IDBI aggregating Rs. 187.5 crore. On completion of allotment of the shares offered to the public, the Government shareholding in IDBI reduced to 72.14%. Further consequent upon conversion of 24.70 crore equity shares into preference shares by Government of India on June 5, 2000, and forfeiture of partly paid-up shares, GOI's holding has come down from 72.14% to 58.47% in IDBI. As at present, the Central Government's equity holding is 58.47% and the public holding is 41.53%.

1.3 When the Committee wanted to know the ideal percentage upto which the shares of IDBI can be offloaded to the public, IDBI in a written reply stated:

"In terms of IDBI Act, the Central Government should hold not less than 51% in the Equity Share Capital of IDBI. IDBI had submitted a capital restructuring plan to improve the market sentiment. The capital restructuring plan has been partly implemented and as a result Govt. holding has come down to 58.47%. The restructuring plan also envisages an international offering of IDBI shares through ADR/GDR issue. This proposal can be implemented depending on market price of IDBI shares."

1.4 On being asked whether Govt. propose to reduce its shareholdings in IDBI to less than 51% to provide level playing field to IDBI, the Ministry of Finance stated the following in a written reply:

"In terms of IDBI Act, the Central Government may hold not less than 51 per cent in the equity share capital of IDBI at all times. The present share holding of the Government in IDBI is 58.47 per cent. There is no proposal at this stage under the consideration of the Government to reduce Government share capital of IDBI to less than 51 per cent. Share holding pattern is not a major constraint for IDBI to respond to the emerging challenges in long term financing

of the industrial sector. Government does not exercise any controls on IDBI affecting its autonomy and flexibility in its business operation. However, aspects of public accountability and Parliament have to be kept in mind. There are already FIs in the private sector in the country. The time has not come to privatise all FIs in the country."

B. Objectives

1.5 IDBI's role as a catalyst to industrial development encompasses a wide spectrum of activities. It can finance all types of industrial concerns covered under the provisions of the IDBI Act.

The main objective of IDBI is to provide financial assistance for establishment of new projects as well as for expansion, diversification, modernisation and technology upgradation of existing industrial enterprises.

1.6 When asked how far IDBI has been able to achieve its role and objectives, IDBI stated, in a written reply as under :—

"IDBI has played a pioneering role in fulfilling its mission of promoting industrial growth in tune with national plans and priorities. Its support was not only instrumental in establishing a well developed, diversified and efficient industrial structure, but also added a qualitative dimension to the process of industrial development in the country. In addition to financing the long and medium term needs of all types of industrial projects, the Bank was required to play a special role in planning, promoting and developing industries to fill the gaps in the industrial structure, co-ordinating the working of institutions engaged in such activities and assisting in their development, providing technical and administrative assistance for promotion, management or expansion of industry, undertaking market and investment research/surveys and techno-economic studies to contribute to the development of industry. The Bank has played a major role in channelising finance into industries, both by way of directly financing industries as well by providing refinance through other State-level institutions/banks. The critical role played by the bank in encouraging industrial development is reflected in flows of assistance over the years."

1.7 When the Committee enquired about the desirability of amending the IDBI Act to make IDBI function in a more effective manner, the IDBI in a written reply stated :—

"IDBI has been set up as a Statutory Corporation and its activities/functioning are guided by the IDBI Act. In today's operating environment, in order to survive competition, FIs need to have sufficient managerial autonomy and operational flexibility. Statutory controls over IDBI operations have resulted in its slow response to new emerging needs of the corporate and financial sector. Presently, any deviation from the provisions of the Act, necessitates an amendment to the Act or issue of Government Notification which is a prolonged and time-consuming procedure. It is felt that greater managerial autonomy and operational flexibility is required to be imparted for enabling IDBI to determine

the definition of "Industrial Activity" [Section 2(c)], Transaction of kinds of business [Section 9(1)], matters relating to restructuring of capital [Section 4, 4(C),(D), (E)], and constitution of the Board of Directors (Section 6). Such powers may be delegated to the Board of Directors obviating the requirement of seeking Government approval and going through the process of issuing Government Notification/Amendments to IDBI Act. This would also provide a more level playing field to IDBI across similar financial institutions which are incorporated as companies under the Companies Act, 1956. It will enable restructuring of capital without any approval under governing statutes and induction of professionals on the Board from diverse fields relevant to the FI's business. It will also provide more operational flexibility in formulating its own policy and functioning based on business needs and empower it with the ability to respond to the fast changing needs of the financial system and increase efficiency level. This would overall be in line with Government objectives of providing greater autonomy in the banking and the financial sector....."

1.8 In this connection, the Ministry of Finance in a written reply stated as under:—

"IDBI has been assigned an important role in planning, promoting and developing industries to fill the gaps in the industrial sector in India, co-ordinating the working of institutions engaged in financing, promoting or developing industries and assisting in the development of such institutions, providing technical and administrative assistance for promoting, managing or expansion of industries and undertaking market and investment research and service as also technical and administrative assistance for promoting, managing or expansion of industries..... It is also the objective of the Government to ensure that IDBI discharge its primary role of meeting the long-term resource requirement of the industries for which it was originally set up. In order to enable the IDBI to meet its requirements in the changing scenario, Government has facilitated greater functional autonomy and operational flexibility from time to time. The functioning of IDBI as per the objective, for which it was set up, has not been hampered at any time for want of support from the Government or due to procedural and legal hurdles.

The business of the Bank including the definition of industrial activity is in tune with the primary objective of setting up the Bank as well as the provisions of the IDBI Act. The definition of Industry is already very wide and includes all conceivable activities for an industrial undertaking. Moreover, whenever enlargement of activity is required, Govt. issue notification for the purpose. Amendment of the Act is not required for the purpose. Recently, Govt. have issued notification to declare 'construction', 'road transport' and 'entertainment industry including films' as industrial concerns, after examining their relevance and viability for IDBI. In respect of restructuring of capital Govt. have not taken any decision to corporatise or privatise IDBI so far. Capital structure of IDBI is not required to be changed frequently. As the majority owner, Government need to consider all aspects before taking any decision and needs to be consulted.

Board members are from diverse relevant fields. Three Professional Directors have already been appointed on the Board of the IDBI *vide* Banking Division's letter dated 30th March, 2001. There is no further proposal pending with the Govt. at this stage. IDBI Act provides full flexibility and autonomy to the IDBI in its operations. Bank is free to raise funds from different sources and also to lend as per its norms and policies. There is no Government control on its operations. Regarding amendment to the IDBI Act, as and when a proposal from IDBI, duly approved by its board is received, Government would be willing to consider the same within the overall policy of the Government."

C. Level playing field with Banks

1.9 It has been brought to the notice of the Committee that cost of funds offered by the Commercial Banks is much lower and due to this factor, Banks are offering lower interest rates which has resulted in direct competition by them with IDBI.

1.10 When the Committee sought the opinion of IDBI regarding level-playing field for IDBI with the Banks, the IDBI stated in a written reply the following:

"Cost of deposits of commercial banks is low because they accept deposits of shorter maturity. Current accounts maintained by commercial organisations and industries with commercial banks and payable on demand, carry no interest rates. Financial institutions do not have recourse to such accounts nor can they accept deposits/bonds, which have maturity period of less than one year. Institutions have limited accessibility to raise short-term funds through term money bonds having maturity over one year. However, market for term money is not developed. If institutions are allowed to accept deposits of shorter maturity they would be able to raise funds at lower cost.

In the past, FIs were not permitted to offer rates higher than those offered by State Bank of India on its FDs. IDBI had approached RBI in this regard and this restriction was removed. The Union Budget 2001-2002 proposes to introduce uniform rules regarding TDS, which used to be Rs. 10,000/- for banks and Rs. 2,500/- for FIs.

Commercial banks also have advantages of large branch network. With a view to having overall level playing field, IDBI has sought Government's permission to float tax-free bonds which would enable it to raise funds at low cost. However, as mentioned above, while some steps have been taken to improve the ability of FIs to raise short-term funds, complete level playing field with the banks remains to be created. Moving to universal banking will enable IDBI to raise funds in a cost-effective manner. For this purpose, IDBI/Board has recently approved appointment of reputed international consultancy organisation for charting out the road map to move towards universal bank."

1.11 Commenting on the issue of providing IDBI a complete level-playing field with the banks, the Ministry of Finance in a written reply stated as under:

“The DFIs would continue to have a special role in the Indian financial system until the debt market demonstrates substantial improvements in terms of liquidity and depth. Any DFI which wished to become a bank has the option to transform into a bank provided the prudential norms as applicable to banks are fully satisfied to this end. A DFI would need to prepare a transition path in order to fully comply with the regulatory requirement of a bank. Simultaneously, the regulatory framework of RBI in respect of DFI would also need to be strengthened if DFIs are given greater access to short-term resources for meeting their financing requirements. The Parliamentary Standing Committee on Finance in their 8th Report has recommended that the approach to universal banking should be gradual and sufficient precautions, especially, in the realm of devising a regulatory mechanism for consolidation of regulation should be taken diligently. Government /RBI agree with the above recommendation and in the light of the above, IDBI's transition from a DFI to a Universal Bank would also receive attention at appropriate stage.

The banks are also not getting concessional finance. However, banks have access to the market for collecting deposits at lower rate, which they lend mostly for short-term requirements. IDBI on the other hand mainly provides funds on long-term basis for development of industry and infrastructure. However, IDBI have been given concessions in the form of infrastructure bonds. Complete level playing field between bank and FIs in this present form is neither feasible nor desirable. However, necessary adjustments in regulatory regime have to be made.”

CHAPTER II

ORGANISATION AND MANAGEMENT

A. Board of Directors

2.1 IDBI is managed by a Board of Directors headed by the Chairman and Managing Director. The Board of Directors comprises eminent industrialists, professionals, management experts and representatives of the Central Government. Day-to-day operations of IDBI are carried out under the supervision of Chairman & Managing Director assisted by a Deputy Managing Director, Executive Directors and other executives. IDBI has a pool of competent and experienced professionals drawn from various disciplines. It has decentralised its operations and delegated authority to ensure efficient working and servicing of clients.

Under the IDBI Act, the Board of IDBI shall consist of Chairman and Managing Director appointed by the Central Government, One Whole-time Director appointed by the Central Government, Two Central Government Officials, Three Nominee Directors appointed by the Central Government having professional knowledge and expertise useful to IDBI (the same person may be appointed as the Chairman and Managing Director) and maximum four Directors elected by the public shareholders other than Central Government.

2.2 The present composition of the IDBI Board of Directors is given below:

1. Shri S.K. Chakrabarti — Chairman & Managing Director (Acting)
Directors
2. Shri Piyush G. Mankad — Central Govt. Nominee
3. Shri Devi Dayal — Central Govt. Nominee
4. Shri Tarun Das — Representing shareholders
5. Shri Dipankar Basu — Representing shareholders
6. Dr. S.K. Gupta — Representing shareholders
7. Dr. K S Parikh — Representing shareholders

2.3 It was stated by IDBI that the following are the vacancies on the Board of Directors in IDBI as on 27.2.2001 :—

Category	No. of vacancies	Vacancy lying vacant since
Chairman & Managing Director	One	February 01, 2001
Persons with special knowledge and professional experience	Three	(i) March 10, 2000 (ii) October 24, 2000 (iii) November 16, 2000

2.4 During evidence of the representatives of IDBI, when the Committee enquired about the reasons for not having a regular CMD in IDBI, the Actg. CMD stated as under:

"Chairman has not been appointed as yet. I was the Whole-Time Director, and I have been asked to take charge as the Acting Chairman.....It was well known that by 31st of January, 2001, Shri G P Gupta will be retiring. I will also be retiring by 30th of April, 2001. Therefore, the Government had taken some action, but I do not know about the problems of the Government."

2.5 When the Committee enquired about the action taken by IDBI to fill up the vacant posts on the Board, the following was stated by IDBI in a written reply:

"Ministry of Finance, GOI has already initiated the steps to fill up the vacancy of Chairman and Managing Director.

We have written to GOI vide our letters dated April 03, 2000, July 04, 2000, July 27, 2000, September 22, 2000, October 03, 2000 and January 02, 2001 to fill up the vacancies of Director under Section 6(1)(d) lying vacant."

2.6 On being asked about the reasons for not taking advance action to fill up the post of regular CMD and the other vacancies in the Board, the Ministry of Finance in a written reply stated as under:

"Action for filling up the post of CMD, IDBI was initiated in August, 2000. An advertisement was issued in October, 2000 inviting applications from the eligible and suitable persons for the post. The applications received were short-listed and were placed before the Appointments Board. The Appointments Board in its meeting held on 11th October, 2000 approved the constitution of a Sub-Committee for conducting interviews to finalise selection of a person for the post of CMD, IDBI. The Sub-Committee conducted the interview of the short-listed candidates on 20th January, 2001. A proposal for appointment of CMD has been submitted by Banking Division to obtain the approval of competent authority.

As regards filling up three vacancies of Non-official Directors on the Board of IDBI, orders have since been issued on 30th March, 2001 for appointment of three Directors under the relevant section of the Act."

2.7 When enquired about the general procedure for making appointments to such vacancies in the Board, the Ministry of Finance stated in a written reply the following:

"Action is generally initiated six months in advance to fill up the anticipated vacancies of whole time directors in public sector banks and financial institutions. As per the present procedure, the selection of persons for appointment of whole time directors of public sector banks and financial institutions is made on basis of the recommendations of the Appointments Board. The Appointments Board has been constituted by the Government to make the recommendations for appointment of whole time directors on the boards of public sector banks and financial institutions....."

The Board meets periodically and makes recommendations for consideration of the Government for filling up of the existing and anticipated vacancies. The recommendations made by the Board are processed in the Ministry of Finance (Banking Division) and formal proposals are thereafter submitted for the approval of the Appointments Committee of the Cabinet after obtaining vigilance clearance in respect of the executive proposed for appointment and the consent of the executive concerned. After obtaining the approval of Appointments Committee of the Cabinet, the appointment is notified in the Official Gazette.

Panels of names of economists, management experts, chartered accountants, lawyers, academicians, industrialists etc. are obtained from organisations like NCAER, IEG, IIMs, Institute of Chartered Accountant of India, Indian Law Institute, reputed universities, FICCI, CII, ASSOCHAM and other chambers of commerce, etc. In addition, recommendations are also received from various other sources. A data bank is maintained in the Banking Division including all such names/recommendations. After a scrutiny of the names received from the various sources, persons are short-listed keeping in view their educational qualifications, professional experience, etc.

The names of persons proposed to be nominated as part-time non-official directors on the boards of the nationalised banks and FIs are approved by the MOS/Finance Minister. In some cases, as required under the statute, consultation with Reserve Bank of India is done. Thereafter the clearances from the four angles i.e. Central Excise, Customs, Income Tax and FERA, in respect of these persons are obtained from concerned agencies. After receipt of these clearances or obtaining affidavit to the effect that no case or inquiry is pending/contemplated by any of the four agencies against the person, the proposals are submitted to the Appointments Committee of the Cabinet. The appointments are notified after receipt of ACC's approval and the requisite declarations from these persons."

B. Compensation Package for Employees

2.8 It was stated by IDBI that in the changed environment, IDBI has been finding it difficult to attract and retain specialist professionals on account of its low remuneration package. IDBI has a pool of talented professionals who is constantly lured by attractive remuneration packages offered by other corporates. As IDBI has to compete with various financial service providers in the system for its fund requirements and business opportunities, it needs to offer a market related compensation package to its employees in order to attract and motivate them to achieve the overall objectives of the organisation. During the last three years, a total of 135 executives have resigned out of which 82 are Management Trainees and other executives at middle management level.

2.9 During the evidence of the representatives of IDBI, the Committee have been informed that the salaries and perquisites of the employees are much lower than those of similar institutions in the market. As a result, many professionals had left IDBI. In 1996, the Board of IDBI approved a compensation package of salaries and perquisites for IDBI employees and sent the same to the Government for approval. But the

Government did not take any action on it despite repeated reminders. Recently, IDBI has sent another much lower compensation package and that has also not been approved by the Government.

2.10 On the issue of compensation package of salaries and perquisites for IDBI employees, the Ministry of Finance stated the following in a written reply:

"IDBI is one of the development financial institutions of India. There are other financial institutions including banks, in which, Government is holding majority share capital. Government also believes that employees of these institutions should enjoy remuneration commensurate with their qualifications and inputs. But the compensation packages have to be determined keeping in view the total operating cost and available profitability of the institution and overall compensation patterns in the country including in the Government.

A revised compensation package for the employees of the IDBI was submitted to the Board of IDBI. The Board has decided that whereas linkage with RBI pay scales may be maintained, the facilities and perquisites for officers may be decided by the Board itself and a scheme for payment of performance linked incentives linked to Bank's profitability may be introduced for officers. The pay scales have already been revised. Perks and facilities have to be decided by the Board. A proposal on incentives based on performance and linked to the profits of IDBI has been received from IDBI on 23rd January, 2001 which is under examination for taking a decision. The Government has to keep in view the operative cost of the FIs, which affects their lending rates and competitiveness. Moreover, whatever pattern is decided in IDBI and other FIs, banks will also demand similar package and compensation. The Government has to keep in mind the moot question whether Public Sector DFIs can afford pay scales and compensation package offered in the private sector and remain competitive in the market."

2.11 To a query as to whether the concurrence of the Government is at all required for compensation package for the employees of the IDBI in view of the Section 26(1) of IDBI Act, the Ministry of Finance, in a written reply stated as under :—

"It is true that Section 26(1) of the Act envisages IDBI appointing employees, as it considers necessary or desirable for the efficient performance of its functioning and determining the terms and conditions of their conduct and services. However, as IDBI is a public sector (majority owned) FI and as pay scales applicable in IDBI will affect those in other FIs and banks, Government had been approving the compensation package in IDBI since beginning. Compensation package in IDBI has been following the RBI pattern. Section 37 of the said Act further stipulates that the Board of IDBI may, with the previous approval of the Central Government, make regulations not inconsistent with the Act to provide for all matters for which provisions are necessary or expedient for the purpose of giving effect to the provisions of the Act. Such regulations may, inter-alia, provide for duties, conduct, salary, allowances and conditions of services of officers and other employees of the Development Bank. Therefore, Service Regulations would require specific approval of the Central Government."

On being enquired about the comparative pay package of CMD and management trainee of IDBI vis-a-vis ICICI, IDBI stated the following in their reply:

Category/Post	IDBI	ICICI
CMD	Basic Pay Rs. 26,000/- p.m. DA As per DA payable to Central Govt. employees (38% of pay w.e.f. 1.1.2000) CCA Rs. 300 p.m. at Mumbai HRA 30% of pay p.m. at Mumbai in case he stays in his own accommodation or makes private arrangements.	Basic Pay : Rs. 3,00,000/- p.m. Allowances : Rs. 63,750/- p.m. Note:—Also entitled to get performance bonus upto 100% of annual pay and Employee Stock options as directed by the Board.
Management Trainee	Consolidated remuneration of Rs. 11,000/- per month (No separate allowances)	Basic Pay : Rs. 16,000/- p.m. Allowances : Rs. 13,417/- p.m. Cost to the Company(CTC) : Rs. 29,417/- p.m.

CHAPTER III
PRODUCTS AND SERVICES

A. Financial Products

3.1 IDBI offers a wide range of financial products. It is constantly making efforts to respond to the financial needs of the industry by expanding the scope of its existing products and services and introductory new innovative products.

Project Finance : Project Finance is provided for setting up of new projects as well as for expansion, diversification, modernisation and technology upgradation of existing enterprises. Assistance to industry is provided in the form of term-loans, both in rupees and in foreign currencies.

Non-project Finance : IDBI also provides diversified financial products of non-project nature to meet the specific needs of existing enterprises having good performance record and sound financial position loans are provided for capital expenditure and for meeting long-term working capital requirements.

3.2 IDBI sets targets every year for sanctions as well disbursements in respect of project and non-project schemes. The targets and actuals of sanctions and disbursements in respect of project and non-project schemes for the three years, from 1997-98 to 1999-2000 are given below :

Sanctions

(Rs. in Crore)

	1997-98	1997-98	Variation	1998-99	1998-99	Variation	1999-00	1999-00	Variation
	Target	Actuals	(%)	Target	Actuals	(%)	Target	Actuals	(%)
Project Finance	13500	14011	4	17160	14495	-16	17794	14173	-20
Non Project Finance	4558	7840	72	9200	8389	-9	6936	12177	76
TOTAL	18058	21850	21	26360	22884	-13	24730	26350	6

Disbursements

(Rs. in Crore)

	1997-98	1997-98	1997-98	1998-99	1998-99	1998-99	1999-00	1999-00	1999-00
	Target	Actuals		Target	Actuals		Target	Actuals	
Project Finance	8646	7923	-8	10130	6738	-33	8619	6772	-21
Non-Project Finance	3470	6228	79	6225	7059	13	5256	8683	65
TOTAL	12116	14151	17	16355	13798	-16	13875	15454	11

3.3 When the Committee wanted to know the specific reasons for the shortfall in achieving the targets for 1998-99 in respect of both Project Finance and Non-Project Finance and also for the shortfall in achieving Project Finance targets in 1999-2000, IDBI stated in a written reply the following:

"The targets for both sanctions and disbursements are fixed based on the perception obtaining at the beginning of the financial year. The critical inputs in regard to sanctions are the perceived investment opportunities available in the country and likely flow of application based on the perception. As IDBI is involved in the project finance business, the long-term investor confidence assumes a crucial role. As may be recalled that 1998-99 was a year when the growth rate of Index of Industrial Production (IIP) declined to 4.1% from 6.7% a year ago. Many important industries like cotton textiles, basic metals and alloys, machinery and equipment etc. showed a decline. Export performance also remained dormant during 1998-99 due to slump in world trade coupled with erosion in competitive advantage of Indian exports on account of steep depreciation in East Asian currencies. All these factors affected the investors' sentiments adversely which, in turn, hindered IDBI from achieving the targets. Lower than targeted sanctions under project finance during 1999-2000 are attributable mainly to excess capacity created earlier in several industrial sectors which acted as a dampener on fresh capacity creation."

3.4 The Committee pointed out that there has been continued shortfall in the disbursements in the Project Finance from the year 1997-98 onwards. When asked what factors can be influenced by the efforts of IDBI which can help in the off-take of sanctioned loans by the respective project authorities, IDBI in a written reply stated as under :—

"Disbursements depend upon the draw a schedule of the client, which is linked to stages of project implementation. A major portion of sanctions during 1998-99 and 1997-98 were given to infrastructure sectors, where due to various policy related issues the borrowers were not in a position to draw funds. Further, indifferent conditions prevailing in the primary equity market during 1998-99, also affected the promoters' ability to raise equity component for their projects, which affected the financial closure and project implementation schedule. All these resulted in non-achievement of disbursement targets under project finance. As the ground realities are not much different in 2000-01 as compared with 1999-2000, the status of disbursements *vis-à-vis* the targets has remained more or less the same.

IDBI has a very close relationship with its clients and it attempts to provide all possible help to them in implementing their projects, including providing equity support to the deserving cases so as to help them in meeting their financial closure. However, disbursements as explained above are contingent on the promoters' ability to meet their commitments on time and in full measures. It is felt that any attempt by IDBI to relax its standards might lead to increase in non-performing assets.

The project implementation generally takes time. In order to optimally manage the funds and reduce the interest liability, the borrowers approach the institutions for disbursements only when the funds are actually needed. It is also in the interest of the institutions to release the funds when these are needed to meet expenditure relating to the project and sufficient progress is made in project implementation. The institutions satisfy themselves that the pre-disbursement conditions are complied with, loan documents are executed and the stipulated security for the loan like mortgage is created. The infrastructure projects invariably have long gestation period as well as long implementation schedule. Disbursements of funds to such projects depend on achievement of financial closure (i.e. requisite approvals, tying up of means of finance, establishment of escrow account and opening of Trust and Retention Account) and project implementation schedule.

As disbursements are connected with the implementation schedule of the project they can be boosted only through strict adherence to schedule by the promoters. In order to facilitate this Government may initiate measures that would improve the business confidence index. These measures may include revival of primary capital market, PSU divestments, and other such confidence building indicators."

3.5 When asked on what basis the targets and disbursements are fixed, IDBI in a written reply stated as under :—

"Annual targets for sanctions and disbursements are fixed taking in view investment climate, industry scenario and business strategy of the Bank. As IDBI's operations are spread across the country, the industry situation tends to be different in different regions. IDBI, therefore, follows a two-way system process in fixing its annual targets for sanctions and disbursements. This is done by gathering assessment of various business groups within the organisation regarding likely level of business. This is done on the basis of factual information like pending applications and flow of applications as also the amount of undisbursed sanctions. Such evaluation will also depend on subjective assessment regarding flow of fresh proposals and pace of project implementation. Such assessment by various business groups is aggregated and then the top management takes a holistic view in the context of overall business it seeks to achieve. It may thus be seen that IDBI has been fixing targets for sanctions and disbursements on realistic basis."

3.6 When the Committee enquired about the action taken to bridge the gap between the targets fixed and the actuals realised, IDBI furnished the following information:

"Gap between targets fixed and actuals realised arise due to following factors:

- (i) Flow of fresh proposals is less than anticipated.
- (ii) The pace of utilisation of assistance sanctioned gets delayed.

Attempts are made in setting targets to make realistic assessment on the two factors mentioned above, so that realistic target are fixed. In addition, achievement of targets is monitored continuously and periodic views of performance are submitted to the Board. The reasons for shortfalls in achievement of targets are analysed and corrective measures are taken."

3.7 Data on targets fixed for sanctions/disbursements during 2000-01 and achievements during the first 9 months are given below:

(Rs. in Crores)

Scheme	Sanctions		Disbursements	
	Targets (2000-2001)	Actuals (April-Dec. 2000)	Targets (2000-2001)	Actuals (April-Dec. 2000)
Project	16048	9099	10050	3764
Non-project	12592	9186	8863	5710
Others	1360	1021	1087	1019
Total	30000	19306	20000	10493

It may be noticed that shortfalls in achievements of targets are under project lending. The Bank would be able to achieve targets under non-project lending as also other schemes of assistance. The general investment climate, delays in achieving financial closure of infrastructure projects have affected flows of project assistance.

3.8 It was pointed by the Committee that disbursements are connected with the implementation schedule of the projects and they can be boosted only through strict adherence to schedule by the promoters. When the Committee enquired about the measures initiated by the Govt. to improve the business confidence index, the Ministry of Finance furnished the following information in a written reply:

"It is true that disbursements are connected to the projects adhering to the implementation schedule. Keeping to the schedule depends not only on sincerity of the promoters but also on several other factors like availability of funds, capital goods and infrastructure, etc. Being the premier institution for providing development finance, as per Section 9 (1) (h) of the Act, bank is also expected to undertake research and survey for evaluating and dealing with marketing and investment. Ensuring time schedules and anticipating slippages are also part of an appropriate research, evaluation and monitoring process. Therefore Bank also is responsible for developing innovative methods to achieve adherence to time schedule to the extent possible while disbursing financial assistance to industrial units.

The Government has outlined various incentives for industry in the Union Budget 2001-2002, which, by increasing demand for industrial products and reducing their transaction costs, will improve the business confidence index and spur new investments in projects. The major proposals include reduction in interest rates, abolition of SICA, legislation to facilitate foreclosure and securitisation, amendments in various labour Acts, etc., which would facilitate restructuring of Indian industry and improve its competitiveness.

Other incentives include higher allocation to Textiles Ministry, increase in Technology Upgradation Funds (TUF), deregulation in industrial prices which will attract fresh investments, rationalisation of retention price mechanism in fertilisers, phased decontrol of urea by 2006, linking feedstocks to international prices, decontrol of sugar as well as forward trading in it, reduction in price control over Drugs & Pharmaceuticals, dereservation of certain SSI items, providing weighted deduction for R& D, modernisation of agricultural infrastructure, etc.

The Budget has also addressed the problems of inadequacies in infrastructure impeding the growth of other sectors of the economy as also the efficiency levels of the industrial sector of the economy in general. Tax holidays to infrastructure will give a boost to long-term productivity growth to the Indian industry. Benefits to developers of Special Economic Zones will accelerate industrial and export growth.

The important measures for the development of capital market include reduction in dividend distribution tax as also tax exemption of long-term capital gains for investment in primary issues, introduction of new Government Securities Act, incentives for retailing of securities, setting up of clearing corporation, electronic fund transfer, increase in maximum limit of FII investment in a listed stock to 49% etc. There is a definite movement towards capital account convertibility as shown by measures like liberalising investments abroad, permitting of two-way fundability of ADR/GDR issues, listing of Indian companies on stock exchanges abroad, etc.

Tax exemptions for corporates would also induce greater private investments in infrastructure, IT, agro-processing, which would generate much-needed demand for further investment in the manufacturing sector through multiplier effect.

The export sector, which has shown buoyancy in the year 2000-01, would further gain momentum with tax-free sops for export activity in the Special Economic Zones. All these measures would encourage greater investment activity and attract more capital to industry and business.

B. Withdrawal of concessional Long Term Funds

3.9 The Committee have been informed that IDBI could not raise long term funds at reasonable cost due to factors such as the under-developed Indian Debt Market, stoppage of concessional long term funds by RBI from 1991 onwards, withdrawal of tax free status to IDBI, etc.

3.10 On the question of borrowing funds from the market, IDBI stated in a written reply the following:—

“After withdrawal of concessional fund support from Government of India since 1991, IDBI has been borrowing funds from the market at market related rates both from Wholesale and Retail segment. The potential of raising funds

from Banking Segment (Wholesale) is constrained by exposure limits which has been brought down to 20% of Net Worth from the earlier limit of 25%. Therefore, to maintain cost-efficient mobilization of long term resources at reasonable cost by IDBI, Government may consider the following :—

- (i) A part of Provident Fund investments to be provided for compulsory investment with IDBI.
- (ii) Similarly, other long term institutions like insurance companies, pension & gratuity funds shall have compulsory investment requirement in IDBI.
- (iii) Government shall invest a part of the funds under postal savings schemes at concessional rate in IDBI bonds.
- (iv) IDBI to be notified as infrastructure company under Section 10(23)(G) of Income Tax Act, thereby facilitating raising of long term funds at concessional rates with exemption from tax on income from such bonds in the hands of the investor.

IDBI has raised overseas funds both directly from overseas market (ECB/ Syndicated loans) as also through bilateral/multilateral Lines of Credit. However, IDBI does not borrow overseas for lending in rupees and the Foreign Currency borrowings are only for providing FC loans to industries. Details of such borrowing during the last 5 years are given below:—

(Rs. in Crore)			
Year	Market borrowing	Lines of Credit	Total
1995-96	1919.48	83.22	2002.70
1996-97	1050.48	75.64	1126.12
1997-98	1074.00	734.67	1808.67
1998-99	Nil	502.11	502.11
1999-2000	428.00	259.00	687.00

3.11 When the Committee wanted to know the viewpoint of the Ministry on the issues referred above, the Ministry of Finance stated in a written reply the following:—

“The Narsimhan Committee (I) had recommended that DFIs should seek to obtain resources from market at competitive rates. As of now bonds issued by DFIs are no longer eligible to be considered as SLR assets for banks. DFIs are, therefore, meeting almost entire requirement of funds at market related interest rates. Pension Funds, Provident Funds etc. are managed as per the provisions of the relevant Acts of the Parliament. It is not prudent in the liberalised scenario to earmark resources of PF and Pension funds for investment in any particular FI. The Governing Bodies/Trustees of these funds make investment in such a manner so as to give maximum return to the subscribers. In so far as the Postal Savings are concerned, 80% of it are transferred to the States and States will not

permit any diversion of revenues from them. IDBI gives loans, out of its funds, for various types of projects including infrastructure project and therefore, it may not be called infrastructure company. The income of IDBI from loans to infrastructure project is exempted from tax under section 10(23)(h) of Income Tax Act.”

C. Infrastructure Undertaking Status

*3.12 As mentioned in the earlier paragraph, IDBI has been requesting the Govt. for being declared as infrastructure Undertaking under Section 10(23)(G) and also for permission to issue Capital Gains Bonds under Section 54 EC of IT Act.

3.13 It has been stated by the Ministry of Finance that the issue of infrastructure undertaking status has been declared earlier. Some financing and refinancing institutions involved in funding priority sector are allowed to issue capital gains bonds. IDBI does not fall into that category and therefore, it may not be feasible to permit them to issue capital gains bonds.

3.14 In this regard, when the Committee enquired whether IDBI or its subsidiary, SIDBI have been considered for being permitted to issue such bonds for mobilising resources at lower interest rates, the following information was furnished by IDBI in a written reply :—

“Financial institutions (including IDBI) and Mutual funds etc. were earlier permitted to issue Capital Gains Bonds/Deposits under Section 54 EA & EB of I.T. Act. However, these sections were replaced by Section 54 EC in the Budget for the year 2000-01. IDBI/SIDBI were not included as eligible institutions for issuing Capital Gains Bonds under Section 54 EC. Only NABARD and NHA1 were designated for issuing such bonds. In the Budget for 2001-02, in addition to NABARD and NHA1, REC has been declared eligible to issue such bonds.....”

* IDBI has requested Govt. for being notified as Infrastructure Company Under Section 10(23) (G) of Income Tax Act thereby facilitating raising of long term funds at concessional rates with exemption from tax on income from such bonds in the hands of the investor.

CHAPTER IV

Non-Performing Assets/NPAs/Outstanding Loans

A. Non-Performing Assets(NPAs)

4.1 As per the information furnished by the IDBI, the details of Non-Performing Assets(NPAs) are as follows:

(Rs. in crore)		
Asset Class	As on 31.3.1999	As on 31.3.2000
Sub-standard	4635.5	4984.1
Doubtful	3594.8	5365.2
Loss	5.5	0.2
Total	8235.8	9849.5

During the evidence with the representatives of IDBI, Actg. CMD, IDBI informed the Committee that the total amount involved in the Non-Performing Assets (NPAs) is around Rs. 10,000 Crore.

4.2 Explaining the concept of Non-performing Assets(NPAs), the Special Secretary, Ministry of Finance, (Banking Division) stated during evidence as follows:

".....A loan is supposed to be non-performing — it becomes NPA — when the interest on the loan has not been paid for two quarters and the principal instalment has not been paid for one year. Then it becomes a non-performing asset of a doubtful category. After two years then it becomes a non-performing asset of a doubtful category. Then after that, it becomes an ethical error. When you think that recovery is not possible, then you provide for this as a loss asset. So, after two years or three years, when they find that recovery is not possible, then they provide for this as a loss asset. But as soon as an account becomes NPA, even of a sub-standard type, there is a requirement of making a provision. That means if there is a loan which has not been recovered, then you have to put so much money in your balance sheet as a provision. And that is deducted from your profit. So, this money against the loss is already available with the financial institution and this money is written off over a period of time. So, it is not that it is not taken care of."

4.3 The NPAs have been broadly categorised under the following categories:

- (i) Cases with temporary problems.
- (ii) Cases where restructuring has been done and require close monitoring.

- (iii) Cases where restructuring under consideration.
- (iv) Restructuring involving change in management, One Time Settlement (OTS), induction of strategic partner.
- (v) Suit filed cases/legal action contemplated.
- (vi) BIFR cases.

4.4 When asked what strategies have been adopted for reduction in NPAs, IDBI informed that the following strategies have been adopted by them for reduction in PAs:

- (i) Reduction of existing NPAs; and
- (ii) Prevention of Potential NPAs.

Reduction of existing NPAs: NPA may be — (a) Terminally sick cases; (b) Turnaround cases; (c) Wilful defaulters.

In respect of terminally sick cases, legal measures like filing of suits/complaints with debt recovery tribunals etc. are being taken; and wherever feasible, IDBI tries to go in for one time settlement for recovery of dues or encourage mergers of sick company with a healthy company.

In respect of turnaround cases OTS is encouraged, as also time bound rehabilitation packages are worked out in respect of viable units. The possibilities of merger or buy-out by healthy companies are explored. IDBI also takes measures to change management, wherever possible.

In case of wilful defaulters, immediate legal action is taken besides reporting the case to RBI. Personal guarantees, if any, are invoked and shares placed as security, if any, are sold.

Prevention of Potential NPAs

- (a) Potential NPAs are identified early using indicators like delay in payments, irregularities with banks, declining margins, inordinate increase in debt, fall in stock prices, etc.
- (b) Need based relief packages are evolved so that timely assistance can be given to units to help them overcome their difficulties.
- (c) Rigorous follow-up is done including regular visits to units and regular interaction with bankers to enable co-ordinated efforts for recovery of dues."

4.5 The Committee have been informed that the debt servicing capabilities of many industries have been severely impaired due to lower demand, competition from imports, slow-down in exports, lower margin etc.

4.6 The rate of industrial growth from 1997-98 onwards in the country is given in the table below:

Growth in Index of Industrial Production (IIP) (Base 1993-94=100)	
Year	Percentage Growth
1997-1998	6.7
1998-1999	4.1
1999-2000	6.5
2000-2001 (Apr.-Dec.)	5.7

4.7 When asked whether the growth in the industrial sector can help IDBI in reducing the NPAs, the IDBI in a written reply stated as follows:

"The growth in industrial sector has got positive correlation with the quality of asset portfolio of IDBI. One of the major causes of NPAs is the general recession in the demand for industrial products. The portfolio of IDBI in the last few years has been affected by recessionary conditions in certain industry sectors resulting from excess capacity creation, increased competition from imports (due to lowering of tariffs) and slow-down in exports following the South East Asian crisis. In the initial period of reforms, there was a sizeable build-up of capacity. However, the projected growth in demand did not materialise due to recession, curtailing of development expenditure of Government and a shortfall in the anticipated FDI inflows. Cheaper access to import-substitutes due to progressive reduction in import duties over the last few years has also adversely affected the domestic industry. Consequently, the adverse effect on the profitability, performance and liquidity of the major industrial sectors has had an impact on the loan recovery of IDBI also, aggravating the NPA problem. The improvement in industrial scene would surely help in reduction in NPAs."

4.8 When the Committee enquired about the measures taken by the Ministry to tackle the issue of NPA, the Ministry of Finance stated in a written reply the following:

"Government of India and RBI have advised financial institutions including IDBI to take several steps for recovery of dues such as evolving and effective implementation of a recovery policy, filing of suits with Civil Courts, filing of cases with DRTs, compromise settlement through Settlement Advisory Committee, monitoring and following up of NPAs at various levels. The DRT Act has been amended to improve its functioning by providing more powers such as power to attach property, appoint receiver etc. A Draft Bill prepared on the basis of recommendations of Committee consisting of officials of Banking Division, RBI and others on Securitization, is currently under consideration of

the Ministry. A Bill on foreclosure is also being prepared wherein the banks and FIs will be able to realize securities without intervention of courts. Simultaneously, a proposal for Corporate Debt Restructuring is also pending for final decision in consultation with RBI. There is also a proposal under the consideration of the Government to amend the Companies Act to include the provisions for setting up of a National Tribunal which will have the jurisdiction and powers presently exercised by the Company Law Board and power to consider rehabilitation of companies, a mandate presently entrusted to BIFR/AAIFR as well as the power for expeditious winding up of companies. Thus all the above measures are under processing and implementation."

4.9 To check the increasing trend in NPAs, the Actg. CMD, IDBI suggested the following during the evidence:—

- (i) Abolition of Sick Industrial Companies (Special Provision) Act, 1985.
- (ii) Formation of an Asset Reconstruction Company; and
- (iii) Provision for Corporate Debt Restructuring.

4.10 Commenting on the above suggestions, the Ministry of Finance stated in a written reply as follows :

"There is a proposal under the consideration of the Government to repeal SICA. This proposal has been made realizing the fact that the SICA has not achieved the desired result in addressing the problems of industrial sickness and protection of workers rights. Government propose to address the issue in much more effective manner. Therefore in addition to the decision to repeal SICA 1985, there is also a proposal to amend the Companies Act to include the provisions for setting up a National Tribunal which will have the jurisdiction and powers presently exercised by the Company Law Board under the Companies Act 1956 and the power to consider rehabilitation and revival of Company, a mandate presently entrusted to BIFR/AAIFR under SICA as well as the power for expeditious winding up of company. The matter is under active consideration in the Government.

IDBI has suggested setting up of Asset Restructuring Company and voluntary corporate debt restructuring mechanism under the aegis of RBI etc., for reducing the NPAs. These proposals are under examination in consultation with RBI and other FIs. It is not feasible at this stage to forecast when a final decision in this regard will be taken."

4.11 About the recovery of loan from the defaulting concerns, it has been informed to the committee that close monitoring Committees have been set up to closely monitor the recoveries from the assisted concerns. Recourse to legal proceedings is taken as a last resort after exhausting all amicable avenues of recovery. In genuine cases, restructuring, OTS proposals are considered by the Bank after detailed scrutiny by the

committees set up for the purpose Legal Proceedings have been filed before various Debt Recovery Tribunals (DRTs)/Courts in 651 cases as on 31st December, 2000 (out of which in 33 cases decrees/ consent decrees/recovery certificates have been issued and an aggregate principal amount of Rs. 80 crore has been recovered). However, the legal process has been found to be too slow and recovery of dues by the legal process has not been very substantial. In this connection, IDBI has already suggested certain measures such as setting up of Asset Reconstruction Company, Voluntary Corporate Debt Restructuring Mechanism under the aegis of RBI, setting up of additional DRTs, increase in their pecuniary jurisdiction, development of securitisation market etc.

4.12. When asked why the Company is not discharging the names of defaulters, the Committee have been informed that under Section 29 of the IDBI Act, IDBI has been prohibited from divulging any information about the affairs of its constituents. In view of this statutory restriction. It may not be legally possible for the Company to disclose the names of defaulters.

4.13 Expressing the views on the amendment of IDBI Act enabling the Banks to disclose the names of the defaulters, the Ministry of Finance in a written reply have stated as follows:—

“The Banking Division has asked the RBI to ensure that all FIs including IDBI follow RBI’s instructions on wilful defaulters. RBI published names of persons/defaulters against whom suits have been filed. Majority of the default cases including wilful defaulters are covered in it. RBI also collects separately information on wilful defaulters on quarterly basis and it is circulated among concerned FIs and banks. The proposal for amending Secrecy Laws to permit disclosure of particulars of defaulters of certain categories including wilful defaulters is under the consideration of Govt. Since there are other genuine reasons for default, such as adverse industrial relations, industry scenario, Government policies, international competition etc., it may not be appropriate to disclose the names of all defaulters for denying further facilities.”

B. Debt Recovery Tribunals (DRTs)

4.14 It was stated by IDBI that though a Special Act namely Recovery of Debts due to Banks and Financial Institutions Act, 1993, has been enacted as early as in 1993 to create special Debt Recovery Tribunals for handling the recovery cases of the banks and the financial institutions, its implementation has been half-hearted and tardy. Considering the large number of existing cases (estimated at 45,000 as of December 2000) which are expected to grow substantially in near future, the present number of DRTs would still be too inadequate to handle these cases. DRTs also lack in basic infrastructure facilities and trained staff. Their procedures are not uniform. As a result they are unable to achieve the avowed objective of speedy disposal of recovery cases.

4.15 It has also been stated that a separate cadre of specially trained DRT Judges should be created to man the DRTs instead of relying on retired judges or deputees. IDBI further stated that the Government had taken legislative action by way of amendments to the Recovery of Debts Due to Banks and Financial Institutions Act,

1993 (Amendment Act 1 of 2000) for the purpose of ensuring expeditious disposal of cases by the DRTs. The said amendments have enabled the banks and financial institutions to seek appointment of receiver and interim reliefs by way of injunction and attachment of property. It may, thus, be observed by way of passing the Amendment Act 1 of 2000, the Government has taken concrete steps towards making the DRTs more effective and efficient. For expeditious disposal of cases by DRTs, IDBI has also requested the Government for increasing the number of DRTs as also for raising their pecuniary jurisdiction from Rs. 10 lakh to Rs. 50 lakh. The said suggestions were forwarded by IDBI to the Government of India (Banking Division) vide IDBI's letter dated August 31, 2000. While the number of DRTs have been increased to 21 and a few more DRTs are proposed to be established as announced in the Budget Speech of the Finance Minister, it is felt that DRTs also need to be provided with adequate infrastructure facilities to enable them to discharge their functions more efficiently.

4.16 On the issue of DRTs, the Ministry of Finance stated in a written reply as follows:

"Currently, there are 22 DRTs in various parts of the country. There is also a proposal to enhance this number by another seven DRTs taking the total to 29. With this expansion in the number of DRTs, it would be possible to expedite the disposal of cases in DRT. Various steps have been taken to strengthen DRTs and improve their functioning.

Initially, each DRT was sanctioned 19 posts including the post of Presiding Officer. Subsequently, the manpower strength of each DRT has been raised to 30 employees. Power has been delegated to the Presiding Officer of each Tribunal to fill up the vacant posts upto the level of Section Officer on deputation basis. Postings of Presiding Officers, Secretary/Registrars and Recovery Officers are made in the Tribunal as and when vacancies occur. Basic infrastructural facilities have been made available to all DRTs. All the DRTs have been housed in suitable rented accommodation. Furniture and fixtures, staff car and other necessary amenities such as Bar Room, toilets water, etc., have also been provided. Funds are placed at the disposal of each DRT as per their requirements. As on 31.12.2000, 43244 cases involving an amount of Rs. 74343.64 crores and \$3.11 crores have been filed before DRTs out of which 13092 cases involving Rs. 8827.77 crores have been disposed off. Govt. are of the view that the 29 DRTs established/being set up will be able to dispose of cases expeditiously.

Banks giving loans for lower amounts and if minimum limit is increased from Rs. 10 lakhs to Rs. 50 lakhs for filing cases in DRT, majority of loans by banks will be excluded. As the pendency before civil courts is still very large there is a demand for reducing the limits to less than Rs. 10 lakhs. Considering all aspects of the matter, there is no need for increasing the ceiling from Rs. 10 lakh to Rs. 50 lakh, amendment in the DRT Act to raise the ceiling will not be in the interest of the financial system."

4.17 It has been proposed in the Budget for the current year (2001-2002) to bring in a legislation to facilitate foreclosure and enforcement of securities in cases of default in order to enable the financial institutions to realise their outstanding dues.

4.18 When enquired about the likely benefit of the proposed legislation, the Ministry of Finance in a written reply stated :

"The Banks and Financial Institutions, for recovery of their dues, had to take legal action earlier by filing civil suits in District Courts and High Courts and presently before the Debts Recovery Tribunals (DRTs). The procedure under the Code of Civil Procedure, 1908 was time consuming. DRTs inherited several outstanding cases from Courts and are unable to dispose of the cases within the time frame of 6 months envisaged under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993. Against this background the proposed foreclosure and enforcement legislation would go a long way to help the Banks and FIs to realise their securities and recovery of the NPAs in the following manner.

Certain institutions like the State Financial Corporations, National Housing Bank and earlier Industrial Finance Corporation of India and Industrial Reconstruction Bank of India had provisions in their respective statutes for taking over possession of the assets hypothecated and mortgaged to the institutions in the event of default.

Some of the advantages are:

- (a) Right to take possession and appoint a receiver of the mortgaged property as well as hypothecated, without intervention of the court.
- (b) Right of private sale of mortgaged assets without intervention of court for all security interest including equitable mortgage and hypothecation.
- (c) Separate central registry for notifying the charges on the properties.
- (d) Special provision for speedy recovery of dues by DRTs.

The above legislation will thus achieve expeditious sale of assets mortgaged/hypothecated. It will also save expenditure on preservation and protection of assets and will result in productive utilisation of salvageable assets, etc. The budget proposal will induce the promoters to settle the dues or attempt to restructure their liabilities."

C. Recovery of dues from Government Undertakings/Government Guaranteed Cases

4.19 The Committee have been informed that IDBI is facing problems in the case of recoveries from Government Undertakings and Government Guaranteed cases. The assisted units are not able to repay the dues nor the Central Government and the

respective State Governments who guaranteed the loans are discharging their guarantee obligations. As on March 31, 2000 the overdues from such guarantees as also from public sector undertakings; was Rs. 701.21 crore, the details of which are given below:

(Rs. in crore)	
Guarantee	Overdues
Central	50.77
State	606.59
Central and State	21.78
PSUs	22.07
TOTAL	701.21

4.20 When the Committee enquired about the nature of problems faced in getting the guarantee obligations discharged from the respective State Governments and from the Central Government IDBI, in a written reply, stated as follows:—

“IDBI has not invoked any guarantee given by the Central Government. However, IDBI had invoked guarantee in respect of a number of loans guaranteed by the State Governments. These loans continued to be outstanding since the State Governments concerned did not clear the defaults. IDBI had to make provision as also no income could be earned in these cases. IDBI has issued letters to various State Governments giving details of loans where the State Governments have issued guarantees and are in default to IDBI. Some of the State Governments have initiated steps to clear the dues/enter into One-Time Settlements (OTS) with IDBI.

IDBI feels that Central Government should impress upon the State Governments to initiate dialogue with the industrial units for whom the State Governments have given guarantees, for early clearance of dues. In case it is difficult for the units to pay, the State Governments concerned should clear the dues of IDBI without any further delay.”

4.21 In this regard, the Ministry of Finance, stated in a written reply as follows :—

“Banking Division would again take up with the State Governments and the concerned Central Government Departments the need for honouring the Government guarantees given to the DFIs in respect of advances made to PSUs. However, State Governments are representing that as financing of a project is done by FIs / banks on the basis of viability of the project itself, effort should be made to secure the money first from the borrowers themselves.”

D. Outstanding Loans

4.22 As per the information furnished by the IDBI, that the total loan outstanding against the various industries as on 31st March, 2000 by way of rupee and foreign

currency loans, stood at Rs. 46,821 crore compared to Rs. 42,570 crore as on 31st March, 1999, registering an increase of 10%.

4.23 On being enquired about the steps taken to recover the outstanding loans from the concerned agencies/parties, IDBI in a written reply stated :—

“IDBI sanctions term loans to industrial units at certain rate of interest for a tenure ranging from 3-10 years and the loan is to be repaid after a moratorium of 1-2 years depending on the nature of project. The outstanding loan is repaid in quarterly instalments as per the repayment schedule fixed and remains outstanding till the loan is repaid. When the industrial units fail in making payments of interest or principal on due dates these become overdues.

The loan outstanding and overdues for public sector and private sector as on March 31, 2000 are given below :—

(Rs. in crore)			
S. No.	Sector	Loans O/S	Overdues
1.	Private	39509	1877.25
2.	Public	3100	22.07
3.	Others	4212	160.16
	Total	46821	2059.48

There are no defaulters among MNCs to IDBI.

Mechanism for recovery of dues and various steps being taken by IDBI

Accounts becoming NPAs are closely monitored for upgradation. Close monitoring teams have been set up for the purpose of focussing specific attention on large cases facing difficulties. The cases are regularly reviewed by the Dealing Groups at Head Office and In-charges of Zonal and Branch Offices. Defaulting borrowers are called for discussion for clearance of overdues and approvals sought by the borrowers are withheld till defaults are cleared. In cases of persistent defaults, possibilities of negotiations for One-Time Settlements (OTS) of loans are explored and agreements entered into. Periodical visits to defaulting units are also taken up for recovery and nominee directors are advised to pursue the matter at Board level for clearance of default. In cases of wilful defaults, show cause notices are served and if the defaults are not cleared, legal proceedings are initiated.”

4.24 When the Committee enquired about the role of the Government in the recovery of loans, the Ministry of finance stated in a written reply as follows :—

“The Government and RBI have advised FIs including IDBI to take several steps for recovery of dues such as evolving and effective implementation of recovery policy, filing of suits with civil courts, filing cases with DRTs, compromise settlement through Advisory Settlement Committees and

monitoring and follow up of NPAs of both public sector and private sector at various levels. In order to improve the recovery, Govt. has recently amended the DRT Act making the provisions more effective. It is also proposed to amend the Companies Act to provide for expeditious restructuring and speedy winding up. The guidelines for recovery and disbursements framed by the FIs themselves and the Govt. do not give any directions in this regard. However, when RBI recently issued certain guidelines on One Time Settlements Govt. was consulted. Government reviews the performance and recovery of FIs from time to time.”

CHAPTER V

FINANCIAL PERFORMANCE

5.1 The net profit (after tax) of the Bank dropped from Rs. 1501.3 crore in 1997-98 to Rs. 1258.9 crore during 1998-99 and Rs. 947.0 crore during 1999-2000.

The main reasons for decline in net profit during 1998-99 and 1999-2000 as stated by IDBI are (i) increase in the level of NPAs (Non-performing Assets); (ii) fall in margins; and (iii) increase in cost.

It was also stated that the Bank had formulated 3 strategies to reverse decline the trend in profitability. These comprises :—

- (i) to improve the asset quality,
- (ii) to maintain and increase value of business; and
- (iii) to reduce the cost of borrowings.

5.2 When the Committee enquired about the result of the ameliorative actions taken by IDBI, the company stated in a written reply as follows :—

"IDBI has taken steps to improve asset quality, maintain and increase value of business and reduce the cost of borrowings.

To improve asset quality, IDBI is following a strategy of close monitoring of problem faces and has focus on One Time Settlements and increase value of business. IDBI has also decided to extend Non-project finance in a bigger way which is given to meet the funding needs of companies with good credit rating.

Measures were also initiated to restructure IDBI's equity capital so that market sentiment towards IDBI's equity is improved. Under the plan, Government converted part of its equity into preference capital. Subsequently, a bonus issue was made in the ratio of 3 additional shares for every 5 shares held. As a result of this restructuring exercise, level of Government holding has come down to 58.47%.

As a result of exercise of call option visible impact is reflected in the cost of rupee borrowings. Average cost of rupee borrowings during April-December was 12.82% which was lower by 37 bps as compared to average cost during April-December 1999 (13.19%). This trend is expected to gather momentum as the full impact of call options gets reflected in booked interest."

5.3 It was also stated by IDBI that Profit After Tax during April-June 2000 at Rs. 224 crore were lower by 23% over April-June 1999 (Rs. 291 crore). Profit After Tax during second quarter i.e. July-September 2000 were 19.7% lower than in July-September 1999 (Rs. 305 crore). Profit After Tax during 3rd quarter i.e. October-December 2000 at Rs. 155

crore were higher by 10.2% as compared to October-December 1999 (Rs. 140 crore). Profit After Tax during April-December 2000 at Rs. 543 crore was, however, lower by 14.7% as compared to April-December 1999 (Rs. 637 crore).

5.4 The reasons for decline in profitability during the year 2000-2001 was stated to be as follows :—

- (a) increase in cost of funds
- (b) level of NPAs
- (c) lower capital gains due to trends in the secondary capital market.

5.5 When the Committee wanted to know whether the Ministry are satisfied with the action taken by IDBI to reverse decline the trend in profitability, the Ministry of Finance stated the following in a written reply :—

“IDBI has initiated steps to expand business and improve income and margins. In order to bring about a change in business mix, it has increased investments in equity through equity participation scheme (for investments in selected unlisted/ listed companies, which have high potential for growth and profitability), and secondary market operations for improving returns. With a view to enhancing overall profitability, IDBI has been giving thrust to fee based activities like Merchant Banking, Corporate Advisory Services, Credit Syndication, Debenture Trusteeship, Forex Services, etc. IDBI has been providing advisory services for privatisation of PSUs/Corporate restructuring in collaboration with international players by forming consortiums. IDBI entered into a joint venture agreement with Principal Financial Group, USA, a Fortune 500 company, to induct the latter into its subsidiary (IDBI Investment Management Co. Ltd.) since renamed as IDBI Principal Asset Management Co. (I-PAMC). Both IDBI and Principal have pooled their respective expertise and strength to expand the business of I-PAMC. IDBI Capital Market Services Ltd. a wholly owned subsidiary of IDBI, has commenced operations as primary dealer and is a leading player in the gilts market. In order to take advantage of emerging opportunities in the IT sector, IDBI has set up an IT subsidiary, IDBI Intech Ltd. To undertake activities in the areas of e-commerce, portals, shared services and IT services. The company will explore possibility of entering into a joint venture with an international firm. IDBI has also set up a dedicated VC fund for IT and other knowledge-based industries.

IDBI Bank which was set up by IDBI as a modern, technology driven commercial bank to offer commercial banking products and other business services to corporates and other business segments, has widened its product range over the years and plans to increase its retail reach by introducing state-of-the-art technology platform.

IDBI constantly responds to the challenges of the competitive environment, reviewing its business processes. In order to reposition itself in the emerging

environment it has appointed a consultant firm of international repute, viz. Boston Consulting Group to assist in organisation / business restructuring of IDBI and draw up a road-map to becoming a provider of world class financial solutions to Indian and global customers.

The impact of the strategies adopted by IDBI would be felt in the next year or two. However, IDBI is continuously monitoring the above strategies in order to make mid-course corrections. IDBI has to pay more emphasis on credit appraisal and better monitoring so as to ensure that funds given by IDBI are properly utilised and its money returned by borrowers. IDBI has to fix responsibility of individual officers for recovery of principal and interest from the borrower by taking all possible measures. Work culture and motivation limits have to improve to make IDBI compete successfully in the market place."

CHAPTER VI

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

Recommendation No. 1

Inadequacy of Autonomy to IDBI

1. The Committee note that the new emerging needs of the Corporate and Financial Sector require immediate decision-making and quick response by Financial Institutions, especially by the Industrial Development Bank of India. The Committee find that according to the present arrangements, the Board of Directors of the IDBI does not enjoy adequate managerial autonomy and flexibility to determine the eligible 'Industrial Activity' under Section 2(cc) and the nature of business that IDBI may undertake under Section 9(1) of the IDBI Act, 1964, in view of the rigid procedures prescribed in this statute. Matters relating to restructuring of capital and the constitution of the Board of Directors are again completely controlled by the government under the Industrial Development Bank of India Act, 1964 (Act No. 18 of 1964). Presently any deviation from the provisions of the Act necessitates an amendment of the Act or the issue of a Notification by government, which is a time-consuming prolonged procedure that results in a very slow response to the emerging needs of the Corporate Sector. The Committee are not, convinced of vesting such sweeping powers in government, when it happens to hold only 58.47% of the paid-up capital and not the entire share capital. The Committee, therefore, feel that the status of the IDBI as a Statutory Corporation requires a re-look and there is need to impart more operational flexibility to IDBI to formulate its own policy and to function according to the business needs and also to quickly respond to the fast changing needs of the financial system. For this purpose, the Committee feel that the IDBI should undergo a metamorphosis so that it functions only as a completely professionally Board-managed company — to achieve greater levels of efficiency and profitability. The Committee feel that IDBI should have at least the same kind of flexibility in its operations as that enjoyed by ICICI, which is a comparable institution in this sector. The Committee, therefore, recommend that this basic question about IDBI should be analysed and resolved within three months from the date of presentation of this Report. The Committee feel that such a step would enable the restructuring of capital without any approvals under the governing statutes and will further help induction of professionals from diverse fields relevant to the business of the financial institutions. This step will definitely be in line with the pronounced objectives of providing greater autonomy in the banking and financial sector as found in various policy documents of the government.

Recommendation No. 2

Government Shareholding in IDBI

2. The Committee note that at present the equity holding of the Central Government in IDBI is 58.47% and the IDBI Act, which was amended in 1994, *inter-alia*, permitted the raising of equity from the public subject to the condition that the holding of the Union Government should not fall below 51% of the issued capital. The Committee feel that for the future growth of the business of the IDBI, it would be necessary to maintain Capital Adequacy Ratio as prescribed by the Reserve Bank of India. The Committee feel that there is scope for further reducing the shareholding of the Government in IDBI and such a reduction in shareholding would improve the public perception of IDBI and would enable it to raise funds from the capital market on more favourable terms and would also help to raise interest-free funds from the international market on the lines of ICICI and HDFC. Since the IDBI is required to play a major role in financing infra-structure projects, there is need for improving the image of the IDBI by considerably reducing Government shareholding in the Company. The Committee feel that the Government of India would not be required to infuse fresh capital into IDBI, if such a measure is taken. The Committee, therefore, recommend that the Government should consider reducing its shareholding in IDBI considerably. The Committee wish to point out that Government of India has made its intention clear to reduce its control in the Public Undertakings as a part of its policy of liberalisation and also to reduce its shareholding in the Public Sectors Banks. Therefore, the Committee feel that reduction in government shareholding in IDBI will provide a level playing field to IDBI with other Banks and other financial Institutions.

Recommendation No. 3

Declaration of IDBI as an Infra-Structure Undertaking

3. The Committee have been informed that IDBI has, since its inception upto the end of March, 2000, sanctioned by way of direct finance a sum of Rs. 30,994 crores to the infrastructure sector. It has also sanctioned another Rs. 10,248 crores by way of indirect finance to the infrastructure sector during that period. Thus, a total of Rs. 41,242 crores has been sanctioned by IDBI in favour of the infrastructure sector, out of which the disbursement is to the tune of Rs. 16,895 crores so far. Although, the Ministry of Finance has stated that IDBI mainly provides funds on long-term basis for development of industry and infrastructure and as such many a time infrastructure bonds were raised by IDBI, the Committee find that this organisation has not been declared as an infrastructure Undertaking under Section 10(23)(G) of the Income-Tax Act and also it has not been permitted to issue Capital Gains Bonds/under Section 54EC of the Income-Tax Act. The Committee find that only NABARD, National Highways Authority of India and Rural Electrification Corporation have been empowered to issue

such Bonds in the latest budget for 2001-02 under Section 54EC of Income-tax Act. The Committee note that earlier Financial Institutions including the IDBI and Mutual Funds etc. were permitted to issue Capital Gains Bonds / Deposits under Section 54EA and 54EB of the Income-Tax Act. But now, these Sections have been replaced by Section 54EC in the latest budget, which in effect excluded IDBI and its subsidiary SIDBI from issuing Capital Gains Bonds / Deposits. The Committee feel that there is need for declaring IDBI as an Infra-structure Undertaking under Section 10(23)(G) and also for permitting it to issue Capital Gains Bonds under Section 54EC of the Income-Tax Act keeping in view its pioneering role in financing the development of infra-structure in the country. The Committee, therefore, recommend that necessary legislative measures may be initiated to confer these facilities on IDBI immediately to help it in its resource mobilisation efforts. The Committee are sure that this step would facilitate raising of long-term funds at concessional rates with exemption from tax on income from such Bonds in the hands of the investors and would also help IDBI in funding huge infra-structure projects. This would also mean that the income derived by the Financial Institutions by way of interest from long-term finance given to an entrepreneur wholly engaged in infra-structure activities is totally exempt from Income-tax. The Committee desire that the Government should consider this question in the context of difficulties experienced by IDBI in cost-efficient mobilisation of long-term resources at reasonable cost in the existing market scenario. The Government should also appreciate the fact that the infrastructure sector requires huge investments and funds for this sector is not at all flowing from Foreign Direct Investment Channels and the initiatives of venture capitalists are in their infancy to provide any succour to it. With no proper debt market with adequate liquidity and depth in the country and with the vagaries of a poor capital market often hit by various scams, the capital-intensive infrastructure sector is not likely to get the required funding in the days to come. Therefore, in respect of IDBI the Committee are unable to agree with the recommendations of Narasimhan Committee (I) that the Domestic Financial Institutions should seek to obtain resources from the market at competitive rates, as this is well-nigh impossible in the current scenario and would make IDBI sick in the days to come, as is evidenced in the recent decline of 27.03 percent in its profits at Rs. 691 crores for the year 2000-2001, compared to Rs. 947 crores in the previous year.

Recommendation No. 4

Granting of Financial Assistance by IDBI for Setting up Projects outside India

4. The Committee note that at present Indian Companies encounter several difficulties and constraints in setting up of ventures abroad which also include raising of debt/finance off-shore from international finances. The domestic financial institutions with their in-depth knowledge of the Indian Promoter Companies and also with their better understanding of their business would be in a position to participate effectively in financing such projects. According to

the present statute, IDBI can help financing overseas operations only for the purpose of exporting a product of industrial concern, exporting of capital goods from India and execution of turn-key projects outside India by an Indian concern. Therefore, IDBI is required now to be authorised to take up activities relating to provision of finance for various activities of the industrial concerns located outside India. For this purpose, IDBI has approached the Ministry of finance for the issue of a Notification authorising IDBI to grant financial assistance to industrial concerns for setting up projects outside India under Section 9(1)(m) of the IDBI Act, 1964. The Committee understand that in this process, the RBI is also being consulted. The Committee feel that an urgent decision in this matter should be taken and they recommend that the whole issue should be decided within three months from the date of presentation of this Report.

Recommendations No. 5

Investment of Surplus Foreign Currency Funds in Overseas Securities Market

5. The Committee find that IDBI many times has huge foreign currency funds which are temporarily idle and the cost of carrying it is always therefore high. The Committee feel that IDBI should be permitted by the Government to use these idle funds effectively by investing in Portfolio Management Schemes offered by internationally reputed Banks. The Committee, therefore, recommend that necessary approval in this regard may be granted to IDBI at an early date.

Recommendation No. 6

Withdrawal of Concessional Resource Support to IDBI

6. The Committee find that due to an under-developed debt market in India, there is absence of a steady source of long-term funds for meeting the financing needs of big capital intensive industries and infrastructure initiatives which involve a long gestation period. In this context, the Committee wish to point out that the IDBI would continue to have a special role in the Indian Financial System especially in the matter of meeting the financing needs of capital intensive industries and initiatives for developing the infrastructure. The Committee wish to point out that Development Banks abroad which are akin to IDBI are provided special dispensation by the Governments internationally all over the world by way of granting access to low cost funds etc. Countries like China, Japan and Singapore are examples for such governmental support to Development Banks. But the Committee to their utter surprise have found that in the name of financial sector reforms, the Government of India has withdrawn the tax-free status of IDBI in 1991 in a bid to create a level playing field with the Banks, without appreciating the critical role played by IDBI in sustaining the development activity. The Committee also find that simultaneously the Government also withdrew in 1991 the concessional resource support, namely, loan/equity contribution from Government of India, Government guaranteed bonds that qualify for SLR investments, special allocation from RBI funds etc. The Committee,

therefore, recommend that the Government should reconsider the whole matter. The Committee, in this context, recommend that a team of professionals from RBI, Financial Institutions and the Government should study the models that obtain in China, Japan and Singapore so that appropriate strategy can be adopted in India for granting Government support to IDBI.

Recommendation No. 7

Restrictions on IDBI to raise Short-term Funds

7. The Committee note that IDBI has been raising funds from the market on market related terms, namely interest cost and maturity, in view of the fact that its access to long-term concessional resources of funds has been withdrawn. Besides, in a competitive environment, it has become necessary for IDBI to diversify its product ranged by offering additional products and services in addition to project financing. Therefore, IDBI is compelled to act very much on the line of other commercial Banks. But the Committee note that there are restrictions on IDBI to raise short-term funds, while the Banks are able to raise demand deposits and other low cost funds which enable them to offer term finance at comparatively lower rates, IDBI has been barred from accepting such short-term low cost funds. Besides this, current accounts maintained by commercial organisations and the industries with the Commercial Banks carry no interest rates. The financial institutions do not have recourse to such accounts nor can they accept deposits or bonds which have maturity period of less than one year. The Commercial Banks also have the advantages of large Branch network which gives access to a large section of retail depositors. The Committee, therefore, recommend that the Government should consider removing of restrictions on IDBI to raise short-term funds so that there is level playing field between IDBI and the Banks in tapping demand deposits.

Recommendation No. 8

Earmarking of Resources of Some Part of Provident Fund/Pension Fund etc. for Compulsory Investment

8. The Committee note that IDBI at present has to meet almost the entire requirement of their funds at market related rates both from wholesale and retail segments from the year 1991 onwards, after the Government of India withdrew its concessional funds support. The Committee feel that IDBI requires long-term funds to match the duration of the long-term loans it grants and they take note of the fact that the duration of the term loans sanctioned by IDBI ranges from 7 to 10 years and in respect of infrastructure, the duration of the term is even longer. Since the long-term debt market has not developed well in India to raise adequate resources, it would be difficult for the IDBI to find long-term funds on a sustained basis at a reasonable cost. Therefore the Committee recommend that the Government should lay down guidelines in such a manner which ensures that at least some part of the funds such as the Provident Fund,

Pension/Gratuity Funds, Postal Savings Funds are compulsorily invested with IDBI to help its financing needs. The Committee hope that the Government would take a positive action in this matter, keeping in view the fact the overall impact of reduction in interest rate on National Saving Schemes/Public Provident Fund/Employees Provident Fund announced in the latest budget would enable the commercial banks to reduce their interest rates on deposits and lending rates and IDBI would also need to consider revising its lending / borrowing rates in the light of measures to be announced by banks. This would further affect the profitability and viability of IDBI, as already the margin between the Average Return and Average Cost in their lending operations has come down to only 1.9% in 1999-2000 from 3.9% in 1997-98 and the average cost of funds has increased due to raising of fresh funds at higher costs. The overall impact of the current reduction of interest rates would further erode this operating margin due to the fact that the maturing assets are more than the maturing liabilities in the next two or three years.

Recommendation No. 9

Problem of Non Performing Assets (NPAs)

9. The Committee have been informed that the value of Non Performing Assets(gross) of IDBI as on 31 March, 2000 was Rs. 9849.5 crores. A loan is considered to be non-performing, when the interest on the loan has not been paid for two quarters and the principal instalment has not been paid for one year. If the default persists beyond two years, it is categorised as a 'doubtful' NPA. After three years if the recovery is found not possible, this is categorised as a lost asset and a provision is made in the Balance sheet of the Company to be deducted from the profit. The Government have advised IDBI to take several steps for recovery of dues such as evolving and implementing a recovery policy, filing of suits in Civil Courts, filing of cases in Debt Recovery Tribunals (DRTs), Compromise Settlement through Settlement Advisory Committee, regular monitoring and follow-up of NPAs at various levels etc. The Committee have been further informed that IDBI faced difficulties in recovering the NPAs and the core problems faced in tackling the NPAs by it are: (i) absence of speedy and efficacious legal remedies; (ii) absence of debt/mortgage market and securitisation facilities; (iii) lack of effective restructuring mechanism and (iv) outdated insolvency laws resulting in delayed liquidation proceedings.

In order to tackle these problems, IDBI feels that the DRT mechanism should be strengthened, apart from taking other measures such as creation of a Corporate Debt Restructuring Mechanism under the aegis of RBI, securitisation of loans, establishment of Asset Reconstruction Companies, foreclosure and enforcement of securities etc. — all of which require urgent legislation. The Committee note that already the Government have proposals to bring in legislation on foreclosure and enforcement, Corporate Debt Restructuring and for setting up a National Tribunal for rehabilitation of companies apart from repeal of Sick Industrial

Companies Act. The Committee wish to impress upon the Government that there is an emergent need to have these laws passed and notify them for implementation in view of the soaring NPAs which has adversely affected the health of many Financial Institutions and of the nation's economy. They, therefore, recommend that the Government should accord overriding priority to these bills in their legislative agenda and get the Bills passed positively in the Monsoon Session of Parliament.

Recommendation No. 10

Grand of Withholding Tax Exemption to IDBI

10. The Committee note that the Government have been granting exemption from withholding tax in respect of interest payable on External Commercial Borrowings (ECBs) raised by IDBI. But, as per provisions in the current Budget, no such exemption will be available on ECBs undertaken after 1 June, 2001. The Committee feel that levying of such withholding tax will significantly increase the cost of incremental ECBs raised by IDBI, since the lenders will insist on receiving full interest without any deduction of withholding tax as per existing international practice. The Committee, therefore, recommend that the Government should consider restoring this exemption to IDBI having regard to the organisation's role in financing large industrial projects, particularly those in the infrastructure sector.

Recommendation No. 11

Publication of List of Wilful Defaulters

11. The Committee note that under Section 29 of the IDBI Act, 1964 the IDBI has been prohibited from divulging any information about the affairs of its constituents. In view of this statutory restriction, it is not legally possible for IDBI to declare the names of defaulting companies. The Committee find that this statutory provision relating to obligation of IDBI to fidelity and secrecy has not served the desired purpose and instead they find that this provision has been grossly abused by wilful defaulters to unduly enrich themselves. The Committee feel that it is high time that effective legislative measures are brought in to amend the IDBI Act, 1964 to dispense with this statutory protection to the constituents of IDBI. The Committee feel that the recent directives of RBI to include a provision in Loan Agreements to enable publication of the name of borrower in case of wilful default will become workable only when the legislative prohibitions are removed. The Committee firmly believe that disclosure of names of defaulters by making them public will induce the borrowers to settle their dues and would prevent them from indulging in unethical practices of starting new companies after committing default in view of public exposure of their activities. The Committee, therefore, recommend that the Government should amend the Banking Regulation Act and the IDBI Act to enable disclosure of names of the defaulters.

Recommendation No. 12

Debt Recovery Tribunals (DRTs)

12. The Committee are surprised to note that although Debt Recovery Tribunals (DRTs) for handling the recovery cases of Banks and Financial Institutions have been specially created, their functioning has not helped much in the expeditious recovery of dues of the financial institutions. They also find that not only the DRTs lack infrastructural facilities and trained staff, their procedures are not uniform too. The Committee therefore, recommend that separate DRTs should be set up for financial institutions, as their claims are normally larger than the claims involved in the cases of banks. In order to improve the disposal rate and to reduce pendency, the Committee recommend that DRTs should be set up at every District Headquarter and also at commercially important towns. The Committee further recommend that the pecuniary limits of DRTs should be to try high-value cases only, thus considerably bringing down the work load on them. The Committee desire that a code of procedure to be followed by all DRTs should be framed immediately, as at present each DRT is following its own set of procedures imparting uncertainty and lack of clarity in the matter. Apart from this, there is need to provide proper infrastructure and adequate staff to the DRTs. The Committee wish to point out in this connection that many DRTs do not have proper premises to function and infrastructure facilities are very much lacking in them. The Committee recommend that urgent measures should be taken to ensure that the full complement of staff and machinery are in place in all the DRTs in a time-bound manner.

Recommendation No. 13

Compensation Package for IDBI Staff

13. The Committee have been informed by the Ministry of Finance that the pay package of a Management Trainee in ICICI is Rs. 29,417 per month, while in IDBI a Management Trainee is given a consolidated remuneration of Rs. 11,000 per month. Apart from this initial induction level, there is a vast difference in the pay package in all levels upto the top-most post of Chairman-cum-Managing Director. The Committee have been informed by the Ministry of Finance that the basic pay of the CMD of IDBI is Rs. 26,000 per month, while the ICICI grants a basic pay of Rs. 3 lakhs per month. In addition, the ICICI CEO gets allowances & perks and performance bonus amounting to Rs. 3 lakh per month. Besides ICICI, there are also other newly emerging corporates, who constantly are luring away the talented professionals of IDBI with attractive remuneration packages. It has been difficult for IDBI to retain its specialist professionals and also to attract fresh talents on account of its low pay-structure. The Committee find that the Ministry of Finance are not in favour of revising the compensation package for the employees, as the Banks will also demand similar package and compensation. However, the Government are now considering a proposal sent by

the Board of IDBI to grant a scheme for payment of performance-linked incentives. The Committee recommend that the decision in this regard should be taken within three months from the date of presentation of this Report. The Committee also wish to point out that the legal provision contained in Section 37 of the IDBI Act, 1964 by which the government would be the final authority to decide the scales of pay of the officers of the IDBI, is not consonance with the spirit of Section 26(1) of the same Act which envisages that IDBI would determine the terms and conditions of services of the employees. Besides, in 1995, the Parliament amended IDBI Act deleting Section 5(4) to confer functional autonomy to the Board of Directors and had waived off the Governmental control on IDBI through issue of guidelines on matters of policy. The Committee desire that the legislation as it exists today should be interpreted to confer autonomy to Board of Directors in matters governing personnel policy, including the salary structure, as the survival of this organisation crucially depends upon the quality of the personnel manning it and their commitment to the institution in this highly competitive scenario. The Committee are of the firm view that the only way to achieve the overall objectives of the organisation is to offer a market related compensation package to IDBI employees to maintain high levels of motivation and therefore, IDBI Board should have freedom to decide the salary and allowances and perquisites of its staff.

Recommendations No. 14

Vacancies in the Board of Directors

14. The Committee note that the post of Chairman and Managing Director of IDBI has been lying vacant with effect from 1st February, 2001. They also note that three vacancies of Non-official Directors which occurred on 18th March, 2000, 24th October, 2000 and 16th November, 2000 respectively were filled up only on 30th March, 2001. The Committee have been informed that IDBI had written to the Central Government in April, July, September and October, 2000 and also in January, 2001 for filling up these vacancies. As per the procedure for making appointments to the Board of Directors of the financial institutions, action is generally initiated six months in advance to fill up the anticipated vacancies. The Committee are surprised to note that although action for filling up the post of Chairman and Managing Director was initiated in August, 2000, no one has been appointed so far against the said vacancy. The Committee further note that the officer of the IDBI who was functioning as Acting CMD had also retired on 30th April, 2001 and has been given another extension of three months. The three vacancies of Non-official Directors which were filled up on 30th March, 2001 remained vacant for a period ranging from four months to twelve months. The Committee strongly deprecate the manner in which the vacancies on the Board of Directors of the country's premier financial institution are being filled up. They also wonder as to how such an important public sector financial institution is allowed to remain headless for months together when there is

strong business competition from the private sector institutions. The Committee, therefore, recommend that the decisions to fill up the vacancies should be taken much in advance and the person so selected should be in position immediately on the occurrence of the vacancy. They also recommend that the post of Chairman and Managing Director and other vacancies, if any, on the Board of IDBI should be filled up without any loss of time. The Committee understand that the Government is looking for persons outside the organisation also to fill up the post of CMD. The Committee feel that the Govt. should follow the policy of filling up the top posts in such monolith financial corporations from within the organisation, as there is no other comparable equivalent organisation available in India, which can offer the requisite experience and expertise relevant for the functions of IDBI and from where such personnel with required experience and expertise could be appointed. The Committee, therefore, recommend that the Government should appoint personnel to top positions from within IDBI, as they do in the case of LIC and State Bank of India which are monoliths in their field. Any exercise to locate persons from outside would mean only a waste of the scarce resource of time and would act as a disincentive to the persons within who have spent their entire career building up the institution and such a step will not be in the interest of the institution also. The only comparable institution to IDBI is the ICICI and getting persons from that institution is not possible in view of the very high compensation they get from ICICI, while the pay scales of IDBI are very poor to attract anyone from there.

NEW DELHI;
12 July, 2001
21 Ashada 1923(S)

VJAY KUMAR MALHOTRA,
Chairman,
Committee on Public Undertakings.

ANNEXURE I

**MINUTES OF 14th SITTING OF COMMITTEE ON
PUBLIC UNDERTAKINGS HELD ON 2nd MARCH, 2001**

The Committee sat from 1600 hrs. to 1645 hrs.

Prof. Vijay Kumar Malhotra — *Chairman*

MEMBERS

2. Shri Sudip Bandyopadhyay
3. Shri Vilas Muttanwar
4. Shri Rajiv Pratap Rudy
5. Shri Devendra Prasad Yadav

SECRETARIAT

1. Shri Bal Shekar — *Director*
2. Shri R.C. Kakkar — *Under Secretary*
3. Shri Raj Kumar — *Under Secretary*
4. Shri T.G. Chandrasekhar — *Assistant Director*

REPRESENTATIVES OF IDBI

1. Shri S.K. Chakrabarti — *Chairman & Mg. Director (Acting)*
2. Shri A.K. Doda — *Executive Director*
3. Shri S.K. Kapur — *Executive Director*
4. Shri V.P. Singh — *Executive Director*
5. Shri V. Venkateswarlu — *Adviser (Marketing)*
6. Shri D.B. Ushir — *Legal Adviser*
7. Dr. K. Karneswararao — *CGM (Research & Planning Dept.)*

2. The Committee took the evidence of the representatives of Industrial Development Bank of India (IDBI) in connection with examination of IDBI.

3. A copy of the verbatim proceedings has been kept on record.

The Committee then adjourned.

ANNEXURE II

**MINUTES OF 15th SITTING OF COMMITTEE ON
PUBLIC UNDERTAKINGS HELD ON 12th MARCH, 2001**

The Committee sat from 1600 hrs. to 1645 hrs.

Prof. Vijay Kumar Malhotra — *Chairman*

MEMBERS

2. Shri Shiv Raj Singh Chauhan
3. Shri Ram Tahal Chaudhary
4. Shri K.E. Krishnamurthy
5. Shri Tarit Baran Topdar
6. Smt. Ambika Soni
7. Shri Suresh Kalmadi
8. Shri K. Kalavenkata Rao
9. Shri B.P. Singhal

SECRETARIAT

- | | | | |
|----|--------------------------|---|---------------------------|
| 1. | Shri M. Rajagopalan Nair | — | <i>Jt. Secretary</i> |
| 2. | Shri Bal Shekar | — | <i>Director</i> |
| 3. | Shri R.C. Kakkar | — | <i>Under Secretary</i> |
| 4. | Shri Raj Kumar | — | <i>Under Secretary</i> |
| 5. | Shri T.G. Chandrasekhar | — | <i>Assistant Director</i> |

REPRESENTATIVES OF MINISTRY OF FINANCE IN CONNECTION WITH EXAMINATION OF IDBI

- | | | | |
|----|----------------------|---|--------------------------|
| 1. | Shri Ajit Kumar | — | Finance Secretary |
| 2. | Shri Devi Dayal | — | Spl. Secretary (Banking) |
| 3. | Shri U.K. Sunha | — | Joint Secretary |
| 4. | Shri Shekhar Agarwal | — | Joint Secretary |
| 5. | Shri M.R. Rayalu | — | Financial Adviser |
| 6. | Shri P.M. Sirajuddin | — | Director |
| 7. | Shri D.K. Tuagi | — | Director |

2. The Committee took the evidence of the representatives of Ministry of Finance in connection with examination of IDBI.

3. A copy of the verbatim proceedings has been kept on record.

The Committee then adjourned

