C.P.U. No. 439

# COMMITTEE ON PUBLIC UNDERTAKINGS

# (1980-81)

(SEVENTH LOK SABHA)

## TWENTY-FOURTH REPORT

ON

## INDUSTRIAL DEVELOPMENT BANK OF INDIA

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)

सत्यमेव जयते

*Presented to Lok Sabha and laid in Rajya Sabha on 30 April, 1981.*

LOK SABHA SECRETARIAT
NEW DELHI

*April, 1981/Vaisakha, 1903(S)*

CORRIGENDA

TO

TWENTY-FOURTH REPORT OF THE COMMITTEE ON PUBLIC UNDERTAKINGS ON THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

| Page | Para | Line | For | Read |
|---|---|---|---|---|
| 3 | 1.13 | 5 | UDBI | IDBI |
| 5 | 1.21 | 5 | Coordi-nationo | Coordina-tion |
| 5 | 1.21 | 15 | in ICICI | ICICI in |
| 10 | 1.33 | 14 | institutions | institution |
| 12 | 1.42 | 9 | institution | institutions |
| 24 | 2.56 | 7 | *insert* "in" *after* "sickness" | |
| 27 | 3.11 (fourth para) | 4 | post | cost |
| 27 | 3.11 | 2 | buy | levy |
| 29 | 3.17 | 10 | contracts. This | contracts, this |
| 29 | 3.17 | 13 | aadopted | adpoted a |
| 29 | 3.19 | 5 | away | awry |
| 30 | 3.22 | 2 | construtions | construction |
| 38 | 5.8 | 5 | territories. Keeping | territories. keeping |
| 46 | 6.9 | 3 | a | as |
| 47 | 6.14(5) | 1 | typing | tieing |
| 49 | 6.21 | 4 | come | came |
| 51 | 6.34 | 3 | Rs.47.2 crores of the | Rs.47 2 crores. Of the |
| 53 | 6.41 | 2 | world | would |
| 55 | 6.52 | 1 | *insert* "of" *after* "course" | |
| 56 | 6.58 | 5 | celling | calling |
| 60 | 6.78 | 8 | threaten | threatened |
| 62 | 1.40 | 6 | prefere | prefer |
| 63 | 1.43 | 2 | th | the |
| 64 | 2.54 | 11 | depulication | duplication |
| 65 | 2.56 | | *insert* "in" *after* "sickness" | |
| 66 | 3.22 | 11 | numbrer | number |

CONTENTS

## COMMITTEE ON PUBLIC UNDERTAKINGS
### (1980-81)

Shri Bansi Lal—*Chairman*

MEMBERS

2. Shri Gulam Nabi Azad
3. Shri Niren Ghosh
4. Shri Harikesh Bahadur
5. Shri Arif Mohammad Khan
6. Shri S.M. Krishna
7. Shrimati Geeta Mukherjee
8. Shri B.K. Nair
9. Shri Rameshwar Neekhra
10. *Shri Hiralal R. Parmar
11. Shri Darur Pullaiah
12. Shri Nagina Rai
13. Shri K. Ramamurthy
14. Shri Ravindra Varma
15. Shri Chandradeo Prasad Verma
16. Shri R. Ramakrishnan
17. Shri R.R. Morarka
18. Shri Shrikant Verma
19. Shri Ramanand Yadav
20. Shri Harisinh Bhagubava Mahida
21. Shri Swami Dinesh Chandra
22. Shri Sunder Singh Bhandari

SECRETARIAT

1. Shri H.G. Paranjpe—*Joint Secretary*
2. Shri T.R. Krishnamachari—*Chief Financial Committee Officer*
3. Shri S.P. Chanana—*Senior Financial Committee Officer*

---

*Elected w.e.f. 28-11-1980 in the vacancy caused by appointment of Shri P.A.Sangma as Deputy Minister.

## STUDY GROUP II ON PUBLIC UNDERTAKINGS UNDER MINISTRIES OF FINANCE, INDUSTRY, SUPPLY & REHABILITATION AND TOURISM & CIVIL AVIATION AND DEPARTMENTS OF ATOMIC ENERGY, ELECTRONICS AND SCIENCE & TECHNOLOGY

1. Shri R. R. Morarka—*Convener*
2. Shri Gulam Nabi Azad—*Alternate Convener*
3. Shri Niren Ghosh
4. Shri Arif Mohammad Khan
5. Shri Rameshwar Neekhra
6. Shri Nagina Rai
7. Shri K. Ramamurthy

# INTRODUCTION

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

2. The Committee took evidence of the representatives of the Industrial Development Bank of India on 24, 25 and 26 February and 3 and 5 March, 1981 and of the Planning Commission and the Ministry of Finance (Department of Economic Affairs) on 19 and 20 March, 1981.

3. The Committee considered and adopted the Report at their sitting held on 29 April, 1981.

4. The Committee wish to express their thanks to the Ministry of Finance (Department of Economic Affairs) and the Industrial Development Bank of India for placing before them the material and information they wanted in connection with the examination of the Bank. They also wish to thank in particular the representatives of the Ministry of Finance (Department of Economic Affairs), the Planning Commission and the Industrial Development Bank of India, who gave evidence and placed their considered views before the Committee.

NEW DELHI;
*April* 29, 1981
*Vaisakha* 9, 1903(*S*)

BANSI LAL,
*Chairman,*
*Committee on Public Undertakings.*

# CHAPTER I

## ROLE OF THE BANK

### *A. Setting up of IDBI*

The Industrial Development Bank of India, set up in July 1964, is the latest in the series of specialised institutions set up since Independence to provide term finance to industry. First in the field was the Industrial Finance Corporation of India set up under a Central Act of 1948 with its operations restricted to public limited companies and co-operative societies. Following this, another Central enactment—the State Financial Corporations Act, 1951—provided for the establishment of financial corporations at the State level for extending assistance to corporate and non-corporate industrial concerns. In Tamil Nadu, the Tamil Nadu Industrial Investment Corporation Ltd., set up earlier in 1949 under the Companies Act functioned as the State Financial Corporation in that State. In 1955 the Industrial Credit and Investment Corporation of India Ltd., was registered as a Public Limited Company under the Companies Act. Another Corporation, the Refinance Corporation for Industry Ltd., set up in 1958, was somewhat different from the other institutions. It did not directly finance industries but provided refinance against medium-term loans made to small and medium-sized industrial units by eligible lending institutions. This Corporation was latter merged with IDBI in September, 1964.

1.2. Though the magnitude of assistance provided by these institutions had shown a steady increase and was substantial, it had been inadequate in relation to the needs of new and growing industrial enterprises. In view of the dimensions of the problem that rapid industrialisation posed a new institution with wider functions and larger resources than those of the existing ones appeared to be necessary. In the words of the then Finance Minister (Shri T.T. Krishnamachari), the objective of the IDBI was :

> "Where a long term view is necessary and a certain amount of risk has to be taken, the existing institutions tend, by reason of their statutory obligations and traditions, to be conservative and cannot in any case may be very helpful. We are envisaging the new Industrial Development Bank as a central co-ordination agency, which ultimately will be concerned, directly or indirectly, with all problems or questions relating to the long and medium term financing of industry and will be in a position, if necessary, to adopt and enforce a system of priorities, in promoting future industrial growth."

1.3. IDBI was established as a wholly owned subsidiary of the Reserve Bank of India for providing credit and other facilities for the development of industry and for matters connected therewith.

### *B. Enlarged Functions*

1.4. Later in 1975, in terms of the Public Financial Institutions Laws (Amendment) Act, 1975, the ownership of IDBI was transferred to the Central Government with effect from February 16, 1976. IDBI was assigned the role of the "principal financial institution for co-ordinating, in conformity with national priorities, the working of institutions engaged in financing, promoting or developing industry, for assisting the development of such institutions, for providing credit and other facilities for the development of industry and for matters connected therewith."

1.5. The amendment made in 1975 to the Industrial Development Bank of India Act, 1964 brought about a very significant change in the role of the IDBI. As an apex financial institution, IDBI has to coordinate, direct and monitor operations of all term loan financing institutions in the country. At the national level besides the financial institutions such as Industrial Finance Corporation of India, Industrial Credit & Investment Corporation of India and Industrial Rehabilitation Corporation of India, investment institutions, such as Life Insurance Corporation of India, Unit Trust of India and General Insurance Corporation of India extend term loans to industry. At the state level, institutions like the 18 State Financial Corporations and 24 State Industrial Development Corporations/State Industrial & Investment Corporations set up in various States extend term loans to industry.

1.6. Although under Section 37 of the IDBI Act, the Board of IDBI may make regulations for the purposes of giving effect to the provision of the Act which *inter alia* may provide for generally the efficient conduct of the affairs of the Bank, no detailed regulations have been made especially in regard to the supervisory responsibilities entrusted by the amending Act of 1975. It also transpired during examination of the representatives of the IDBI that there was no guidelines issued by the Government in regard to discharge of the enlarged responsibilities of the Bank.

1.7. Government had however issued five guidelines so far relating to other matters viz., (i) convertability clause and nomination on Board of Directors on 1-6-1971 (amended later on 7-5-1973 and 2-8-1980), (ii) assistance to public sector undertakings on 19-6-1976, (iii) two guidelines regarding promoters contribution on 4-7-1978 and 2-8-1978 and (iv) priority Industries (allocation of resources, on 7-6-1979).

*C. Apex Role*

1.8. The mechanism devised so far to achieve the coordination amongst the all India financial and investment institutions, is the Inter Institutional Meetings (IIMs) and senior Executives Meetings (SEMs) for the purpose of deciding on consortium loans. Representation at IIMs by the participating institutions has been generally at the Chairman's level and at the second level, the senior executives of the institutions have monthly/fortnightly meetings where they exchange preliminary views on projects, appoint lead institution for processing of projects, consider matters relating to follow up projects and exercise of conversion option besides sharing of assistance for projects costing upto Rs. 10 crores. The IIMs consider policy matters, besides sharing of assistance to projects costing above Rs. 10 crores.

1.9. As an apex financial institution IDBI is required to ensure that its associate institutions function on desired lines and consistently with their policy objectives. This is, amongst others, is stated to be ensured through the directors appointed by IDBI on the Boards of these institutions. Besides, IDBI has been assigned certain functions under the relevant statutes in some cases.

1.10. Enumerating the different facets of the role of IDBI, the Chairman IDBI stated in evidence that IDBI was playing an active role in promoting the industrial development of the country and also in removing the regional imbalance by dispersal of credit in the backward area; it was acting as an EXIM bank and was also helping in developing capital market, apart from coordinating the work of the financial institutions. It was pointed out that IDBI had been assigned the role of catalytic agent for bringing about socio-economic transformation in the country.

1.11. As regards the inter-Institutional Meetings the Committe were informed that these meetings had been a useful forum not only for coordinating the functions but also for thrashing out various difficulties that come in the way of the operations of financial institutions.

1.12. Another functions that the IDBI was stated to be performing was to assess the credit needs of other financial institutions and integrate the plans which other Institutions have made in the total plan of financing by the development banks. The Chairman IDBI went on to say :—

> "We even go to the extent of scrutinising their resource requirements and wherever necessary prune them or satisfy ourselves with regard to the need for such financial requirements. Assessment of credit requirements is being done generally on an annual basis and on basis of the plan—we discuss the matter with the planning commission for for allocations of resources."

1.13. The Committee were further informed by the Chairman IDBI that the Ministry of Finance advises IDBI the broad guidelines about the allocation of resources to the institutions and the priorty-wise classification of industries to be assisted by the institutions. The guidelines to the UDBI *inter-alia* consisted of two lists of industries, (a) a list of high priority industries and (b) a negative list. The industries in list (a) are to be accorded priority for grant of loans and the industries in list (b) are not normally eligible for financial assistance. *Interse* priority among the high priority industries are however not indicated by government The Member secretary, planning commission in evidence informed the Committee that he was not in favour of rigidity in this regard.

1.14. The institutions in their proposals to the Ministry for resources, take a view of the industry-wise pattern of the deployment of their funds in the ensuing year. The financial institutions prepare comprehensive plans on an annual basis for the flow of institutional finances to all the assisted units in private, public, joint and cooperative sectors. An overall exercise for the sixth plan period covering the years 1980-81 to 1984-85 was prepared in IDBI in May 1980 taking into account the targets set in the draft plan for the setting up new capacities as well as for modernisation under various industries although, there was no separate allocations of credit for the expansion of existing units and for new projects. The Committee were also informed that in this plan there was a resource gap, which was to be filled up by market borrowings and/or budgetary support.

1.15. The national five year plans are somewhat indicative in relation to the private sector investment, whereas for public sector it could be ensured that the plan is adhered to. However, if the mechanism of industrial licensing and development financing is properly used even the private sector could be made to adhere to the national plans.

1.16 The Dagli Committee on Controls and subsidies (May 1979), had found :—

"The type of integration between industrial licensing and overall planning which had been achieved during the Third Plan with the issue of 'Programmes of Industrial Development' by the Planning Commission has not been followed lately and that the 'Guidelines for industries' issued by the Ministry of industry do not have the same organic link between the plan and licensing policy. The industrial licensing system has not in consequence ensured the development of industries according to plan priorities ; has failed to prevent the growth of capacity in non-essential industries ; has not also been effective in securing proper regional dispersal of industries ; and has not succeeded in containing monopolies and the concentration of economic power."

1.17 The Committee enquired from the Member Secretary, Planning Commission whether there was any similar study of the effect of industrial development financing, the Member Secretary stated that the development banks have a somewhat limited role in regard to the planned development and excessive rigidity to make the financing adhere to plan targets could be counter productive. He however conceded that though some studies on certain aspects of development financing had been undertaken, no comprehensive study of the effect of development financing had been made. He agreed that such a comprehensive study would be useful.

1.18 The main objective of financial institutions, particularly of term lending institutions is to help to step up capital formation in socially desirable direction. The major deciding criterion in appraisal of projects is stated to be the econonmic benefits from a project. In pursuance of the national priority of promoting employment in industrial projects, the development banks ought to prefer as far as possible labour intensive processes keeping in view other socio-economic aspects, at the project appraisal stage. The idea is to reconcile growth with social justice. According to the IDBI a project may be viable in regard to technical, commercial, managerial financial soundness; but these considerations are not sufficient for the final approval of a project for assistance. The basic test is the expected returns from the national point of view. Asked whether there was any difference in appraisal of projects by the Planning Commission and the IDBI the committee were informed by a representative of the IDBI that there were some basic differences. The banks are very particular about the financial viability of the projects and they also get into an assessment of entrepreneurship. In order to have a pronounced bias towards labour intensive industrialisation no norm has yet been evolved by the IDBI. However, the Committee were told that in the economic appraisal of the projects a shadow wage rate of 50 % of the wage cost is taken into account which has a built-in element of choice of labour intensive technology. As against the cut off point of 12% in terms of internal rate of return (economic) adopted by the Planning Commission for clearance of public sector projects, the IDBI adopts 15%. However, a shelf of feasible projects not being available, all feasible projects are assisted by the development banks.

1.19 The Committee required how the managerial ability of an applicant was judged at the time of scrutinising the application ; the Chairman, IDBI stated that they looked for his experience, qualification, technical background, manufacturing background and entrepreneurability. The competence or the business acumen of the management was a thing over which it was difficult to anticipate. He observed, "We deal with so many projects of different kinds we are, in a way, general practitioners in the art of project appraisal."

1.20 The Member-Secretary, Planning Commission explained the difference in the techniques of project appraisal for the public sector and the private sector projects and agreed to consider issue of suitable guidelines for project appraisal by the development banks in conformity with the planned objectives.

1.21 In regard to the coordination role of the IDBI, the Member-Secretary, Planning Commission informed the Committee as follows :—

> "We have distinct impression that there is better coordination among the term lending institutions since 1975 because of the IDBI. One of the mechanism for coordinations is the inter-institutional meetings ; secondly IDBI is a shareholder of many of these institutions. Taking all these facts into consideration, we feel that the present institutional set up is sufficient to ensure a high degree of coordination in the matter of institutional finance.
>
> It is also our impression that although the results may not be the optimum results, there has been a qualitative improvement in the appraisal of projects, particularly of large projects, where joint appraisal is necessary. Also it is our impression that the Institutions specialise in various fields, IFCI in hotel and sugar, IDBI in cement and fertilizers and in ICICI chemicals. By this broad division, informally agreed upon, I think a judicious mix has been achieved in terms of relative specialisation, at the same time achieving a reasonable degree of coordination among these institutions."

1.22 To an enquiry of the Committee as to how the Planning Commission had come to the conclusion that the system of appraisal and monitoring had improved the Member-Secretary, Planning Commission stated:

> "The very fact that the total magnitude of loan financing that is handled by these Institutions has increased is an evidence of the growing capability of our system to appraise projects to monitor them and finance them. Also qualitative changes have come about in the whole financing pattern. The fact that the term lending institutions are much more active in promotional roles like setting up of technical consultancy services, provision of seed money assistance and also the rate of financing in backward regions in fact do indicate that there has been improvement."

1.23 Asked to give suggestions for improvement in making the IDBI a really effective instrument of planned industrial development, the Member Secretary, Planning Commission spelt out the following issues :

(i) There is need for the financial institutions to strengthen their project appraisal and project monitoring capacity.

(ii) Financial institutions should take more objective view to check declining trend in the productivity and the profitability of many of the assisted units and rise in debt equity ratio—and to ensure that assisted units do not neglect modernisation.

(iii) Assisted units should move away from family oriented pattern of business towards professionalisation of management.

(iv) Financial institutions could be more effective in terms of providing feed back to Government on sectoral trends on the changing needs, on the changing moods, on the growing sickness and health of the industry.

(v) Planning Commission may have representation on the IDBI Board.

1.24 The Secretary, Department of Economic Affairs explained during evidence the various measures taken by the IDBI to bring about coordination and uniformity in practices among the financial institutions. He was not in favour of rigid control by statutory means. According to him, the present informal arrangements in the shape of IIMs and SEMs were working fairly satisfactorily. On the Committee pointing out that IIMs existed even before the 1975 amendment in the IDBI Act, the Secretary pointed out that they might have existed but :

"It depends on the content and the manner of their functioning. It is our assessment that they have functioned much more effectively after the Act came into force. After this law came into force there was a detailed memorandum put up to the Board of Directors of IDBI by the then Chief Executive of the IDBI where a number of items relating to IDBI's new responsibilities were set out."

1.25 On the question of formalising these arrangements or giving them some statutory character, the Sectretary observed as follows :

"We have not considered this as necessary. We find that the present arrangements provide flexibility. While the Government was keen to give to the IDBI a lead role in this matter, it did not want that the IDBI should be a superior hierarchical body in the sense that it would issue statutory directions, etc."

1.26 In this context, the Secretary confirmed that no guideline was issued by the Government to the IDBI in regard to the discharge of enlarged responsibilities of the Bank assigned to it by the amending Act of 1975.

### *D. Operations of IDBI*

1.27 IDBI operates six major schemes of assistance—*viz.* project finance, soft loan, technical development fund, refinance of industrial loans, bills rediscounting and export finance schemes. Since inception in July, 1964 upto the end of June 1980, IDBI sanctioned an aggregate assistance (including guarantees) of Rs. 5679.4 crores covering 1,35,770 applications and disbursed Rs. 3611.7 crores. The details are as follows :—

| Type of assistance | Sanctions | | | | | | Disbursements | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1978-79 (July-June) | | 1979-80 | | July 1964—June 1980 | | 1978-79 (July-June) | 1979-80 | July 1964—June 1980 |
| | No. of applications | Amount | No. of applications | Amount | No. of applications | Amount | Amount | Amount | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 1. Project Finance Scheme | 173 | 268.8 | 149 | 313.6 | 1268 | 1505.6 | 219.0 | 146.5 | 931.0 |
| (a) Project loans | 115 | 241.8 | 100 | 275.1 | 796 | 1321.9 | 212.7 | 138.8 | 857.5 |
| (b) Underwriting of and direct subscription to shares and debentures of industrial concerns | 58 | 27.0 | 49 | 38.5 | 472 | 188.7 | 6.3 | 7.7 | 73.5 |
| 2. Soft loans | 92 | 106.5 | 77 | 94.2 | 258 | 277.8 | 34.0 | 62.7 | 107.2 |
| 3. Technical development fund | 45 | 6.3 | 67 | 11.9 | 158 | 24.0 | 3.9 | 8.2 | 14.9 |
| 4. Refinance of industrial loans | 28952 | 404.8 | 54167 | 624.8 | 129305 | 1900.7 | 255.5 | 410.3 | 1302.4 |
| 5. Rediscounting of bills | 951 | 139.3 | 1074 | 174.6 | 4073 | 1095.1 | 104.1 | 131.5 | 853.3 |
| 6. Export finance | 31 | 63.6 | 41 | 73.9 | 292 | 390.0 | 21.1 | 33.1 | 208.3 |
| (a) Direct loans for export | 16 | 12.5 | 6 | 18.1 | 110 | 150.0 | 12.4 | 13.3 | 103.7 |
| (b) Refinance of export credit | 10 | 8.9 | 17 | 6.3 | 140 | 74.2 | 4.0 | 2.9 | 57.1 |
| (c) Overseas buyers' credit | 1 | 2.9 | .. | .. | 9 | 24.6 | 2.0 | 4.3 | 15.4 |
| (d) Foreign lines of credit | 3 | 36.6 | 5 | 41.0 | 19 | 130.0 | 2.7 | 11.9 | 26.3 |
| (e) Overseas investment finance | 1 | 2.6 | 9 | 7.1 | 10 | 9.8 | .. | 0.7 | 0.7 |
| (f) Pre-shipment credit | .. | .. | 4 | 1.4 | 4 | 1.4 | .. | .. | .. |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|
| 7. Subscriptions to shares and bonds of financial Institutions . . . | 20 | 39.0 | 20 | 40.0 | 31 | 194.4 | 41.3 | 41.6 | 193.0 |
| 8. Seed capital assistance through SIDCs | 36 | 1.4 | 35 | 1.4 | 93 | 3.5 | 0.7 | 0.9 | 1.6 |
| Total . . | 30300 | 1029.7 | 55630 | 1334.4 | 135478 | 5391.0 | 679.7 | 834.9 | 3611.7 |
| 9. Guarantees for loans and deferred payments . . . . . | .. | .. | .. | .. | 15 | 26.7 | .. | .. | 19.5* |
| 10. Export guarantees . . . . | 107 | 64.9 | 103 | 100.1 | 277 | 261.6 | 60.5* | 93.2* | 235.0* |

Notes : (i) The number of applications in respect of item 5 relates to the number of purchaser-users and in respect of item 7 to the number of financial institutions.

(ii) In case of bills rediscounting scheme, amount sanctioned represents face value of bills rediscounted, while amount utilised indicates the net disbursements after deductions of discount charges from the face value of the bill.

(iii) Figure in this table may not exactly add up to the totals due to rounding off.

*Guarantees executed.

1.28 Total resources as at the end of June 1980 aggregated Rs. 4291.7 crores comprising (i) share capital of Rs. 105.0 crores; (ii) reserves of Rs. 95.6 crores; (iii) borrowings from Reserve Bank of India Rs. 1411.7 crores; (iv) borrowings from the Government of India Rs. 194.6 crores; (v) bond issues Rs. 870.0 crores; (vi) loan from LIC Rs. 60 crores; (vii) deposits from companies Rs. 50.1 crores; and (viii) repayment of past assistance Rs. 1504.7 crores.

1.29 It has been claimed by the IDBI that the assistance given by the IDBI so far had catalysed or will catalyse an investment of about Rs. 11,700 crores and directly create or will generate 15.5 lakh new jobs. In this context the Committee desired to know from the IDBI in its capacity of playing the apex role whether similar assessment in respect of operations of other all India institutions and State level institutions was readily available with the IDBI. The representatives of the IDBI stated that they had no consolidated figures in respect of the assistance rendered by all the financial institutions—so was the case in regard to the results of operation of all the State financial institutions. The Committee were informed that IDBI would shortly bring out a comprehensive Report on Development Banking in India which, it was stated, would cover all the development banks at the all India and State levels.

1.30 When the Committee pointed out that despite the coordinating role and overall responsibility for institutional finance, the IDBI was not in a position to furnish any data on the overall capital formation and employment generation on account of the activities of all the development banks and investment institutions coming under its review, the Secretary, Department of Economic Affairs, agreed that the data should become available.

### E. *Sectoral division of work*

1.31 During examination of the representatives of the IDBI, the Committee enquired whether the IDBI considered it desirable to allot certain industries to each of the financial institutions. A representative of the IDBI explained that they did try a sectoral division of work among the financial institutions in the case of soft loan, where to begin with the number of applicants was large. To expedite the disposal of applications, it was decided to have some kind of division of labour among the three institutions. Over a period of time, when this pressure eased, IDBI found that it was more convenient if the same institutions was not asked to deal with one industry.

1.32 Asked to comment on this issue, the Member Secretary Planning Commission stated as follows :—

> "I think there are situations in which this is a desirable development. Because as the Dutt Committee themselves pointed out, the capacities for project appraisals are not adequately developed. The expertise in this area being relatively scarce, probably it would be better if the limited resources were not frittered a way in the institutions appraising the same projects over and over again. But I would agree that as and when we develop more expertise in the whole area of project monitoring, project appraisal and project financing, may be

we can afford to be more liberal, because a certain degree of competition among the institutions, after a certain stage, might have a desirable effect on efficiency. But at the present stage of our development, I would say that the existing arrangement are, by and large, working satisfactorily..... By and large they are moving towards specialisation in respect of industries......"

1.33 The Secretary, Department of Economic Affairs stated :

"With regard to the specific suggestion which has been made about allocating special areas or industries to various institutions, we do agree that there is a considerable merit in that suggestion. But, there are also certain difficulties and one would have to strike a viamedia. To the extent that some of the all India financing institutions can specialise in a few important industries in the sense that they have technical personnel who know the special problems of each industry, that would certainly be a great advantage in improving the quality of assessments and appraisals made.

At the same time we have to realise that the resources available to each institution happen to be different. They are limited. There is also the question of Over-exposure or the apprehension of over-exposure of a particular institutions to a particular entrepreneur. Over-exposure can also take place to an industry as a whole.

For the soft loan scheme, some kind of division of labour was undertaken, not merely division of labour but some kind of sectoral allocations were made and were found to be useful and it is the Government's view that we should encourage this. It may not be possible to apply it across the Board for the reasons which I have mentioned. But, we certainly will, keep this suggestion in view. In fact, we would see how far we can go in this direction."

1.34 Under Section 11-A of the Act, IDBI could transfer its rights and interests in relation to any loan or any amount recoverable by it. IDBI had been working out details of a participation certificate scheme under which project upto Rs. 5 crores will be dealt with in their entirely, by one of the all India institutions and the loan assistance and underwriting commitment will be shared by other institutions. The objective is to simplify the procedures and consequently delays involved in granting of assistance by various institutions as also availment thereof by the assisted industrial undertakings so as to facilitate dealings with one institution instead of many.

**1.35. The Industrial Development Bank of India was established in 1964 as a wholly-owned subsidiary of the RBI. Amendments made in 1975 to the IDBI Act 1964, brought about a very significant change in the role of the Bank. It was no longer a mere operating concern but was also made the "principal financial Institution for co-ordinating, in conformity with national priorities, the working of institutions engaged in financing, promoting or developing industry and for assisting the development of such institutions." The performance of the IDBI should therefore be evaluated not only on the basis of quantum and results of its assistance to the industry but also having regard to its role in organising the entire range of term-loan financing for industrial development of the country.**

1.36. Although under Section 37 of the IDBI Act, the Board may make regulations for the purpose of giving effect to the provision of the Act which *inter alia* may provide for generally the efficient conduct of the affairs of the Bank, no detailed regulations have been made especially in regard to the apex role assigned to it by the amending Act of 1975. There were also no guidelines issued by the Government in regard to the discharge of the enlarged responsibilities of the Bank. The Committee feel that suitable regulations and guidelines are necessary in order to first have a clear concept of the enlarged functions and then ensure the effective discharge of the functions.

1.37. The national Five Year Plans are indicative in relation to the private sector investments. However, if the mechanism of industrial licensing and development financing is properly used even the private sector could be made to broadly adhere to the Plan. As regard the industrial licencing the Dagli Committee on Controls and Subsidies in its report presented in May 1979 had observed that lately industrial licensing and the plans were not properly integrated and added : "The industrial licensing system has not in consequence ensured the development of industries according to plan priorities ; has failed to present the growth of capacity in non essential industries ; has not also been effective in securing proper regional dispersal of industries ; and has not succeeded in containing monopolies and the concentration of economic power." The Committee would commend a similar critical study of the results of development financing for the industry for taking such corrective steps as may be warranted.

1.38. As an apex institution the IDBI ought to be responsible for business planning and resource forecasting in respect of the entire range of term loan financing of the industry in the country. The Committee note that a beginning has been made in this direction and a five-year plan has been prepared to coincide with the Sixth Plan. The Committee have, however, been informed that there has been so far no separate allocation of credit for expansion of existing industrial units and for new projects. There should be in future separate allocation.

1.39. It is the responsibility, of the IDBI to assess and bring out the results of operations of term loan financing of all the financial and investment institutions. Here again the IDBI has made just a beginning to bring out a comprehensive report on development banking in India. The Committee desire that this report should be laid before Parliament annually.

1.40. The main objective of the financial institutions is to help step up capital formation in socially desirable direction. The major deciding criterion in appraisal of projects for assistance is the socio-economic benefits. In pursuance of the national priority of promoting employment opportunities the development banks ought to prefer as far as possible labour intensive processes. Financial viability of a private sector project may be a necessary condition but it is not a sufficient condition. The basic test is the expected returns from the national point of view. The project appraisal techniques, thus, assume crucial importance in the context of realising the planned objectives. According to the Member-Secretary, Planning Commission there is scope for improvement in regard to project appraisal and monitoring in view of the decline in productivity and profitability of the assisted concerns. The Committee recommend that the Planning Commission should issue suitable guidelines for the project appraisal and monitoring by the development banks.

1.41. The IDBI has so far in its 16 years of existence sanctioned an aggregate assistance of Rs. 5391 crores and disbursed Rs. 3611.7 crores. The IDBI has claimed that the assistance rendered by it so far has catalysed or will catalysed an investment of about Rs. 11,700 crores and directly created or will generate 15.5 lakh new jobs. The IDBI do not have any reliable data in this regard for the totality of the assistance rendered by all the term-loan financing institutions. It is disappointing to the Committee that this should be so despite the coordinating role and the overall responsibility for the institutional finance assigned to the IDBI. The Committee desire that in future the data on the overall capital formation and employment generation as well as the value added to the economy on account of the activities of all the institutions should be brought out annually in the report on the 'Development Banking in India'.

1.42. The projects are assisted by the various institutions upto about 60 per cent of the cost of each project. The assistance is rendered in combination by a number of institutions and in that process there has been a lot of duplication of efforts. At present there is some vertical division of work between the regional and the all India institutions. A sectoral division of work which has been attempted in the case of soft loans has now virtually been abandoned. The Committee feel that in the present context of scarcity of resources and limited expertise in regard to project appraisal, duplication of efforts of all Indian financial institution should be avoided. They, however, note that the lead bank concept and the proposed participation certificate scheme would avoid such a duplication to a large extent. The Committee desire that as far as possible each financial institution should exclusively deal with a few industries so that matters could be made simpler to the assisted concerns and there could be no duplication of efforts by the financial institutions. This would also make for specialisation and better expertise in project appraisal.

1.43. There is not much of a formal control by the IDBI over other financial institutions except in relation to the IFCI and the SFCs. However, certain enabling provisions for exercising a measure of control have been in the Articles of Association of SIDCs/SIICs. The coordination among the institutions is mainly ensured through Inter-Institutional Meetings and uniformity on policies secured informally. In this connection the Committee would like to recall what the then Finance Minister said when the IDBI Bill was considered by Parliament. According to him the IDBI would be concerned directly or indirectly with all problems or questions relating to the long and medium term financing of industry and would be in a position, if necessary, to adopt and enforce a system of priorities in promoting future industrial growth. The Committee desire that after a critical study of the effect of industrial financing as recommended by them, a review of working arrangement between the IDBI and it sister institutions should be made to see whether it should be placed on a formal footing to achieve better results. Incidentally the Committee would commend the idea of having a nominee of the Planning Commission on the Board of the IDBI.

## CHAPTER II

## DIRECT PROJECT ASSISTANCE

2.1. IDBI's direct project assistance comprises (a) loans, underwriting of or direct subscriptions to share issues and deferred payment guarantees under the project finance scheme; (b) soft loan assistance for modernisation in respect of selected industries; and (c) technical development fund assistance for import of balancing equipment of small value. In addition to these schemes, IDBI's domestic direct operations cover rehabilitation programmes for sick units.

2.2. As at the end of June 1980, IDBI sanctioned assistance to 640 companies under project finance scheme, 245 companies under soft loan scheme and 115 companies under TDF Scheme. Of these, 70 companies are common as they have been assisted under more than one scheme of assistance. Thus, as at the end of June 1980, IDBI sanctioned assistance under its direct project finance schemes to 930 companies.

### *A. Project Finance Scheme*

2.3. IDBI gives direct assistance by way of term loans, subscriptions to or underwriting of issues of shares or debentures and guarantees. Assistance is usually granted for new projects as well as for expansion, modernisation or renovation of existing units. IDBI's assistance extends to medium and large scale projects undertaken by public limited companies in the private, joint or public sectors and by co-operatives. IDBI gives special attention to projects involving large capital outlays or sophisticated technology, promoted by technician entrepreneurs, located in less developed areas and/or exploring new technology which might not find ready support from other institutions.

2.4. IDBI normally charges 11.85%* per annum on its term loans and underwriting commission of 2.5% on the face value of shares underwritten by it (1.5% in the case of underwriting of debentures). However, in case of projects set up in the backward districts and areas specified by the Planning Commission for the purpose, a concessional rate of 10.25%* per annum and 50% of normal underwriting commission is charged. This concession is available for aggregate term loan of Rs. 2 crores and underwriting upto Rs. 1 crore by IDBI, IFCI and ICICI. Besides, along with other institutions, IDBI provides direct concessional loan assistance upto Rs. 2 crores for purchase and/or installation of captive power generation and distribution systems to projects in the North-Eastern and Himalayan Hill Regions.

2.5. IDBI, along with IFCI and ICICI, operates a system of common appraisal under which an entrepreneur need to submit his application in the Common Loan Application Form to only one institution, which is processed by the 'lead' institution within a time bound programme of about four to five months.

---

*Rates effective prior to 2 March 1981.

2.6. IDBI intimated (Nov. 1980) that projects that come for direct assistance to the IDBI get the necessary clearance from the Government at the stage of licensing. While appraising a project, the IDBI also takes into account targets laid down in the Five Year Plans and one of the considerations has always been whether the project would be within the targets laid down in the Plan. Thus the IDBI tries to ensure satisfaction of social objectives and national priorities subject, of course, to the soundness of projects. The major deciding criterion in its appraisal of projects, therefore, has always been according to the IDBI the economic benefits the nation would derive from a project.

2.7. Monitoring of the directly assisted projects is done by means of calling for quarterly progress reports by reviewing of balance sheets, profit and loss account and annual reports, by periodical follow-up actions, by appointment of nominee directors, by attending the annual general meetings and by discussions with entrepreneurs.

2.8. Assistance disbursed under the project finance scheme during the 16 years aggregated Rs. 931.0 crores forming 62 per cent of the sanctions. It covered 640 companies. The disbursals comprised of Rs. 857.5 crores of loan assistance and Rs. 73.5 crores of capital subscribed.

2.9. At the end of June 1980, IDBI held shares and debentures of industrial concerns of the paid-up value of Rs. 63.3 crores and its loan assistance aggregating Rs. 742.8 crores was outstanding. On an average, 90 per cent of debentures and preference shares and 60 per cent of equity capital underwritten has been devolving on the IDBI and is subscribed by the IDBI.

2.10. Asked as to who was the single largest borrower a representative of the IDBI informed the Committee that it was the Gujarat Narmada Valley Fertilizer Project, whose capital cost was Rs. 445 crores of which the IDBI's assistance alone was about Rs. 237 crores. It is a joint sector project owned by the Gujarat State Fertilizer Corporation and the Gujarat Government and according to the witness there was going to be public issue of shares to the extent of 51% of the equity capital. The Committee were informed by the Secretary, Department of Economic Affairs that the loan assistance of the IDBI was made up of Rs. 201 crores from the Development Assistance Fund and Rs. 36.41 from the General Fund of the IDBI. The DAF is provided by Government to those projects which are potentially risky or low profit yielding but at the same time are of national importance.

2.11. Sanctions under project finance scheme during 1979-80 which amounted to Rs. 313.6 crores were 17% higher than in the year 1978-79. Disbursements at Rs. 146.5 crores were, however, 34% lower. 79 Units did not draw the loan sanctioned to them. Of the assistance sanctioned in 1979-80, the share of new, expansion and diversification projects at Rs. 179.9 crores was lower compared with Rs. 238.6 crores in the preceding year. Nearly two-fifths of the total sanctions during the year 1979-80 was to meet cost over-runs of projects assisted earlier, but of this Rs. 101.2 crores was accounted for by one project alone, that of Gujarat Narmada Valley Fertilizers Co. Ltd.

2.12. The Committee were informed by IDBI that the entire amount of Rs. 101.2 crores has been sanctioned (to Gujarat Narmada Valley Fertilizer Co. Ltd.) out of Development Assistance Fund with the prior approval of the Government of India. Such large magnitude of over-run assistance has not so far been sanctioned to any other project.

2.13. Asked how far it was prudent to finance a single project like Gujarat Narmada Valley Fertilizer Co. Ltd. to the extent of Rs. 237 crores, a representative of IDBI stated as follows :—

> "It is a very difficult question to answer. The fertilizer pricing is left with the Government. There is a separate committee for that and they decide the price. On the basis of today's prices it is not going to be available unit. But we have taken up the matter with the Government. They have assured us they will so fix the prices that it will become a viable unit. Now, it is anybody's guess. But it is an important project. The project has to be started. So apart from the funds we have provided with Government's concurrence and a part of it has come from the General Fund because of the large amount involved."

2.14. The purpose-wise break-up of the amount of Rs. 313.6 Crores sanctioned during 1979-80 is given below:—

(Rs. in crores)

| Sl. No. | Purpose | Amount Sanctioned | | | | | |
|---|---|---|---|---|---|---|---|
| | | Loan | | Underwriting | | Total | |
| | | No. of Projects | Amount | No. of Projects | Amount | No. of Projects | Amount |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1. | New . . | 39 | 118.6 | 37 | 16.2 | 49 | 134.8 |
| 2. | Expansion/Diversification . . | 24 | 40.8 | 5 | 4.3 | 26 | 45.1 |
| 3. | Modernisation/ Balancing equipment . . | 10 | 11.6 | | | 10 | 11.6 |
| 4. | Supplementary assistance . . | 24 | 104.2 | 4 | 17.6 | 26 | 121.8 |
| 5. | Subscription to rights issue . | .. | .. | .. | 0.3 | .. | 0.3 |
| | | | 275.2 | | 38.4 | 111 | 313.6 |

Note : Column 3 and 5 do not add up to total No. of projects in Column 7 as same projects have been sanctioned loan and underwriting.

2.15. Dealing with the decline in the loan disbursements under project finance scheme during 1979-80, IDBI in a note, intimated that the decline was mainly attributable to lower disbursals in respect of one large project viz Gujarat Narmada Valley Fertilizer Co. Ltd. Assistance disbursed to this project during the year 1979-80 was only Rs. 6 crores compared to Rs. 67.5 crores during 1978-79. Besides, economic uncertainties, power shortage and non-availability of critical construction materials, such as cement and steel, are also stated to have delayed the implementation schedules of a number of projects resulting into reduced level of disbursement by IDBI.

### *B. Soft Loan Scheme*

2.16. IDBI extends soft loans, under a scheme introduced in November, 1976, to units in selected industry groups viz. cotton *textiles*, jute, cement, sugar and specified engineering industries (including diversification of mini steel plants) to enable them to overcome the backlog in modernisation, replacement and renovation of plant and machinery, so as to achieve higher and more economic levels of production and improve their competitiveness. The basic criteria for assistance under the scheme is weakness or non-viability of the industrial concerns arising out of mechanical obsolescence.

2.17. The scheme is operated in participation with the IFCI and the ICICI, with the overall responsibility vesting in the IDBI. IFCI is the lead institution for jute and sugar industries, ICICI for engineering and IDBI for cotton textiles and cement industries.

2.18. The loans under the Soft Loan Scheme are extended on concessional terms not only in regard to the rate of interest but also regarding promoter's contribution, debt-equity ratio, initial moratorium and repayment period. In pursuance of the decision taken by the Government of India, loans under this scheme have also been exempted from the convertibility stipulation.

2.19. The amount sanctioned under the scheme in 1979-80 was Rs. 94.2 crores on 77 applications as agsinst Rs. 106.5 crores on 92 applications in the previous year. Explaining the reasons for decline in the flow of applications under this scheme, it has been stated that "perhaps a good part of the pent up demand for modernisation assistance needed by the textile industry, the main beneficiary of the scheme, has been taken care of."

2.20. The Committee desired to know whether there was any plan to bring in other industries under the ambit of this scheme. The Chairman, IDBI informed the Committee that consequent to the modifications arising out of budget proposals in 1980-81 in the matter of stipulation of convertibility clause for the term loans from institutions and non-applicability of the clause for assistance given for modernisation to any industry, financial institutions were now considering proposals from all industries for modernisation assistance at normal rates of interest and terms and without convertibility stipulation. However, for rehabilitation of weak units, institutions would extend assistance at concessional terms as warranted on the merits of each case. A clearance from the Government was awaited.

2.21. The Committee were also informed by the Chairman, IDBI that under the soft loan scheme assistance was extended to weak, not-so-weak and better off units. Asked to define these units, the Chairman, IDBI stated that weak units were those whose capital and reserves had been eroded to the extent of 50% or more on account of losses incurred by them. not-so-weak were those whose capital and reserves had eroded less than 50% and better off units were those making profits.

2.22. On an enquiry, the Chairman stated that they employed a very flexible approach because of the different types of units which they were supposed to assist—there were no guidelines as they could not have a rigid norm.

2.23. In a note submitted after the evidence, IDBI informed the Committee that—

"Under the soft loan scheme, assistance is extended to weak, not-so-weak and better of units. The rate of interest charged by IDBI prior to revision in interest rate on account of interest tax is as follows :

The soft component is extended at 7.5% and the balance at 11% p.a.

| | Interest rate | |
|---|---|---|
| | Soft component | Balance |
| 1. Weak units . . . . . . . . . | 100% | Nil |
| 2. Not so weak units . . . . . . . | Varying between 21% to 80% depending upon the dividend paying capacity of the units on the basis of dividend linked formula. | |
| 3. Better of units . . . . . . . | 20% | 80% |

2.24. Asked whether there was any remedy open to an entrepreneur in case he was not satisfied with the decision of the Executive Committee on his application for soft/concessional loan, the representative of IDBI stated that appeal against rejection of application could be entertained by the Chairman. The witness, however, conceded that the fact that appeal against the decision of the Executive Committee lay before the Chairman had not been mentioned in any of their publicity material.

*C. Rehabilitation Finance*

2.25 There are at present 82 sick units handled in the Rehabilitation Division of the IDBI. The particulars of assistance sanctioned and outstanding as on June 30, 1980 to public sector units, joint sector units and public limited companies among them is as under:—

(Rs. in lakhs)

| Name of assisted units (category-wise) | No. | Assistance as on 30-6-1980 | | | |
|---|---|---|---|---|---|
| | | Sanctioned | | Outstanding | |
| | | Loans | Under-writing | Loans | Subscri-ption |
| (i) Public sector undertakings (where share holdings of Govt. & Govt. Under-takings exceed 50% of share capital) . . . . . | 26 | 4534 | 515 | 3657 | 402 |
| (ii) Joint sector undertakings . | 5 | 432 | 58 | 359 | 25 |
| (iii) Public limited companies . | 51 | 2879 | 479 | 2415 | 396 |
| TOTAL . . . . . | 82 | 7845 | 1070 | 6431 | 823 |

2.26. IDBI intimated (March, 1981) that among the three all India institutions viz. IDBI, IFCI and ICICI, there were 122 sick units as on December 1980 and the total amount of dues in default from them was Rs. 67.23 crores.

2.27. An industrial unit is designated as sick taking an overall view of the operations and financial position of the unit, and in particular, the following features:—

(i) continuous cash losses for a period of 2 years or continuous erosion in the net worth, say by 50%;

(ii) continuous defaults in meeting four consecutive half-yearly instalments of interest or principal on the institutional loans;

(iii) short-fall in the margin for bank advances and persistent irregularities in operations of the unit's credit limits with the banks; and

(iv) mounting arrears on account of statutory or other liabilities, say, for a period of one or two years.

2.28. On identification of one or more of aforesaid symptoms, the lead institution among the financial institutions involved in the project assess the position and depending upon the state of health of the unit classify the unit as sick. The above criteria have been evolved as per the concensus arrived at IIM dated 19th February, 1979. Immediately thereafter, the lead institution in consultation with other lenders to the undertaking (including the bankers involved in providing working capital assistance) take measures intended to restore the health to normalcy.

2.29. The measures adpoted by the Bank for rehabilitating sick units vary from unit to unit depending upon the particular circumstances and the problems faced by each one. Rehabilitation schemes are drawn up for potentially viable units in such a way that with the grant of certain reliefs and concessions, they would turn the corner within a reasonable period and would again be able to service debts on normal terms. IDBI seeks the help and cooperation of other participating financial institutions and commercial banks, besides the Central and State Governments in appropriate cases.

2.30. There is no provision under the law which enables effective take over of a sick unit by the IDBI. However, IDBI has been able, by persuation or by invoking the covenants of the loan agreement with the cooperation of co-term lenders, to bring about change in the effective management to its satisfaction. This has been possible either by professionalisation of the Board of Directors and/or executive management, takeover of the management by a third party or bringing about a merger.

2.31. IDBI has intimated that it has been able to nurse back to normal health 12 out of 82 sick units so far.

2.32. The Committee were informed by a representative of IDBI that there were different definitions adopted by different institutions in regard to the term 'sick unit'. Though the lead institution takes a decision having regard to IDBI guidelines about the scikness of a unit, the Reserve Bank of India had certain other criteria.

2.33. The Committee were also informed that IDBI had constituted a Coordination Committee to go into this issue—certain data was being collected for the purpose. Asked whether the all India figures of sick units were available, the Secretary, Department of Economic Affairs informed that:—

"The information for medium industrial units as well as for larger units was available. The only problem has been with regard to the small units below Rs. 1 crore which has also now been collected."

*D. Convertibility of Loan into Equity*

2.34. Following the recommendations of the Industrial Licensing Policy Enquiry Committee, Guidelines were issued by the Government of India in terms of which the all India financial institutions (AIFIs) started stipulating conversion rights in respect of loans sanctioned to the industrial units, commencing from 1970-71. The purpose of stipulation/exercise of conversion rights are two-fold viz. (i) to have a due share of the prosperity of the concerns assisted out of public funds and (ii) to participate in the management of the assisted concerns.

2.35. While stipulating the conversion rights the AIFIs specify the quantum of the loan to be converted (not exceeding 20% of the loan), rate of conversion (i.e. whether at par or at a premium) and the pariod during which such conversion rights are to be exercised. The institutions applied the conversion rights in respect of all loans exceeding Rs. 50 lakhs upto July, 1980 and in respect of loans of Rs. 100 lakhs and above during the subsequent period. Further, the guidelines require that the institutions may not exercise the conversion rights where, as a result of the conversion, the total shareholding of the AIFIs, nationalised banks, Central and State Governments. and the Government Corporations would exceed 51% of the total equity of the company (this was reduced to 41% with effect from July 1, 1980). Loans extended under the Soft Loan Scheme or for Modernisation are exempted from conversion stipulations. Upto the year ended 30 June, 1980, the institutions stipulated conversion rights in 569 cases involving an aggregate loan assistance of Rs. 1712.35 crores. Break-up is given below:—

*Particulars of cases where conversion option has been stipulated/exercised/waived by the financial institutions position as on 30-6-80.*

(Rs. in crores)

| | No of cases | Loan Amounts | Amount converted waived |
|---|---|---|---|
| (i) Conversion option stipulated . . . . | 569 | 1754.24 | .. |
| (ii) Conversion option exercised . . . . | 81 | 151.11 | 20.76* |
| (iii) Conversion option waived . . . . . | 128 | 156.36 | 30.87* |
| (iv) Conversion right fallen due and yet to be exercised as on 31-1-81 . . . . . . . | 45 | 70.54 | .. |
| (v) Period for exercise of conversion yet to commence | 315 | 1376.23 | |
| TOTAL (ii to v) | 569 | 1754.24 | |

*In some of the cases conversion was stipulated at lower than 20%.

2.36. The Committee enquired what criteria were followed in exercising the option in some cases and not in others, a representative of IDBI said in evidence:—

"We exercised the option when it was felt desirable from both points of view, either from the point of view of profitability or in the interest of bringing about a Change or better management."

2.37. It was also clarified by the witness on an enquiry of the Committee that the convertibility was not applicable to the State level financial institutions.

2.38. In a note submitted to the Committee after evidence IDBI intimated that there are 128 cases where the institutions waived the conversion rights. Conversion rights are waived mainly for two reasons: when the total shareholding by the AIFIs, nationalised banks, etc., would exceed the stipulated level of the total equity of the company on exercise of such rights, the institutions waive their rights in conformity with the government guidelines. The 128 cases, where conversion rights were waived 16 cases belong to this category. The other category where the conversion rights are not exercised pertains to cases where the concerns are not performing well and as such their shares are quoted at a discount in the share market, and the institutions having considered all relevant factors felt that it is not desirable to exercise the conversion option.

2.39. In so far as the IDBI was concerned conversion option was exercised in 80 cases (Rs. 4.92 crores). The option was not exercised in 54 cases (Rs. 7.5 crores). There were four concerns where the conversion of loan into equity resulted in loss to the IDBI. It was clarified by the IDBI "Most of the shares acquired by IDBI by conversion of loans have been retained by it. Because of fluctuations in the stock market quotations, the value of some of these shares may, at certain point of time, go down below the cost of acquisition of such shares by IDBI, thereby putting IDBI at a loss. Such losses would, however, be notional as the shares are not actually disposed by IDBI and might have been real had IDBI actually disposed of the shares at lower rates. Where shares acquired out of conversion were unloaded in the market by IDBI, no losses were incurred."

2.40. As regards need for changes in the existing scheme, the Committee were informed during evidence that IDBI had made certain proposals to the Government about the conversion guidelines.

### *E. Working Capital Assistance*

2.41. IDBI normally does not grant assistance for working capital. Margin money for working capital is a part of overall project cost and is taken into account for the overall financing pattern. In cases where the completion of the projects is delayed, there is normally cost overrun and the margin money provided in the original project cost is often utilised in meeting the overrun. Sometimes the units commence partial production and incur losses which are taken into account in arriving at the revised project cost and the means of finance include provision for such losses. Therefore, strictly speaking there are no cases where IDBI has provided regular working capital finance. However, there are a few cases where IDBI had provided finance to cover the deficit in working capital due to cash losses.

2.42. During discussion with the representatives of the Bank, the Committee desired to know the policy of IDBI in respect of providing working capital. The Chairman, IDBI explained the position as follows:—

> "By and large, it is not the policy of the Bank to finance working capital at all. But there have been some cases where the units have become sick and the commercial banks have expressed their inability to continue to finance the cash losses and, on the suggestion of the Government, we have had a meeting with the commercial banks, gone into the reasons and decided on a programme of rehabilitation. In such cases, we have agreed to share the cash losses. Otherwise, ordinarily we do not finance the working capital except in respect of cases where small composite loans have been sanctioned....during the last three years there are five cases where we have sanctioned working capital finance."

2.43. Asked to explain the criteria followed in making exceptions, the Chairman, IDBI stated:

> "The role of providing working capital is left to the commercial banks. They also sometimes come in to provide term finance by way of participation to the extent of 25 to 30 per cent. Exceptions to this rule or to this procedure followed by financial institutions to provide working capital are only in those cases where the institution had to come to a decision to revive a unit or to rehabilitate a unit which is closed down or which is about to be closed down. Secondly, it is where the financial institutions is satisfied that the basic viability is there and the commercial banks are unwilling to come forward to provide additional working capital. Thirdly it is where the exposure of the financial institutions is so large that but for the intervention, the unit will not be opened. The fourth consideration is the management behind the Unit. If we find that a situation has arisen as a result of bad management, then we would think twice before we pump further money into the unit unless we are fairly assured that there would be change in the management or a care will be taken to see that those who have mismanaged the unit are not to be in charge of the show. These are the broad guidelines under which we provide working capital. Otherwise it is not the policy of the financial institutions to provide working capital."

2.44. From October 1978 to May 1980, IDBI sanctioned loan for purposes of working capital to the tune of Rs. 10.67 crores to twelve companies as in a statement furnished to the committee subsequently.

2.45. The Committee pointed out that one of the main reasons for sickness is the lack of working capital or cash flow difficulties. Asked if it would not be desirable that while sanctioning term loan, IDBI should tie it up with the commercial Banks to ensure that working capital requirements are met in time, the Chairman, IDBI said:—

> "We are actually working in that direction.... This question was engaging our attention and we also started safeguarding our position. We decided about two years ago that before disbursement we must get the sanction of the approval of the commercial banks for working capital."

2.46. Seeing the force of the suggestions, the Secretary Department of Economic Affairs said in evidence:—

> "The suggestion is very valuable. It has already been made. There was a positive response from the ex-Chairman of IDBI. Other Committees like the Butcher Committee had gone into this matter; and the RBI and others have set up some arrangement under which this coordination has to be secured. But basically the difficulty has been to secure, say, 4 or 5 years in advance any commitment from one bank or the other as to the working capital to be provided to a particular project."

*F. Role of Nominee Directors*

2.47. The guidelines, issued by Government state that "the financial institutions should nominate their representatives on the Boards of all selected concerns where substantial financial assistance has been sanctioned and where the convertibility clauses have been incorporated in the financial assistance agreement. In other cases, the financial institutions will exercise their discretion whether or not to nominate directors on the Board of assisted concerns."

2.48. As on 31 December 1980, IDBI had appointed 288 nominees on the Boards of 487 assisted companies, of whom 205 were officials and 83 non-officials. However the Committee were informed in evidence that there were 108 companies in the Project Finance Division. 94 in Soft Loan Division and 19 in Rehabilitation Finance Division, where nominee directors had not been appointed.

2.49. Asked how a number of assisted concerns went without nominee Directors, a representative of the IDBI stated that in some of these other financial institutions might have their nominees on the Boards. Explaining the policy he said—

> "We have got six institutions three development banks and three investment institutions. These are IDBI, IFCI, ICICI and UTI, LIC and GIC. As explained earlier, we have got the lead institution concept. Whenever we sanction assistance to a company, the lead institution takes up the question of appointing the nominee. They make the first appointment and one more is made by the investment institution if it becomes necessary.'

2.50. When the Committee enquired whether the assisted concerns had directors from atleast one of the financial institutions the representative of the IDBI disclosed that there were 119 companies which did not have nominee director from any of the institutions. The reasons according to him could be either they were very small companies or the disbursements had commenced very recently. Subsequently the IDBI intimated in a note that out of 849 IDBI assisted companies as on 31-12-1980 in 167* companies no institution has appointed Directors and in 287 cases more than one institutional nominee have been appointed.

2.51. Asked whether there was any review of the role, of the nominee directors especially in regard to assisted concerns which had either turned sick or had shown signs of sickness, the Secretary Deptt. of Economic Affairs stated as follows:—

"This issue has been exercising the mind of the Government as well as of the IDBI and the other institutions. We are conscious of the fact that the institution of nominee directors while it is adequate in a number of cases, falls short of the requirements in many other cases, especially when units get into trouble. Recently, the IDBI has commissioned a study on the role and functions of the nominee directors and we look forward to the conclusions of this committee with some anticipation. We are also of the view that may be some new initiatives are necessary because of the enormity of sickness which has been growing over the years. We have been in touch with the IDBI and they have put forward some suggestions for consideration. This is an area which certainly requires deep study and much greater attention than it has received hitherto."

According to the guidelines issued by Government, the financial institutions, in consultation with the IDBI, will be responsible for laying down drills for feeding the directors and feed back to themselves so that institutional participation in the management of assisted concerns, particularly at the policy level developed into a meaningful reality.

**2.52. As at the end of June 1980, the IDBI sanctioned assistance to 930 companies under the direct project finance schemes consisting mainly of Project Finances soft loans and technical development fund assistance. Assistance disbursed under the Project Finance Scheme during the 16 years aggregated Rs. 931 crores. The disbursals comprised of Rs. 857.5 crores of loan assistance and Rs. 73.5 crores of capital subscription. The Committee are concerned to note that nearly two-fifths of the total sanctions during the year 1979-80 was to meet cost over-runs of the projects assisted earlier and of this Rs. 101.2 crores was accounted for by a single project viz. Gujarat Narmada Valley Fertilizers Co. Ltd. This shows that something is wrong with the initial project appraisal. The result will be undoubtedly reduction in anticipated project benefits both in financial and economic terms. The position thus call for an examination to evolve suitable and effective monitoring and control techniques.**

**2.53. The soft loan scheme for modernisation introduced in November 1976 covered cotton textiles, jute, cement, sugar and specified engineering industries. Of late there has been a decline in the level of assistance rendered under this scheme, the demand for modernisation needed by the textile industry, the main beneficiary of the scheme, having been largely met. The Committee recommend that the scheme should be extended to other sectors of industry on the basis of an assessment of the need for modernisation. It is not uncommon that request for assistance for modernisation is turned down. The Committee, however, understand that an appeal against the rejection could be entertained by the Chairman, IDBI. The Committee would like this fact to be publicised for the information of the prospective users of the assistance.**

**2.54. The fairly widespread sickness in industry causes grave concern to the Committee. Among the industrial units assisted by the all India financial**

*At the time of factual verification IDBI informed as follows:—

"If the companies which were assisted under more than one scheme or which got merged etc. are taken into account, the number would be less."

**institutions viz. IDBI, IFCI and ICICI there were 122 sick units as on 31 December 1980. Of these, 84 were handled by the IDBI for rehabilitation as on 30 June 1980. The Committee feel that the monitoring and rehabilitation of the sick units on all India basis should be the responsibility of the IDBI. At present there seems to be no clear concept of which types of units could be regarded as sick. There also seems to be some duplication of efforts between the RBI and the IDBI. The Committee desire that uniform guidelines should be evolved to determine which units are sick and what follow-up action should be taken to nurse them back to normal health. The all India position in this regard should be reflected in the report, 'Development Banking in India' brought out by the IDBI in future.**

**2.55. Loans are converted into equity since 1970-71 as per guidelines given by the Government. The purpose is stated to be to have a share of the prosperity of the assisted concerns and to participate in their management. Out of 569 cases where the conversion option was stipulated by the all India financial institutions, the option was waived so far (June 1980) in 128 cases. The Committee desire that since the scheme has been in operation for 10 years now, further guidelines should be issued. These guidelines should bring out the circumstances under which the option could be waived or how and at what stage the conversion should take place. A stage of conversion could be a certain level of production attained by a unit.**

**2.56. Working capital is an important determinant of the success of an industrial project but is seldom recognised by the financial institutions. Barring certain exceptions the IDBI has not extended working capital assistance and it is left entirely to be organised by the commercial banks. However, at the project appraisal stage no firm commitment is obtained from the commercial banks who also participate in term-loan financing. Often lack of working capital is the cause of sickness industry. The Committee are of the view that the commercial banks need not be associated in a big way in term-loan financing ; instead they should be committed to working capital accommodation. An arrangement in this regard should be worked by the IDBI for the guidance of all the financial institutions and enforced.**

**2.57. In terms of the loan agreement, the financial institutions and investment institutions are empowered to have their nominees on the Boards of Directors of the assisted units. The Committee note that out of 849 IDBI assisted companies as on 31 December 1980, 167 were without a nominee on their boards from any institution. It is not clear as to how many of these 167 companies are sick. Further, no study of the role of nominee directors has been made so far. It is only recently that the IDBI has commissioned such a study. According to the Member Secretary, Planning Commission, the role of nominee directors was not quite satisfactory and there was need for feedback to government on sectoral trends and health of industry for future planning. As per the guidelines issued by Government, the financial institutions, in consultation with the IDBI, will be responsible for laying down drills for feeding the directors and feedback to themselves so that institutional participation in the management of assisted concerns, particularly at the policy level develops into a meaningful reality. The Committee recommend that Government should give a new look at the institution of nominee directors and assess its contribution especially in regard to sick units in order to evolve fresh guidelines on the basis of the experience gained.**

# CHAPTER III

# EXPORT FINANCE

## A. *Quantum of Assistance*

3.1. IDBI widened the field of export finance after an amendment to the Act in 1972. IDBI confines its export assistance to term-credit for export of goods and services on deferred terms. IDBI endeavours to tailor such credit to suit the individual requirements. To this end, IDBI has been operating a variety of schemes for the promotion of exports of engineering and capital goods from India. IDBI offers financial assistance on liberal credit terms to enable Indian exporters to compete in the international market. IDBI also operates a scheme for financial assistance to the overseas buyers for purchase of engineering goods.

3.2. The Committee were informed in evidence by the Chairman, IDBI that as at the end of June 1980 the total export finance involved was Rs. 390 crores and the actual disbursement was Rs. 208 crores. Out of these Rs. 208 crores, Rs. 108 crores was for direct loans for exports.

3.3. Assistance sanctioned by IDBI under export finance schemes during the last three years 1977-78, 1978-79 and 1979-80 are given below:—

(Rs. in crores)

| Schemes | Assistance Sanctioned | | |
|---|---|---|---|
| | 1977-78 | 1978-79 | 1979-80 |
| 1. Direct loans for exports . . . | 18.1 | 12.5 | 18.1 |
| 2. Refinance of export credit . . . | 6.6 | 8.9 | 6.3 |
| 3. Overseas buyers credit . . . | 3.1 | 2.9 | .. |
| 4. Foreign lines of credit . . . . | 19.5 | 36.6 | 41.0 |
| 5. Overseas investment finance . . | .. | 2.6 | 7.1 |
| 6. Pre-shipment credit . . . . | .. | .. | 1.4 |
| 7. Guarantees. . . . . . | 50.0 | 64.9 | 100.1 |
| TOTAL . . . | 97.3 | 128.4 | 174.0 |

3.4. The Committee desired to know the extent to which export financers helped promote industrial development of the country, the Chairman, IDBI stated in evidence :

> "It will be very difficult to say that, exactly as a result of this advancing of funds for promoting exports and what the contribution for industrial development of our country will be. It will be very difficult to quantify that."

3.5. The IDBI has assisted so far 10 joint ventures, 41 turnkey projects and 90 construction projects. Asked as to how the financing of joint ventures abroad helped the industrialisation of our country, a representative of IDBI stated "It involves the export of capital goods from here." The Chairman, IDBI added :—

> "We are advancing funds to these persons, they will start their joint ventures. We are advancing money to these entrepreneurs ; they will invest their funds there. The security is the shares which are being issued by these companies. The entrepreneur puts in his investment which is offered as collatoral security to us plus his other assets in India."

3.6. Asked whether IDBI was also advancing money for purpose of purchasing shares outside India, the witness said :—

> "We are to encourage promote and develop exports from our country either for consumer goods or for capital equipment. We help them in every respect. Many of these ventures outside India are started by export of capital goods, in consideration for which shares are allotted to them. These goods are supplied on deferred terms of payment for which we give export credits to the exporters or manufacturers in India to enable them to export this machinery outside India. The payment starts in instalments either by way of dividend income or even by remittances in instalments. These dividend receipts in respect of shares which are allotted to them also come to us by virtue of the charge that is created and the power of attorney that is given to us. We do not directly finance for purchasing shares outside India."

3.7. A representative of IDBI clarified that :

> "We do not make any investment directly. These are joint ventures started by Indian entrepreneurs jointly with the local promoters—We do not come in equity participation. It is done by entrepreneurs."

B. *Overseas investment*

3.8. The Committee enquired whether IDBI's providing finance to Indian promoters in joint ventures abroad for cash remittances towards overseas equity investments had any statutory basis, a representative of IDBI cited Section 9 (da) (i) and (iii) of the IDBI Act, which states :—

> "9(da) granting loans and advances—(i) to any person exporting products of industrial concerns ; or
>
> * * * *
>
> (iii) for the execution of turn key projects outside India by any industrial concern or by any person in India."

3.9. On the Committee pointing out that financing of equity participation abroad did not come under these provisions, the Chairman, IDBI promised that "We will re-examine the legal position."

3.10. Sharing the views of the Committee in this regard, the Secretary, Department of Economic Affairs informed in evidence that the Ministry of Law has been requested to examine the legality of financing of equity participation abroad undertaken by the Bank.

3.11. IDBI has intimated (March 1981) the Union Ministry of Commerce is the focal point for approving, monitoring and evaluating proposals of Indian entrepreneurs for joint ventures abroad. The Export Credit and Guarantee Corporation Ltd. provides risk cover for such investments. In the absence of any other institutional arrangement, the financing gap is filled up by IDBI, as the apex institution, both in the industrial as well as term export spheres.

The participation by Indian parties is allowed by Government in accordance with rules and regulations of the host country on merits of each project. Indian participation is normally allowed in the form of export of indigenous plant and machinery/equipment required for the joint venture. Cash remittances are not normally allowed for meeting equity contribution, except in hard and deserving cases, and on consideration of the field of collaboration. For example, cash remittances are necessary in case of consultancy and other service ventures. While allowing cash remittances, it is seen that substantial exports of capital goods and services are envisaged over a long period of time.

IDBI provides finance for cash remittances towards equity in respect of the proposals approved by Government when cash remittances are accompanied by substantial exports of machinery or the joint venture is a service organisation which does not involve a project for which any machinery needs to be installed but there is a definite prospect of substantial exports of engineering and capital goods from India. Further, non-industrial concerns are deemed to be eligible to borrow for making investments in joint ventures in the form of cash remittances only if they have been awarded contracts for execution of projects on a turn-key basis by the joint venture company.

Nevertheless in practice, except in one case, IDBI has confined its assistance only to industrial concerns to the extent of their contribution by way of export of machinery etc. Normally, assistance is granted upto 80% of the post of machinery and equipment. However, in one case, considering that the Indian promoter was required to make cash contribution also. IDBI granted a loan upto 100% of the cost of machinery."

*C. Commitment Charge*

3.12. It is not the practice of IDBI to provide for payment of commitment charge in respect of the undrawn amounts under foreign lines of credit extended to Government/institutions in foreign countries. Though in the credit agreements relating to the lines of credit granted to Small Industries Development Organisation, Tanzania and Industrial Development Bank of Kenya, there is provision for levy of such charge.

3.13. Provision for levy of commitment charge at the rate of 0.5% per annum is made in all agreements for buyer's credits. However, no such provision was included in the agreements relating to two Buyers credits in Bangladesh.

3.14. When the Committee pointed out that it was the practice of the international lending institutions to buy commitment charge, the Secretary Department of Economic Affairs explained that the IDBI's export finance should be viewed as a promotional approach to meet the competition that the Indian exporters face abroad. He stated that :—

"This conflict between the purely financial approach and the promotional approach is a continuing one. It does appear that the IDBI has a leaning towards the promotional approach mainly because of the very stiff competition being offered by a large number of export-import banks outside this country.

The question whether a commitment charge should be levied or not has been considered a number of times, the Ministry of Commerce is in favour of the view that considering the need for making our exports especially with regard to new areas into which we are going more competitive. We should reduce the charge as much as possible......in lines of credit it has been our endeavour to try to see that the lines of credit do stay competitive and it has been an act of deliberate policy not to insist on commitment charges."

D. *Export Guarantee*

3.15 The details of a case where an Export guarantee was invoked were indicated by the IDBI as follows :

Dalal Consultants & Engineers Pvt. Ltd. (DCPL)., a private sector undertaking, was awarded a job by Pan Arab Contracting Co. (PACON), Saudi Arabia for construction of a complete housing complex including air-conditioning and electrical works at Hail in Saudi Arabia at a cost of SR 32.15 mn. (Rs. 771.60 lakhs). Export of machinery and construction equipment from India to the extent of Rs. 38.42 lakhs was envisaged under the contract.

Three guarantees were issued by State Bank of India and IDBI on 50: 50 basis. IDBI's share was Rs. 131.72 lakhs. The guarantees were secured by the counter guarantees of Export Credit and Guarantee Corporation to the extent of 90% of the guarantee commitments and indemnified by Dalal Construction Pvt. Ltd.

For certain reasons the project could not be completed till January 1981 as against the contractual date of completion of March 1981.

On receipt of invocation notice, SBI paid an amount of Rs. 167.43 lakhs on 16-12-1980—IDBI remitting its share of Rs. 83.72 lakhs to SBI on 17-1-1981.

SBI has submitted a claim to ECGC for recovery of 90% of the claim at Rs. 150.68 lakhs.

E. *Overseas contracts*

3.16 In view of complexities involved in the execution of construction jobs abroad, the IDBI has been entrusted by the Government with the task of scrutinising all proposals involving overseas construction contracts irrespective of the need or otherwise for any financial facility from IDBI.

3.17. Explaining the supervision and control exercised by the IDBI over these contracts, a representative of the IDBI explained in evidence as follows:—

> "According to the monitoring mechanism, we have got two or three ways of doing it. One is we have prescribed progress report to report on the progress of the construction which are required to be submitted by them. They are submitted regularly by all the contractors. That is one way of continuous monitoring. Then we have got the working group mechanism where we clear these things. If there are any problems arising, which come to our knowledge about implementation of any construction contracts. This working group immediately takes a review of these problem cases. Even otherwise, normally some of the construction contracts are reviewed by this working group."

The witness, however, admitted by saying "we have not a adopted perfect mechanism of supervision. We are in the process of having that."

3.18. The Committee wanted to know why Government had entrusted the IDBI with the task of scrutinising all the proposals involving overseas construction contracts and whether IDBI was really equipped for this purpose. The Secretary, Department of Economic Affairs explained as follows :

> "Frankly speaking, these are really new areas of endeavour and at present, apart from the IDBI which is involved in export-financing and things which go with export-financing like providing performance bonds and other guarantees, there is no organisation right now which has even the minimal expertise to judge this. Therefore, as compared to any other organisation we can think of, we are of the view that IDBI, because it is involved in the business, is an organisation which can provide some help in this matter. It is basically for lack of better alternatives."

3.19. Conceding that existing arrangements of IDBI's involvement in the scrutiny of proposals involving overseas construction contracts and projects undertaken abroad, were neither perfect nor satisfactory and that anticipations of performance of some of the construction contractors abroad had gone away, the witness said :—

> "I agree that in some cases it has happened, Since then, I might also say, the IDBI has conducted a number of analyses with reference to many projects which it financed or where performance guarantees were given, in order to see what has been the financial performance. Apart from this, the Ministry of Commerce has set up regular arrangements for monitoring these projects. I believe that the IDBI, along with others, undertook some visits abroad—they did go to various countries where there was large concentration of Indian projects in order to make an on-the-spot study as to the reasons which had led to unsatisfactory progress of the contracts or to losses and what were the elements which contributed to losses and whether original offers made were too liberal or too conservative."

3.20. The Secretary agreed with the Committee that there was scope for improvement of monitoring procedures still further. He added that after establishment of the Exim Bank it would able to further improve these arrangements. The Bill to this effect was to be introduced in Lok Sabha and that this business would be transferred from IDBI. The work dealt with by the International Wing of the IDBI would be taken over by that Bank.

**3.21 The IDBI entered the fields of export finance mainly after the amendment in 1972 to the IDBI Act, 1964. It extends assistance to exporters, overseas buyers credit, overseas investment finance etc. to industrial concerns as well as persons. The Committee's examination revealed that there is no clear provision in the Act to cover the cash assistance rendered by the IDBI for equity participation in joint ventures abroad. The legality of this practice should, therefore, be examined.**

**3.22 The IDBI has assisted so far 10 joint ventures, 41 turnkey projects and 90 constructions projects under the export finance schemes. Further, in view of the complexities of the construction jobs abroad, the IDBI has been entrusted with the task of scrutinising all proposals involving overseas construction contracts irrespective of the need or otherwise for any financial assistance from the IDBI. This is an important function. The Committee therefore regret that there is no perfect system whereby the IDBI could come to know of how the jobs undertaken, fared. It is common knowledge that a number of jobs turned out to be unremunerative. Unless there is a feedback there could be no meaningful scrutiny of proposals. In regard to the projects assisted by the IDBI there is also no effective supervisory mechanism at present and the IDBI is in the process of developing a mechanism. On the whole, the Committee feel that the export finance does not directly promote industrialisation within the country. It is not quite appropriate to chanalise the finance through the IDBI, which is a development bank, The Committee have been informed that for want of a better institution, the IDBI has been entrusted with this function. They have further been informed that the proposed EXIM bank will take over the work after it is set up.**

**3.23 Incidentaly, the Committee understand that performance guarantees given in connection with a construction work undertaken by Dalal Consultants & Engineers Pvt. Ltd., in Saudi Arabia have been invoked. The guarantees were issued by the SBI and the IDBI on 50 : 50 basis. The IDBI's share was Rs. 131.72 crores. The Committee would await the outcome of the efforts for recovering the amount.**

# CHAPTER IV

## INDIRECT ASSISTANCE

4.1 IDBI's indirect assistance mainly flows through its refinance scheme for industrial loans and machinery bills rediscounting scheme.

### A. *Bills rediscounting scheme*

4.2 IDBI rediscounts bills or promissory notes arising out of sales of indigenous machinery on deferred payment basis. Bills or promissory notes drawn in favour of, or by the machinery manufacturers, are discounted by them with their bankers who, in turn, rediscount the same with IDBI. The scheme enables an industrial concern to buy machinery on deferred payment basis.

4.3 Facilities under this scheme are also available to approved design engineering concerns which get the machinery fabricated according to their own specification and design and sell them under their own names. Selling agents and distributors of the machinery manufacturers are also eligible, provided they have paid the manufacturers for the machinery under sale before the execution of relative bills or promissory notes.

4.4 The period of deferred payment ranges between 6 months and 5 years and in some cases upto 7 years. Minimum amount of transaction covering a set of bills or promissory notes is fixed at Rs. 10,000 (no minimum in the case of sale of agricultural implements and small-scale industry). The maximum limit for a single purchaser-user over a limit year (July—June) is Rs. 100 lakhs (face value of bills) and for State Electricity Board Rs. 200 lakhs. Assistance under the scheme is not available for setting up new projects with the exception of units in the small-scale sector.

4.5 Assistance is given at concessional rates to SSI seller-manufacturers and purchaser-users as also for purchase of chassis or machinery by State Road Transport Corporations and State Electricity Boards in the North-Eastern and Himalayan Hill Regions. IDBI also gives special limits to banks for exclusive use by seller-manufacturers and purchaser-users in the small-scale Industry.

4.6 Assistance under the scheme is essentially meant for replacement of machinery or for modernisation or moderate expansion programmes of the existing units. It is not available for setting up new projects (except in the small scale sector) or for major expansion programme.

4.7 Referring to the extension of Bills rediscounting facility to the merchants also by virtue of an amendment to the IDBI Act in 1972, the Chairman, IDBI explained during evidence that

"..... most of these facilities were availed of by machine tool manufacturers... The manufacturers were not in a position to attend to the servicing requirements (all over the country where their machine goes)....it was recognised by the Government that the sole selling function or marketing function involved financing of the equipment... it was found that it was not possible for the manufacturers to give this facility. In substance, the sole selling agents are an extended arm of the manufacturers. That is why, the facility was given to the sole selling agent. This facility is not given to the traders."

4.8 It was revealed during the course of the evidence that the highest return which IDBI got on its different schemes was that on bill discounting.

4.9 It is seen from the Annual Report of the IDBI for the year 1979-80 that the rate of interest for soft loans is 8.1% where as the rate of interest for rediscounting on machinery bill goes upto 11.30%. The Committee wanted to know why IDBI charged a higher rate of interest on Bill rediscounting, where bills are fully secured by commercial banks and therefore involved no risk but a lesser rate of interest on loans to an industry under the Soft Loan Scheme where the risk involved was more, the representative of the Bank explained in evidence :—

"There is one basic distinction, under the bill-rediscounting scheme, it is financial assistance for equipment finance. But under the soft loan scheme is the project finance.

Under the bills rediscounting scheme, it is a credit given not to the buyer of the machinery but to the seller of the machinery. It is the machinery. Seller who takes the initiative in negotiating the credit sale with the factory and goes to the bank for discounting of the bills. The bank in order to relieve the liquidity position comes to us for rediscounting.

In case of modernisation application for soft loan, it i s the company —the textile mill for example, which is the purchaser and which negotiates the loan."

4.10 The Chairman, IDBI, however, added "what has happened is that the bill discounting scheme is there for a number of years and the soft loans scheme has come into the picture only in 1976. This rate which was fixed for bill discounting was fixed after taking into account the commercial bank rate and our rate. When the soft loans scheme was introduced, it was meant to help to modernise the weaker unit and it was thought necessary to give a concessional rate of interest under the soft loans scheme and it appears that it escaped our attention to consider whether we should also reduce in such cases.".

4.11 The Committee also enquired from the Secretary, Department of Economic Affairs that as the capital goods machinery was also required for modernisation and rehabilitation, why the interest rate of rediscounting on machinery bills should be higher than the interest charged on soft loans. The Secretary stated as follows :—

"My answer is that when you are talking of a modernisation project, you are talking of something very different from mere installation of one bit of plant here or one bit of plant there. The main objective of providing soft loans for modernisation projects was to ensure that they are real modernisation projects. At that point of time, when an applicant comes up before a financing institution and presents a project, the financing institution has a chance of looking at the project as to its objectives, how far it goes, whether Government policy with regard to modernisation of industries would be really served or not. There are all kinds of things regarding which a project of this nature is being subjected to scrutiny.

So far as the bill rediscounting is concerned, it is more or less like any other purchase which is coming up and it may not be the same thing as modernisation project."

4.12 The witness further stated that they would not like to encourage soft financing of miscellaneous purchases. Asked if the basic criteria of weakness or non-viability arising out of mechanical obsolesence could be satisfied under the bill discounting scheme, why one should be debarred from concessional finance, the Secretary, Department of Economic Affairs opined that to have concessional financing on rediscounting deals is fraught with a number of administrative difficulties.

### B. *Refinance Scheme*

4.13 Small and medium size units can avail of IDBI's refinance assistance through the eligible institutions, viz. Commercial Banks, State Cooperative Banks, Rural Banks, State Financial Corporations (SFCs), and State Industrial Development/Investment Corporations (SIDCs/SIICs).

4.14 With effect from July 1, 1978, sanction and disbursement of refinance for loans upto Rs. 5 lakhs from eligible institutions to SSI (including the tiny sector) under CGS and to SRTOs has been put on fully automatic basis. No commitment charge is levied on such refinance.

4.15 In order to augment the flow of credit to village and cottage industries, IDBI has extended with effect from February, 1979, its Automatic Refinance Scheme to cover composite term loans upto Rs. 25,000 sanctioned to artisans, village and cottage industries granted by the SFCs/Banks.

4.16 The minimum repayment period for eligible loans is generally 3 years. This has been relaxed in exceptional cases where the total term loan requirements are small and profitability estimates amply justify a shorter repayment period. The maximum period for loans from banks under the IDBI Act is upto 15 years and from SFCs/SIDCs/SIICs upto 25 years. The normal repayment period ranges between 7—10 years.

4.17 Refinance is given at concessional rates of interest for loans to : (a) SSI under CGS, (b) single truck operators covered by the guarantee of the Credit Guarantee Corporation of India Ltd. and (c) units in specified backward districts and areas. To ensure that the industrial concerns get the benefit of lower rate of interest, the IDBI imposes a ceiling on the rate of interest to be charged by the primary lenders.

4.18 Besides lower rate of interest, certain other relaxations are given to SSI and projects in backward areas. Central subsidy, interest free sales tax loans and seed/capital loans are treated as equity for calculating the debt-equity ratio. Higher debt-equity upto 75 : 25 is accepted for assistance to SSI under CGS, which is further relaxed upto 85 : 15 in the case of technician entrepreneurs. The requirement regarding promoters contribution is waived in respect of loans upto Rs. 2 lakhs to technician entrepreneur projects and in the case of transport operators covered under The National Permit Scheme. SSI units receiving ISI mark for their products are given 0.5% rebate in interest rate. Further loans granted for purchase of testing and quality control equipment are fully refinanced. To remove handicaps of the entrepreneurs belonging to Schedule Caste/Scheduled Tribes, IDBI is extending refinance at concessional rates of interest irrespective of whether the unit is situated in a backward area or not and promoter's contribution is relaxed to 5% (for loans upto Rs. 25,000) exclusive of seed capital assistance. With a view to encouraging non-MRTP companies to enter in the field of core sector industries of importance to national economy, IDBI is accepting reduced promoter's contribution of 10% of the project cost. IDBI also provides foreign currency loan assistance through SFCs to small and medium-size industrial units for financing import of equipment and/or technical know-how from abroad, from the US $ 40 million World Bank Loan. The minimum amount of loan eligible under the credit is Rs. 10,000 and maximum Rs. 30 lakhs.

4.19 Sanctions under the Refinance Scheme aggregated Rs. 1900.7 crores since inception of the Bank. Commercial banks are stated to be the major users of this refinance facility.

4.20 In the case of refinance, the credit risk attached to the loans to the ultimate beneficiary concerns is borne by the primary lending institutions and not by the IDBI. The scheme is essentially meant to provide resource support to the primary lending institutions so as to encourage them to expand their term loan operations.

4.21 The Committee pointed out that according to statutory Auditors invarabily the commercial banks lent on a maturity of 5 years whereas IDBI contemplates a maturity period of 5 to 10 years. The Committee desired to know whether the Bank's refinance is for the same period as the period for which the primary lending institution has given the loan to the unit, a representative of the IDBI stated in evidence :—

> "In most of the cases these two periods are co-terminus. But in certain cases, the banks are a little too liberal. They grant and disburse the amount before they come to us for sanction. In such cases, there is a difference, otherwise these two periods are co-terminus."

4.22 Asked if variation of period virtually meant that the banks derive extra benefit from the IDBI's operations. The witness said.

> "In 1978....we introduced a scheme which is known as automatic refinance scheme where we said that the individual project appraisal in respect of these projects need not come to us and they (primary lending institutions) can come to us with a list of certain projects and we will sanction this. Having sanctioned this, we will disburse it. Here we said that in this automatic refinance scheme where the applications come as a package, the loan will be given for a period of 10 years."

4.23 The representative further added that :

"We found that under the IDBI rules there is no provision of sanctioning the line of credit to the commercial banks. So we innovated the automatic refinance sheme where we do not ask the individual projects for details. There would be different periods for each one of them but a lumpsum for a period would be given as credit. We said that at the end of the year, the commercial banks should do balancing of their ledger accounts and then find out what is outstanding in the different accounts in aggregate and what is outstanding of re-finance from IDBI and if there is a surplus, that has to be passed on to us. As such in the short period from 1 day to 365 day period—there would be some surplus fund with the banks which surplus gets reduced once balancing is done at the end of the year. We also said that balancing should be done according to the commercial banks own accounting year."

4.24 It has been stated that in view of their low capital output ratios and shorter gestation periods, the development of small scale industries will result in a more efficient use of savings and can play a significant role in achieving the plan objectives at a relatively small capital cost in fields where economies of scale are not sizeable. The IDBI's assistance to small sector mainly flows through its refinance scheme. The share of small scale sector in the refinance assistance has gone up from 4 per cent during the first five years of its existence to 65 per cent in the second five year period and during 1979-80, it was 98 per cent in terms of applications and 71 per cent in terms of value.

**4.25 The IDBI's indirect assistance mainly flows through its refinance for industrial loans and machinery bills rediscounting. The Committee have been informed that the bills discounting scheme has not been extended to traders except when they happened to be the sole selling agents of the machinery manufacturers. The Committee desire that traders other than sole-selling agents should not be allowed to avail themselves of this facility.**

**4.26 The bills rediscounting scheme is stated to be the most remunerative of all the schemes of assistance of the IDBI. The assistance under this scheme is stated to be essentially meant for replacement of machinery or for modernisation or moderate expansion programmes of the existing units. Whereas for the soft loans which are also meant for modernisation the interest rate is 8.1 per cent, the normal rate charged for discounting of bills by the primary lenders goes upto 11.5 per cent. The Committee feel that this difference of 3.4 per cent is not quite justified. The margin of about 2 per cent that the commercial banks get seems high. The Committee are not impressed with the plea of the Secretary, Department of Economic Affairs, that concessional financing or rediscounting deals is fraught with a number of administrative difficulties. As the assistance as a whole rendered by the IDBI is purpose-oriented administrative difficulties cannot stand in the way of a desirable concession. The Committee accordingly desire that the rate of interest applicable for discounting/rediscounting of bills should be reviewed and reduced.**

**4.27 Sanctions under the refinance scheme aggregated Rs. 1900.7 crores since the inception of the IDBI. Commercial banks are stated to be the major users of the refinance facility. The expertise for project appraisal and**

monitoring available with the commercial banks cannot be regarded as satisfactory. In fact, even the SFCs are found to be lacking badly in this respect. The advisability of pumping the funds largely through the commercial banks needs to be gone into. As the Committee have pointed out earlier, their role should be confined to working capital accommodation for the industry as far as possible. The Committee would like to have an assessment of the role of the commercial banks in development financing. If such an assessment has not been made already it should be made now.

4.28 Evidently there was not much of a control over the utilisation of the funds made over to the commercial banks under the refinance schemes. The commercial banks have reportedly lent for a shorter period and got refinance from the IDBI for a longer period. The banks have undoubtedly derived a substantial benefit. Some mechanism seems to have been evolved recently for suitable adjustment at the end of each year. This also has not entirely eliminated the unintended benefit derived by the commercial banks. This aspect deserves critical examination.

4.29 The IDBI's assistance to the small-scale sector mainly flows through its refinance scheme. In view of their low capital output ratios and shorter gestation period, the development of small-scale industries will result in more efficient use of capital in fields where economies of sale are not sizeable. The share of small-scale sector has gone upto 71 per cent of the assistance under the refinance scheme. Considering, however, that only 35 per cent of the total assistance of IDBI was covered by the refinance, the share of the small-scale sector in the total assistance of the IDBI would be only 25 per cent. The Committee desire that the refinance scheme should be made more attractive to this sector and greater promotional as well as publicity efforts should be directed towards ensuring increased flow of assistance to the small scale sector.

# CHAPTER V

## ASSISTANCE TO BACKWARD AREAS

5.1 The growth process in the first 18 years of planning had hardly touched the fringe of the problem and it was felt that more conscious and deliberate efforts were called for in order to initiate a sustained process of development in the backward regions. Accordingly, at the time of the formulation of the Fourth Plan, the Planning Commission constituted two Working Groups—one under the Chairmanship of Shri B.D. Pande for recommending criteria for the identification of backward areas and the other under the Chairmanship of Shri N.N. Wanchoo for suggesting fiscal and financial incentives for establishing industrial units in the backward regions. This was in 1968.

5.2 On the basis of the recommendations of these Groups and on some additional criteria on backwardness, the Planning Commission today has classified 247 districts and certain union territories as specified backward regions eligible for concessional assistance from the financial institutions.

5.3 Most important of all the objective of economic growth is not only growth per se, but also growth with social justice which implies growth and more or less simultaneous redistribution of the benefits of growth in favour of weaker sections of the society. This implies not only investment of all the available resources but a certain qualitative composition and geographical distribution of such investment.

5.4 The financial institutions introduced in 1970 schemes of concessional assistance to projects coming up in backward areas. Realising that the industrial development of backward regions is a complex process and will be spread over a considerably long period of time, the financial institutions simultaneously launched upon what may be called basically non-financial developmental activities—to prepare a sound information base that would help evolve a location—specific strategy in each State. Not much information was available either on demand or on growth potential of these regions or even on the extent and causes of backwardness. Backwardness is a complex problem and defies easy diagnosis as well as solution. It is a multi-dimensional phenomenon, an outcome of several inter-related factors acting with varying intensity in different backward regions. As there are distinctly different causes of backwardness in terms of their importance, so are their solutions which require efforts not from one agency but several agencies, all of whom have to act in a well coordinated manner. The problem of backwardness is not new, it has prevailed and prevails even today in developing countries. But the depth and dimensions of the problem in India are very much different and acute.

5.5 The Central Government has been providing outright grant of subsidy in selected districts. Today, the central subsidy is available at the rate of 15 per cent of the capital cost with a ceiling of Rs. 15 lakhs but with no ceiling on the project cost. The State Governments also provide incentives to projects coming up in backward regions. Besides, transport subsidy to the extent of 50 per cent of the transport costs of raw materials which are brought into and finished goods which are taken out is also extended to industrial units from selected rail heads/ports in selected areas in Hill regions, North-Eastern regions and islands which have an exceptionally high transport disadvantage. Moreover, assistance is now being provided for shifting large industries from metropolitan cities to backward areas.

5.6. The concessions in the case of direct financial assistance are in the form of lower interest rate, longer initial grace period, longer amortisation period, reduction in the commitment charge on the undrawn balance etc. Under the concessional refinance scheme, individual units approach SFCs/banks directly for their requirements of finance and these primary lending institutions in turn approach IDBI for refinance facilities. It is essentially the primary lending institutions, therefore, which come in direct contact with promoters of comparatively smaller projects at all stages of the project cycle. IDBI's role with regard to this type of projects is to enable the SFCs/banks to provide finance at concessional rates by providing refinance to these institutions at cheaper rates. Both these schemes have been liberalised from time to time. While the IDBI's Refinance Assistance Scheme has been made automatic in respect of loans upto Rs. 5 lakhs, the State Electricity Boards and State Road Transport Corporation in the North-Eastern and Himalayan Hill Regions are eligible for assistance under IDBI's Bills Rediscounting Scheme at specified concessional rates.

5.7. The financial incentives and the subsidies on their own cannot be expected to effectively direct the natural economic forces to backward areas. Capital is not the only determinant nor the principal determinant of industrial development. The factors which influence industrial development are many such as availability of physical resources, existence of managerial and entrepreneurial capabilities, a growth-conducive environment and a host of other factors reflecting the attitudes and beliefs of the institutions and the people at large. With the awareness that no single institution can control all these factors, IDBI has taken certain promotional initiatives which are of non-financial nature.

5.8. In addition to the Schemes of concessional financial assistance IDBI has taken several other measures to step up the pace of industrialisation of backward areas. The first among these moves was to identify growth potential by undertaking industrial potential surveys of the backward States/Union territories. Keeping in view the resources, demand conditions and infrastructure facilities available. The second move was to set up industrial and technical consultancy services in the backward States. As on date there are 13 Technical Consultancy Organisations. Apart from TCOs IDBI has set up Inter Institutional Groups and Technical Assistance Fund to bring about coordination among various development agencies. The third complementary input provided by IDBI relates to Entrepreneurial Development. IDBI has also brought out a directory giving details of 278 consultants who have specialised in different fields for the benefit of Entrepreneurs.

5.9. Of the total sanctions since inception under all schemes of assistance, eastern Region and Southern Region accounted for 36 per cent and 28 per cent, while the share of Northern, Central and Eastern Region was around 12 per cent each, the share of North-eastern Region was almost negligible around 1%.

5.10. Asked to give reasons for this regional imbalance in the matter of assistance, IDBI submitted the following note in November, 1980 :—

"Since location of projects is largely an entrepreneurial decision, no State-wise/Region-wise allocation of funds is made by IDBI for sanction of assistance. Assistance is extended to all the worthwhile projects which are found economically and financially viable and technically feasible and are in accordance with national priorities...... IDBI endeavours to ensure that no worthwhile project languishes due to lack of institutional finance.

Western Region comprises of industrially developed states of Maharashtra and Gujarat. These two States alone claimed about 32 per cent of total IDBI assistance. The share of Southern region was also comparatively high due to the developed state of Tamil Nadu and the emerging industrial States of Karnataka and Andhra Pradesh. With the exception of West Bengal, all the other 9 States in Eastern Region are industrially undeveloped. IDBI in collaboration with other institutions has been undertaking promotional measures for accelerating its assistance to the Eastern and North-Eastern regions. But these efforts have not yet materialised in a substantial step up in assistance extended mainly owing to the poor infrastructural facilities and lack of entrepreneurial interest."

5.11. IDBI's assistance to backward areas mainly flows through Project Finance and Refinance Schemes. Since 1970-71, IDBI extended an aggregate assistance of Rs. 1998.6 crores or 44% of the total assistance to backward areas.

5.12. An analysis of IDBI's assistance to backward areas has indicated that the top 50 districts of 247 backward districts assisted by the IDBI accounted for, the bulk of the assistance, their share ranging from 69% to 85%. State-wise three top districts account for 60 to 70% of the assistance for the State. Asked if this could be regarded as a serious attempt to achieve balanced development of backward areas and whether the IDBI would consider to their rationing finances equitably so that all backward districts can get a share of assistance rather than concentrating in a few top districts, a representative of the IDBI explained that in 1974 the first top 50 districts accounted for 85% of the assistance and in 1979 they accounted for 69% of the assistance. This meant that a larger assistance was now going to districts other than these 50. It was explained that the problem was that there were some districts from where projects just did not come, as such there was no question of rationing.

5.13. The Ministry of Finance (Department of Economic Affairs) submitted (March, 1981) the following note in this connection :—

"Establishment of industrial projects in Backward areas depends upon a number of factors such as industrial licensing policy, availability of infrastructural facilities and the promotional work of the

State Governments and their institutions etc. The Financial institutions' ability to influence the locations decisions is limited by these factors. The institutions would come in only at the stage where a project comes up for financial assistance."

"In view of the differing level of infrasturctural support in the various backward areas and other related factors like proximity to major markets, raw material sources etc., it is natural that the backward districts which are favourably placed would develop at a faster pace and would attract a greater share of institutional finance. However, the share of the top 50 among the 247 backward areas has been steadily coming down indicating a wider dispersal of institutional assistance to other backward areas. The share of the top 50 backward districts which was 85% of the total concessional assistance to the backward areas as at the end of December, 1974 was 68.7% as at end of Dec. 79 the corresponding figures of share of top 10 backward districts were 52.7% and 25.8% respectively."

5.14. Recently, the National Committee on Development of Backward Areas (Sivaraman Committee) constituted by the Planning Commission, is stated to have studied the problem of the backward areas Commenting on the progress made in the development of backward regions, Secretary, Planning Commission said during evidence :

"We are not satisfied with the progress that the country is making towards reduction of regional imbalances. From that point of view, a lot more remains to be done to reduce regional imbalances and, ultimately, to eliminate them. That has been taken as one of the objectives in the Sixth Plan which we have adopted.

As regards the schemes for financing of backward areas are concerned, the industries will go not only on the basis of concessional finance but if, in addition, there are infrastructure facilities available also. In respect of many of the industries, there is a pull of the market also. Therefore, very often, concessional finance by itself cannot ensure the desirability of reducing regional imbalances because of the countervailing influence and pull of availability of infra-structure facilities and also pull of the market which exists near metropolitan centres, though the districts may be classified as backward."

5.15 As regards extent of the scheme of central subsidy to all the backward areas, the Member-Secretary stated that there were a hundred districts out of 247 districts which were eligible for the Central subsidy. While extending this facility to other districts, finance has been one of the consideration.

5.16. A Working Group headed by Shri Raghu Raj on issues concerning institutional finances for industrial investment and related matters, which submitted its report in September 1976 had *inter alia* stated that "although a sizeable portion of assistance has gone to backward areas, this has been shared mostly by a limited number of districts. Therefore, there is a need for an assessment of the various incentives and their benefits to the backward areas. Government may also examine whether the present list of backward districts could be reclassified into two or three broad groups and separate incentives offered for the different groups."

5.17. The Committee desired to know the reaction of the Planning Commission to the aforesaid observations. The Member-Secretary stated in reply :

> "We are certainly aware of this. The fact that the Planning Commission took the initiative to set up the Sivaraman Committee on problems of development of backward areas with very vast terms of reference is an indication that the Planning Commission is not satisfied with the progress that has been made in this area. The Sivaraman Committee had looked into all aspects of problems of regional imbalance. They have already submitted a report which has not been made public. We are examining that report in consultation with State Governments. Therefore, as and when Government complete their examination, may be, there would be time to reconsider what classifications are necessary in the present scheme".

5.18 Asked whether any assessment of the performance of the projects in the backward areas had been done, the Member-Secretary stated "I am only speaking from memory. When I was in the Ministry of Finance, I had myself looked into this problem. At that time, in 1973, we had introduced, in the Ministry of Finance, this tax concession of 20 per cent for a period of ten years for new units set up in backward areas. At that time our broad assessment was that, on an average, setting up of a unit in backward areas raised the cost of production, on an average, by 20 per cent. We had tried to neutralise that by this concession. Also in the IDBI from time to time—I am only speaking from memory this matter is reviewed, how these incentives are being utilised, how effective they are; but the Planning Commission have not undertaken any separate study on the subject.

5.19. As a result of Industrial Potential Surveys conducted by IDBI and other financial institutions, 486 projects are stated to have been identified. Of these 120 projects have been or are already being implemented 98 projects which were pursued by entrepreneurs are reported to have been sanctioned an assistance of about Rs. 500 crores by the institutions. 42 projects have not been found feasible. As many as 205 projects are without entrepreneurs.

**5.20. There is a pronounced regional imbalance in the assistance rendered by the IDBI. The Committee regret that the share of the North Eastern region was almost negligible and it was around 1 per cent. Under a special programme for development of backward areas introduced in 1970-71, the IDBI sanctioned assistance of Rs. 1999 crores. An analysis of assistance has indicated that the top 50 districts of 245 backward districts assisted by the Bank accounted for the bulk of the assistance, their share ranging from 69 per cent to 85 per cent. Statewise three top districts accounted for 60 to 70 per cent of the assistance to the State. The Committee would like to have a similar analysis of the amount actually disbursed.**

**5.21. Though the Committee realise that the role of the development banks is somewhat limited, they regret that the pattern that has emerged shows that underdevelopment has been allowed to perpetuate further relative underdevelopment. The perpetuation of this position has serious socio-economic implications. The Government are yet to take a decision on a suggestion made to them by a working group that the present list of backward districts could be**

classified into two or three broad groups and separate incentives offered for the different groups. The Committee understand that a committee headed by Shri Sivaraman has gone into the matter and hopefully a new way of classifying the backward areas would emerge in order to ensure more balanced regional development. The Committee would urge that decision in this regard should be taken early. The promotional activities and the identification of potential projects in the backwards also required to be stepped up to achieve the end in view.

## CHAPTER VI

## GENERAL MATTERS

### A. *Disposal of Loan Applications*

6.1 The number of applications for loan-assistance received and disposed off by the IDBI during the last three years under the major schemes of project assistance is given below :

| Schemes | Number of applications | | | | | |
|---|---|---|---|---|---|---|
| | 1977-78 | | 1978-79 | | 1979-80 | |
| | Recd. | Disposed off | Recd. | Disposed off | Recd. | Disposed off |
| 1. Project Finance . | 125 | 85 | 111 | 95 | 125 | 83 |
| 2. Soft Loan . . | 146 | 91 | 103 | 95 | 118 | 100 |
| 3 Technical Development Fund Scheme . . | 39 | 33 | 48 | 42 | 85 | 77 |
| 4. Refinance of Industrial Loans . | 16856 | 14578 | 30762 | 29618 | 57398 | 54447 |

6.2 The time taken in processing applications for sanction of direct project assistance was as under :

| Year (July-June) | Total No. of cases | Time taken for sanction | | | |
|---|---|---|---|---|---|
| | | Less than 3 months | 3 to 6 months | 6 to 12 months | More than 12 months |
| 1976-77 . . . . | 92 | 37 (40%) | 42 (46%) | 9 (10%) | 4 (4%) |
| 1977-78 . . . | 85 | 25 (30%) | 47 (55%) | 12 (14%) | 1 (1%) |
| 1978-79 . . | 95 | 49 (52%) | 38 (40%) | 6 (6%) | 2 (2 %) |
| 1979-80 . . . . | 83 | 38 (4%) | 32 (39%) | 13 (15%) | 2 (2%) |

IDBI has intimated that average time taken in processing of applications for sanction of direct project assistance is 3 to 6 months. In the case of refinance assistance (other than ARS) roughly 20% of the cases are sanctioned within a month's time of receipt of application for refinance; 54% within 3 months; 14% within 6 months and 8% within 1 year. About 4% of the cases generally take more than a year due to delays on the part of primary lending institutions to furnish the required information.

6.3 The number of applications pending consideration of IDBI under various Schemes at the end of June, 1980 was as follows :

(Rs. in crores)

| Schemes | No. of applications | Assistance sought for |
|---|---|---|
| 1. Project Finance Scheme. . . . . . . . . | 76 | 932.9 |
| 2. Soft Loan Scheme . . . . . . . . . | 28 | 65.3* |
| 3. Technical Development Fund Scheme . . . . | 19 | 4.1 |
| 4. Refinance of Industrial Loans Scheme . . . . | 657 | 80.3 |
| TOTAL . . . . . . . . . | 780 | 1082.6 |

*Represents aggregate assistance sought for from all-India financial institutions.

6.4 A representative of IDBI explained the procedure for processing of applications thus :

1. We have a standardised application form for all the institution. Any entrepreneur can hand over the filled application form to any of our offices or regional offices. Seven copies are to be sent.

2. After the submission of the application, within a period of fortnight or a month, before the next meeting of the Senior Executives that particular organisation to whom the application has been forwarded comes up with a kind of quick or flash appraisal of the project whereby the minimum essential aspects of the project are put up and brought to the notice of the Senior Executive Committee which now-a-days meet twice a month.

3. At the meeting of the Senior Executive Committee after a preliminary exchange of views, if we decide that this is a project worth going through, we promptly appoint a lead institution. It is at this meeting that the lead institution is appointed. Once we identify the lead institution, we expect that all further correspondence of the entrepreneur shall be with the lead institution and and not with other institutions.

4. At the various stages of appraisal, the lead institution keeps the other institutions informed for example, they would inform the other institutions that they are planning to have the site inspection such and such a date and that they would like some of their officers to join them. At as many stages as possible, there is joint effort by the institutions, even though the entrepreneurs deals only with the lead institution.

5. If it is a special project involving sophisticated technology being brought in or if it is a project where because of either the marketing aspects or the size of the project, the risk appears to be very high the matter is referred to the experts: the IDBI has *ad-hoc* Expert Committee: the IFCI and ICICI also have. Not all the projiects go there only if it is considered necessary, it is referred in which case one more stage comes.

6. After the appraisal is done by the lead institution, the project comes up to the Senior Executives meeting if it is less tha Rs. 10 crores for sharing of assistance. If it is above Rs. 10 crores, it is referred to the I.I.M. where Chairmen of the various Corporations sit together.

7. After the sharing has been decided, the lead institution takes it to the Board for clearance. We do not do a re-appraisal. There is a standardised form. We take the appraisal report of the lead institution and if we have other comments to highlight. We add a supplementary memorandum which very often comes to about two pages and attach it to the appraisal done by the lead institution. Then it is taken to the Board of the respective organisation.

8. Most of the cases get cleared within six months-in four or five months. But where a certain expert opinion is necessary or a certain issue is tied up with something—sometimes the MRTP clearance is required—then it takes a little longer time. Otherwise, most of the cases get cleared within a period of six months from the date of completed application.

6.5 Committee wanted to know if there had been any cases where the applicants were forced to withdraw their applications. In reply, the Chairman, IDBI stated :

> "There is not any case where the applicants had been forced to withdraw...... It is only those cases where there were basic weeknesses. These cases had been withdrawn voluntarily."

6.6 The Narasimhan Committee (January 1976) had *inter alia* pointed out in their Report :—

> "Only firm conclusion that we can reach there, their indepth analysis of time taken to clear the project is that it takes as long as it takes."

6.7 The Committee desired to know whether any improvement had since been achieved. In reply a representative of IDBI said in evidence :—

> "After Mr. Narasimhan's report certain innovations and certain institutional frame-work has been evolved which have contributed largely to the quick clearance of the projects. One of these is the identification of the lead institution. Earlier the application used to go to all the three institutions and each of the three institutions was appraising, inspecting and sanctioning. Now the things have been streamlined in the last three years as a result of which the time spent has been reduced considerably. I would not deny that there might have been cases where it has taken as long as it has taken."

6.8 The IFCI has intimated in a note that of the 25 pending applications as on 31-6-1980, 3 applications were treated as withdrawn. On the Committee pointing out that it had come to their notice that the applicants had been told that we cannot consider the applications; either you withdraw them or we will reject them", the Chairman IDBI observed :

> "If we know of cases, we will certainly look into them".

6.9 On an enquiry of the Committee, IDBI informed in a note that during 1978-79 and 1979-80, 26 applications were received in the Project Finance Division, which could be considered a complete/near complete. During the same period the Soft Loans Division received five applications which were near complete. Sanctions in respect of those applications were given within four months.

6.10 One of the Internal Audit Reports stated as follows :—

> "In granting of loans there is considerable delay from the date of issue of letter of intent to the signing of the loan agreement, creation of security and disbursement of funds. This delay is generally the cause of the schedule slippage and overrun in the project cost leading to request for additional assistance from financial institutions."

6.11 The Committee desired to know the action taken by IDBI on these observations of the Audit. The Chairman, IDBI enumerated in evidence the different steps like concept of lead institutions, bridge finance etc. taken by IDBI to reduce the time lag.

6.12 The Committee enquired while discussing the procedure for processing applications for loan whether IDBI had any means of varifying the correctness of prices of imported equipment correctly, the Chairman, IDBI stated :—

> "For most of the imported equipments, the foreign manufacturers have their accredited agents in India. Most of the quotations are obtained from the accredited agents, who have standard price lists and there can not be any variation."

B. *Delay in Disbursements*

6.13 Scheme-wise undisbursed sanctions as at the end June, 1976 to June, 1980 are given below :—

(Rs. in crores)

| Scheme | As at the end of June | | | | |
|---|---|---|---|---|---|
| | 1976 | 1977 | 1978 | 1979 | 1980 |
| Project loan . . . . . | 269.8 | 387.3 | 315.1 | 352.4 | 454.4 |
| Soft Loan . . . . . | .. | 40.4 | 83.0 | 145.8 | 170.6 |
| Technical Development Fund Scheme . . . . . | .. | 3.5 | 4.1 | 5.8 | 9.1 |
| Refinance of Industrial Loans . | 187.7 | 306.5 | 303.0 | 426.5 | 598.3 |
| Export Finance Schemes . | 93.3 | 102.2 | 99.1 | 141.5 | 181.7 |
| TOTAL . . . . | 550.8 | 839.9 | 804.3 | 1072.0 | 1424.1 |

6.14 During the examination of IDBI, the Committee were informed that delay in disbursement of amount sanctioned by IDBI took place because of the following reasons :—

1. Where they are tied with implementation and spread over a period. Then disbursement is made as and when the work is to be completed or is about to be taken up. In case of big projects it is spread over to two to three years.

2. Delay in implementation due to shortage of critical inputs such as steel, cement, power, transport bottlenecks, etc.
3. Instances where delay in clearance of documents is there. The records are with the Registrar of Land. We have to search and that takes some time.
4. Clearance by MRTP, approval of collaboration agreement, capital goods commodities clearance company Law Department clearance, etc.
5. There is delay in typing up of under-writing assistance. Under-commitment is made.
6. Credit given to the foreign countries including the Government, by way of buyers credit facilities.

6.15 The Chairman IDBI stated that :

"The delay which used to take place has also been cut by providing what is known as bridging finance to the extent of 75 per cent pending finalisation of the documents, clearance of title, etc."

6.16 The Committee were also informed that generally a commitment charge of 1 % was levied on undrawn balance of loan and on account of that Rs. 236 lakhs were recoverable during the year 1979-80.

## C. *Administrative Costs*

6.17 The following table sets out data regarding IDBI's administrative costs in relation to the magnitude of its operations.

*Administrative Costs and Selected Performance indicators for IDBI*

(Rs. in crores)

| Year | Administrative costs | Sanctions (Gross) | | Disbursals | Outstanding assistance |
|---|---|---|---|---|---|
| | | Amount | No. | | |
| 1971-72 . . . . . . | 1.16 | 176.1 | 2869 | 93.9 | 318.8 |
| 1972-73 . . . . . . | 1.34 | 157.8 | 3316 | 106.5 | 368.8 |
| 1973-74 . . . . . . | 1.84 | 222.0 | 3863 | 162.2 | 467.8 |
| 1974-75 . . . . . . | 2.07 | 356.9 | 7657 | 211.7 | 604.7 |
| 1975-76 . . . . . . | 2.62 | 480.3 | 10414 | 291.6 | 800.6 |
| 1976-77 . . . . . . | 4.0[illegible] | 788.8 | 16151 | 393.1 | 1067.1 |
| 1977-78 . . . . . . | 4.67 | 805.6 | 15823 | 474.2 | 1361.5 |
| 1978-79 . . . . . . | 5.71 | 1186.8 | 31054 | 679.7 | 1817.1 |
| 1979-80 . . . . . . | 7.28 | 1490.2 | 56016 | 834.9 | 2397.3 |
| Growth rate . . . . . | 25.5% | 30.7% | 45.0% | 31.6% | 38.6% |

6.18 The IFCI and ICICI provide only direct industrial assistance whereas around 66 % of IDBI's assistance is by way of refinance and rediscounts The bills rediscounting scheme is automatic and involves little work load in the form of appraisal, documentation and follow-up. With effect from 1st July

1978 IDBI refinance assistance to small-scale industry upto Rs. 5 lakhs has been fully put on automatic basis covered under Automatic Refinance Scheme (ARS). Nearly two thirds of increase in refinance sanctions during 1979-80 was accounted for by ARS. In any case refinance is granted on the basis of the appraisal of the primary lenders who bear the credit risk. Hence, both the appraisal and post-appraisal work involved in it is much less than in the case of directly assisted projects.

6.19. The IDBI operates on the margin between average cost of its funds and average yield on their deployment. The trend in administrative costs as a percentage of the operating margin in the case of IDBI, IFCI & ICICI was as under :—

*Administrative cost as percentage of operative margin*

| Year | IDBI | IFCI | ICICI |
|---|---|---|---|
| 1971-72 | 20.5 | 17.1 | 15.7 |
| 1972-73 | 21.4 | 20.9 | 16.1 |
| 1973-74 | 25.4 | 19.3 | 17.3 |
| 1974-75 | 31.5 | 24.6 | 22.7 |
| 1975-76 | 33.0 | 30.9 | 19.5 |
| 1976-77 | 38.4 | 32.5 | 21.5 |
| 1977-78 | 27.6 | 20.4 | 23.5 |
| 1978-79 | 20.3 | 26.2 | 27.4 |

Note : Operating margin is taken on pre-tax basis for ICICI and IFCI ; IDBI has no tax liability.

6.20. The percentage of administrative costs to operating margin during the years 1971-72 to 1975-76 was higher in the case of the IDBI than of ICICI and IFCI. The IDBI has explained that unlike IFCI and ICICI, IDBI is providing increasing volume of refinance in respect of loans to small-scale industry, to exports and to projects in backward areas at rates which result either in losses for the IDBI or give it a slender margin over cost of funds. However, during the last two years on account of increase in IDBIoperations, the percentage of administrative costs to operating margin was lower in the case of IDBI than of IFCI and ICICI. The main reasons for a slowly rising operating margin is rapidly rising interest costs on the borrowed funds of the IDBI. IDBI's borrowings from the RBI, Government of India market and companies increased from Rs. 50 crores in 1971-72 to Rs. 145 crores in 1974-75 to Rs. 339 crores in 1976-77 and further to Rs. 743.5 crores during 1979-80. Interest payments increased from Rs. 12.6 crores in 1971-72 to Rs. 47.4 crores in 1976-77 and Rs. 120.9 crores in 1979-80. Administrative costs, on the other hand have increased faster in the last three to four years mainly on account of acquisition of new office premises in Bombay and at Regional and Branch Offices, recruitment of new staff and acquisition of residential accommodation for the staff.

6.21. On the whole the average rate of borrowing of the IDBI was reported to be 6.48 per cent and the average return was 8.28%. The administrative cost as percentage of the operative margin, which was 20.5 in 1971-72, had gone upto 38.4 in 1976-77 and come down to 20.3 in 1978-79. The administrative cost in the case of IFCI ranged from 17.1% to 32.5% and that of ICICI ranged from 15.7% to 23.5% during this period. In view of the substantial portion of IDBI's lending being through refinance, the Committee enquired whether the IDBI's administrative cost was not excessive. The Department of Economic Affairs furnished the following note in this connection :

> "The higher level of administrative cost as percentage of operative margin for IDBI during 1976-77 compared to IFCI and ICICI is due to the fact that consequent upon the delinking of IDBI, it had to incur higher expenditure to acquire new office premises in Bombay and other centres as well recruit additional staff. After the initial process of adjustment was over, the percentage had declined in subsequent years and was lower at 20.3% in 1978-79 compared to IFCI's figure of 27%. It is observed that the administrative cost of IDBI as percentage of outstanding has all along been lower compared to IFCI and ICICI. It is true that in making comparison with IFCI and ICICI it has to be kept in mind that a substantial portion of IDBI's lending is through refinance and bills rediscounting which are risk free. But at the same time, IDBI finances exports of capital goods at highly concessional rates and also finances large and risky projects whose maturity period is generally much longer. It also undertakes to finance the residual gap in financing arrangements of large projects and is expected to play a key developmental role by undertaking promotional activities which involved heavy expenditure."

6.22. It has also been stated that :

> "the IDBI prepares an annual review of its operational costs and presents it to its Board a copy of which it sent to the Government but no separate review has been conducted by the Government".

6.23. On an enquiry of the Committee whether IDBI had assessed the comparative economic viability in the sense of profitability of different portfolios in the Bank, a representative stated :—

> "The highest return we get of all our schemes, is on bill discounting. Next would come our project loans. The lowest yield would come on our under-writing assistance, if you take it as a separate scheme ....Then refinance on exports."

6.24. Asked whether there was any loss in any of the schemes, the witness stated :—

> "If I take the latest year, 1979-80, our average cost of fund is 6.48 per cent. On refinance of export, we earn 5.35 per cent. In regard to units in backward areas we lent at 6 per cent which is obviously below the cost. If you add to this our administrative cost which would be roughly another 1.3 per cent. One or two other schemes will also come in. Direct loans for exports would also appear to be running in losses,

refinanace of industrial loans is also running at a loss. If I take the average, the entire re-finance operation would appear to be one where we are making losses."

6.25. The Committee were further informed on an enquiry that the IDBI did not propose to make any review in this regard.

D. *Overdues*

6.26. The amount of overdues outstanding by way of principal amount in default and interest in arrears as at the end of June 1980 is given below :

(Rupees in lakhs)

| Scheme | Principal in default | Interest in arrears | Total |
|---|---|---|---|
| 1. Direct Loans* . . | 3606 | 4854 | 8460 |
| 2. Refinance . . . | 181 | 325 | 506 |
| 3. Export Credit . . . | 177 | 190 | 367 |
| | 3964 | 5369 | 9333 |

*Includes dues under Soft loan and Technical Development Fund Scheme.

6.27. Age-wise analysis of principal amount and interest in arrears in respect of direct loans is set out below :

(Rs. in lakhs)

| Age of arrears | Principal in default | Interest in arrears | Total |
|---|---|---|---|
| Upto 6 months . . . . . . | 186 | 747 | 933 |
| 6 months to 12 months . . . . | 681 | 765 | 1446 |
| 12 to 18 months . . . . . | 477 | 427 | 904 |
| 18 months and above . . . | 2263 | 2915 | 5178 |
| | 3607 | 4854 | 8461 |

6.28. Management deficiencies, process problems, marketing difficulties, power shortage and labour trouble are stated to be among the major factors which have contributed to the uneconomic working of the concerns and resultant defaults. These companies are being closely monitored and steps are being/have been initiated for bringing about improvement in their operations.

6.29. As on 30th June 1980, the share of principal in default (Rs. 36.07 crores) to total principal outstanding (Rs.858.61 crores) was 4.2%.

6.30. The principal in arrears under refinance scheme as at end June 1980 was Rs. 1.81 crores; of this, Rs. 1.37 crores was due from SFC, mainly Bihar, Uttar Pradesh, Assam and Karnataka and Rs. 0.36 crores from commercial banks and Rs. 0.08 crore from SIDCs/SIICs.

6.21. It would be seen from the statements above that out of overdues by way of principal in default and interest in arrears, Rs.93.33 crores at the end of June 1980 under various schemes operated by IDBI Rs. 84.60 crores relate to direct loans. Age-wise analysis of these overdues in respect of direct loans has revealed that Rs. 51.78 crores are as old as 18 months and above. It has been stated that as many as 244 out of 640 companies assisted by IDBI under Project Finance Scheme were in arrears to the tune of Rs. 82.4 crores of these 54 crores were sick units. The Committee wanted to know the reasons for the IDBI not knowing the detail of the default by these 244 companies in respect of loans advanced by other institutions despite IDBI's coordination role. In reply a representative of IDBI said in evidence :—

> "We have got the lead institution scheme. It is they who keep track of the companies assisted by them. We do not have data about all other institutions.

6.32. The Committee were assured that an attempt was being made since December 1980 to consolidate this data at one place.

6.33. It was also revealed during evidence that out of the total overdues by the assisted companies 45% accounted for by 8 companies alone.

6.34. In a note submitted to the Committee by IDBI on 18-3-1981 the latest position of Overdues as on 30-6-1980 was stated to be as under :—

> "As on this date 235 companies were in arrears to IDBI to the tune of Rs.81.3 crores comprising principal repayments of Rs.34.1 crores and interest payments of Rs.47.2 crores of the 235 companies in arrears defaults of 120 companies involving aggregate overdues of Rs.54.3 crores (principal of Rs.22.2 crores and interest payments of Rs.32.1 crores) were under consideration for reschedulment/deferment. Defaults of 70 companies deferment for an aggregate amount of Rs.57 crores are in the nature of temporary or technical defaults (timing difference) were recovered shortly thereafter the balance amount of Rs.21.4 crores from 45 companies was in default by units which are faced with long-term problems such as market constraints, technical and managerial problems."

6.35. IDBI intimated (March 1981) that there were 134 industrial projects assisted by IDBI during the three years ended June 1980 in respect of which personal guarantees were stipulated while sanctioning the direct industrial assistance to them. Scheme-wise number of cases where personal guarantees were stipulated are given below :

| Scheme | No. of units |
|---|---|
| Project Finance Scheme (Loans and underwriting) . . . | 49 |
| Units assisted under Soft Loans Scheme . . . . | 83 |
| Technical Development Fund Scheme . . . . . | 2 |
| | 134 |

6.36. Personal guarantees were stipulated wherever the share of concerned companies were closely held or the financial position of the units was weak and the margin of security available to the institutions for their loans was low. In some cases institutions felt desirable to stipulate personal guarantees in the light of their experience with the promoters.

6.37. In 60 cases though personal guarantees were taken, these were not enforced though the companies were in arrears to IDBI in payment of interest and/or instalments of the loan for the following reasons :

(i) Reconstruction/restructuring/rehabilitation/nursing programme is under consideration.

(ii) The set back in the working of the companies is mainly attributable to withdrawals of incentives earlier available and hence the matter is under consideration.

(iii) Merger proposals are under consideration.

(iv) Recall notices were issued and necessary legal steps were taken. but the question of invocation of personal guarantees kept in abeyance for the appropriate time.

(v) State/Central Government decision in certain cases awaited.

6.38. In another note the IDBI explained the policy followed by it in regard to obtaining of promoters guarantee for the loans sanctioned to industrial units as follows :—

> "The lending policy of IDBI is not security oriented, that is to say that the decision to grant or not to grant loan to an industrial unit principally depends upon the viability of a project and not on the worth, of the security offered for the loan. Nevertheless, as a lender, IDBI has to obtain requisite security for the loans granted by it which consists of a charge on the immovable and movable assests of the assisted unit. In line with this policy, IDBI does not normally insist upon personal guarantee of the promoters where the security offered by the assisted units is otherwise in order and the management set-up of the unit is considered satisfactory. In this matter, IDBI has been following the guidelines issued by the Reserve Bank of India (RBI) from time to time in terms of which personal guarantees are not to be insisted upon unless absolutely warranted ."

6.39. The Committee have been informed that the policy in regard to obtaining perosnal guarantees was reviewed at the Inter-Institutional Meeting on March 21, 1978 consequent to a circular issued by RBI on May 16, 1977. The consensus at the IIM meeting was that personal guarantees might be obtained in the case of public limited companies whose financial position and or capacity for cash generation were not satisfactory and where the shares of the company were closely held by a person or an identifiable group of persons, the basic criteria being whether or not the protection otherwise available would be adequate. This policy decision it has been claimed has been adhered to by IDBI.

6.40. Exception is however, being made to the aforesaid policy in respect of loans granted to the Sugar Co-operatives where in addition to the usual mortgage of assets, guarantees are obtained from the State and Central Governments on 50 : 50 basis which are residuary in character. This is due to the (i) diffculty in enforcing the security in the case of a co-operative unit (ii) uncertainty of prospects of the sugar industry, the concession available and (iii) the fact that bulk of the share capital of such societies is contributed by the Government, the balance being widely diffused amongst the cane growers.

6.41. The Committee enquired that one unit of a large house defaulted world IDBI stop any further accommodation to that unit only or make a call from the other units of that concern also. The Chairman, IDBI said in evidence :—

"While we have not formulated a policy the latest thinking on this is and are discussing this with the Government and the Reserve Bank to collect data from all the financial institutions as well as from the commercial banks the particulars of various companies where a particular promoter is involved and collect information regarding the past performance in respect of various advances, so that this information is readily available to us while considering any new proposal what we call the data bank idea is catching up and we are working on it."

6.42. As regards exchange of credit information among the financial institutions, the Chairman, IDBI expressing his doubts, stated:

"There the risk is under the present laws of the country, we do not get any protection. A borrower, who is difficult can sue us for damages we have been advised that this being confidential and secret information."

6.43. In a subsequent note submitted to the Committee in March 1981, the IDBI clarified the position as follows :—

"Section 29 of the IDBI Act prohibits IDBI from divulging any information relating to or to the affairs of its constituents except

(i) when it is required to divulge the information under the Act or any other law;

(ii) in the circumstances in which it is in accordance with the law or practice and usage customary among bankers necessary or appropriate for the Bank to divulge such information.

In view of the above provision wherever any information relating to or to the affairs of the constituents of IDBI is required by bankers or other financial institutions, IDBI is free to divulge the same."

6.44. As regards exchange of information regarding the credit worthiness of the units-assisted among the various banks and other financial institutions, as contemplated under the IDBI Act, [in 29(1A)] the Secretary Deptt. of Economic Affairs, admitted that there was some lacuna in that, though there was exchange of information at the time of sanctioning of loan under a consortium approach, there was no periodic exchange of information at the repayment schedules vis-a-vis defaults. He stated that the system in this regard had to evolve. He expressed an hope that participation certificate scheme might cover this aspect.

6.45. On question of personal guarantees, Secretary stated the position as prevailing after 1977 and informed that if a company was closely held IDBI insisted on personal guarantees, but in each case some kind of commercial judgement has to be taken.

6.46. The Committee wanted to know if the defaults in repayment of loan could be attributed to inadequate appraisal of projects before sanction of a loan. A representative of IDBI tried to dispel this impression and pleaded:

> "An impression should not be created that these defaults are due to deficiencies in appraisal. At the time of appraisal, taking the different parameters and projections, they were potentially viable companies ; and projects were financed. Subsequently, certain things happened in raw material pricing, etc. When it comes to appraisal standards, it will not be a correct impression that there was something physically wrong in the appraisal system in IDBI".

6.47. According to the Secretary, Department of Economic Affairs, the position with regard to overdues was not happy and it was partly a manifestation of general health of the industry. He felt that the remedial measures to get over sickness of industry had to be intensified.

6.48. The Secretary, denied that there was any failure of the system or procedure resulting into heavy defaults. Asked if any lessons had been learnt from these defaults, the witness stated :

> "I have not asked the IDBI the question as to what lesson they have learnt, but I do know that many of these issues have been discussed in the Board of the IDBI of which I also happened to be a member. The most important thing is to see that at the appraisal stage, a very hard look is taken at the various aspects of proposals and that appraising staff is not led away by rosy projections which are sometimes put up by entrepreneurs that not only financial projections, but also marketing technological aspects are attended to. All those need to be looked at. This is a major lesson which has come out. But one should also appreciate that. There is a lot of pressure. Oh! delays took place, this happens, that happens and then there is pressure to work against time."

*E. Chief Executives of I.D.B.I.*

6.49. Since February 1976, when the IDBI was delinked from the Reserve Bank of India, there have been as many as four Chairmen of IDBI.

6.50. Shri Raghuraj and Shri Jagdish Saxena were initially appointed for a period of one year and two years respectively and they retired on completion of their initially stipulated full terms, which were extended by three and five months respectively pending, the selection of next incumbent to this office by the Government.

6.51. Shri R.K. Talwar was appointed for a period of five years. He however, after being in office for a little over one year resigned and Government appointed Shri N.N. Pai as Chairman & Managing Director with effect from 1 January 1981 for a term of three years.

6.52. During the course examination of the representative of the Department of Economic Affairs the Committee enquired as to how far such frequent changes at the top level affected policy formulation in the apex financial institution that the IDBI is. The Secretary of the Department had the following to say :

> "We have tried to see whether the frequent changes which have taken place—have, in fact, affected the working of the IDBI. There are various ways of looking at this matter. It is very difficult to make a judgement. One view is that this is a continuous arrangement, and so long as there are well established procedures and policies, probably a change may not make a great difference. On the other hand, there is also another view that, if a new person comes, he takes some time to get into strides, may be, he has his own ideas and is not able to fully put them into practice before he leaves office. So, frankly we find it a little difficult to make a judgement on this. But we would agree that a somewhat longer tenure would certainly be in the interest of efficient functioning of the institution."

6.53. On a suggestion of the Committee that in future there should be a longer term of office for the Chairman IDBI, the Secretary reacted by saying that the Government was taking care to see that they are given a three-year term, which according to him was a good term.

*F. Executive Committee*

6.54. Under Section 7 of the Act, the Executive Committee should consist of 11 members. The Executive Committee's strength varied from 5 to 10 during the period 1975 to 1980. The attendance at the Executive Committee meetings was to the extent of 50% or less in 13 out of 65 sittings held.

6.55. A representative of the IDBI explained in evidence that effective strength of Executive Committee was only 10 since a single person was appointed as Chairman & Managing Director. The actual strength of the Executive Committee, it was pointed out, was less in the first two years after delinking from RBI, as the Board of IDBI itself, from which Members of the Committee were to be appointed had more than five vacancies.

6.56. While discussing this issue with the Secretary, Department of Economic Affairs, the Committee pointed out that as the Executive Committee was the body sanctioning loans, the vacancies in its strength gave an impression that these loans were not processed as well as they should have been. The Secretary while admitting the delay in appointing five persons from among the non-officials with special knowledge of and professional experience in science, technology, economics, industry, etc. on the Board from February 1976 to October, 1977 agreed that it would have been better and the Executive Committee would have functioned better, if it was at full strength.

*G. State Financial Corporations*

6.57. As on date (November 1980) there are 18 State Financial Corporations and 24 State Industrial Development Corporations/State Industrial & Investment Corporations set up in various States. The role of IDBI in relation to the SFCs is stated to be guiding and controlling them.

6.58. Though IDBI has no statutory control over the operations of SIDCs/SIICs, it has secured consent of SIDCs/SIICs through the amendments of their Memorandum and Articles of Association for the IDBI to exercise control through appointment of IDBI nominee on the Board of each SIDC, undertaking inspection, celling of periodical returns and issue of guidelines on important policy matters affecting term lending operations.

6.59. The IDBI also informed the Committee that in the Planning, Commission IDBI represented SFCs in regard to their budget and resources. Almost all the requirements of SFCs were funded by IDBI through the refinance scheme and by allocation of quantum of bonds to be issued by them which IDBI does on behalf of the RBI and the Planning Commission. IDBI also conducts discussion on their behalf with the Planning Commission.

6.60. During the period of last three years (July 1977 to June 1980) IDBI inspected 12 State Financial Corporations, which revealed a number of shortcomings in their functioning, e.g. frequent changes at the top level, inadequate training to staff, lack of publicity to schemes, feedback from assisted units, supervision and follow-up, besides delays in disbursement and accumulation of arrears.

6.61. About the periodicity of inspections, a representative of IDBI explained as follows :—

"In respect of State Financial Corporations we undertake formal inspection under the State Financial Corporations Act. This inspection is undertaken once in three years. In addition to this formal inspection we undertake evaluation of investment by the State Financial Corporations as well as State Industrial Development Corporations. These exercises are done once a year for all of them. We have got two nominee Directors on the Boards of State Financial Corporations and on the State Industrial Development Corporations there is one."

6.62. The Committee referred to the reported indictment by the World Bank Mission of the functioning of State level financial institutions, which read as follows :—

"The World Bank team was not exactly delighted at the way these corporations were functioning. It is understood to have suggested to the Government that if the deterioration in their working continues their economic viability will soon be threatened.

The team also did not approve of the frequent changes effected at the top in these corporations, which in its view, were coming in the way of SFCs' efficient functioning. It felt that top management personnel should not be disturbed for at least four to five years once they are appointed.

The team was also gravely concerned at the failure of SFCs to recover loans and the mounting arrears allowed to accumulate at an alarming pace. IDBI shares the World Bank sentiment in this regard and both the organisations are understood to have impressed upon the Government the need for a follow-up of assisted projects by SFCs and initiation of legal steps by the corporations to recover arrears." (Financial Express dt. 27-2-1981).

6.63. A representative of IDBI deposed in the following manner :—

"We share the concern of the World Bank in the assessment of the SFCs. In this connection we would like to submit that the appointment of the Managing Directors has been a matter of conern for us. According to the provision in SFC Act. the appointment of the Managing Director is to be made by the State Government after obtaining the advice of the IDBI. In practice, several State Governments make very frequent changes in the post of Managing Director."

6.64. The Chairman, IDBI further added :—

"We do concede that there may be some deficiencies. But we have taken effective steps to get these nominated directors trained under a special management programme organised by Management Development Institute at Delhi. Recently, we had another programme to train them in the aspects of control with regard to operations of the Corporation where they are representing the financial institution."

6.65. On the World Bank report, the Secretary commented as follows:—

"I would straightway agree that some State Financial Corporation have not been functioning effectively. On the other hand, there is a very large number of SFCs whose performance on the whole has been satisfactory and in some cases it is first class. Now that is the position and it is resultant of so many things like the effectiveness of the State Government and how much heed has been paid to IDBI advice the general conditions in the State and all other factors that contribute to the efficient or inefficient functioning of these institutions."

6.66. The Committee were also informed that in 1980-81 IDBI introduced the system of Business Plan and Resource Forecast on the entire gamut of operations of the SIDCs with a view to fixing the refinance limit. This has been of tremendous use in giving an opportunity for monitoring the activities and also for the SFCs to have a better understanding.

6.67. On the question of frequent change of Managing Directors of the SFCs, the Secretary, Department of Economic Affairs stated that:—

"That may be correct. The power is with the State Government and the State Governments under the law are supposed to consult the IDBI and the IDBI is supposed to approve or at least express its opinion. The procedure is being followed."

6.68. On the Committee pointing out that this was not very helpful, the Secretary replied that:—

"The State Governments have certain powers which they exercise beyond a certain point it would be difficult to regulate such exercise. Unless we say that the State Financial Corporations will have officials nominated by the Central Government or by the IDBI, it would not work very well."

6.69. The Committee pointed out that the Internal Auditors of IDBI had in one of their reports had stated, "The nominee directors do not take their work seriously and enquired what steps IDBI had taken to improve the effectiveness of Nominee Directors. A representative of the Bank revealed :—

"Every month there is a meeting of the State Financial Corporation and these nominee Directors after attending the Board meeting submit their Report to the Bank. In December 1979 we convened a conference of all our nominee Directors and discussed with them as to what aspects in the Board functioning they are supposed to attend to. After that detailed guidelines have been issued to them in this respect."

6.70. As at the end of March 1980 total overdues. for all SFCs amounted to Rs. 21,455 lakhs forming 27.16% of their total outstanding loans, as against Rs. 17,487 lakhs forming 27.15% as at the end of March, 1979.

**6.71. There is delay in disposal of applications for assistance and there is also delay in disbursement of assistance sanctioned despite various measures taken to expedite the work. During 1979-80, 17 per cent of the applications**

were delayed by more than 6 months. The number of applications pending as on 30 June, 1980 was 780 and the quantum of assistance sought for by the applicants was Rs. 1082.6 crores. The undisbursed sanctions were of the order of Rs. 1424.1 crores. Obviously the delay in sanction and the dealy in disbursing the amounts sanctioned are also the causes of time slippage and consequent cost escalation of projects leading to request for additional assistance from the financial institutions. The Committee desire that case studies of a few typical cases of the delays should be made independently and on the basis of the outcome of the studies further steps should be taken to streamline the procedures to expedite the work.

6.72. The Committee would stress the need to check at the time of appraising the projects the price of equipments, imported and indigenous, to ensure that there is no inflation of cost. A foolproof system in this regard should be evolved.

6.73. Incidentally, there have been cases where the applications were asked to be withdrawn rather than being rejected by some financial institutions. This practice, in the opinion of the Committee, is not correct as it might land the other financial institutions in trouble. There should be a system of exchange of information on projects rejected among the financial institutions to safeguard the overall interest of the institutions.

6.74. On the whole, the average rate of borrowing of the IDBI is reported to be 4.48 per cent and the average return 8.28 per cent during 1979-80. The refinance assistance for backward area development and direct loans for exports are reported to be unremunerative. The highest return is from the bills rediscounting followed by project loans and refinance on exports. The Committee desire that the precise position in this regard for each scheme operated by the IDBI and the other financial institutions should be brought out in the annual reports and the consolidate position shown in the report 'Development Banking of India'. Steps should be taken, on the basis of analysis of costs for each scheme, to cut down overhead expenses. In this connection the Committee find that the administrative cost as percentage of operating margin ranged from 20.3 to 38.4 during the period 1971-79. The Committee feel that this is on the high side considering the fact that a substantial portion of the IDBI's lending is through refinance.

6.75. The position of defaults in repayment by the assisted units disturbs the Committee. The amount of overdues was of the order of Rs. 93.33 crores as at the end of June, 1980. Of this, Rs. 51.78 crores were more than 18 months old. The Committee would like this position to be depicted in the Annual Reports relating the position of overdues to the amount due for payment and not to the total amount disbursed. As many as 244 out of 640 companies assisted by the IDBI under the Project Finance Scheme were in arrears to the extent of Rs. 82.4 crores, 45 per cent of which was accounted for by 8 companies alone. Of the 244 companies in default, 54 were reported to be sick units. This gives room for a doubt about the efficacy of the project appraisal techniques now employed. The Committee desire that on the basis of a post implementation appraisal of such projects, necessary improvements should be made in the project appraisal techniques. The Committee further feel that in future the desirability of obtaining personal guarantees should be considered unless the nature of a company is such that it is not possible.

**6.76 The IDBI is not aware of the extent of default in repayment by the 244 companies in respect of loans advanced by other financial institutions. This is surprising to the Committee as Section 29(IA) of the IDBI Act enables the IDBI to collect and exchange credit information. This should be ensured in future and a consolidate picture of overdues should emerge.**

**6.77 The Committee are concerned about the lack of continuity in the top position of the IDBI and the vacancies on the Board. There were 4 Chairmen of the IDBI since February 1976 and 5 vacancies were kept on the Board for two years. The vacancies on the Board were reflected in the Executive Committee of the IDBI. The attendance of the Executive Committee meetings was to the extent of 50% or less in 13 out of 65 sittings held during 1975-80. The Committee desire that it should be ensured in future that there is a continuity for atleast 3 years in the top position and the vacancies on the Board are not allowed to remain for unduly long time. Further, the attendance at the Board and the Executive Committee meetings should be improved.**

**6.78 The SFCs work under the guidance and directions of the IDBI. A measure of control is also to be exercised by the IDBI by means of inspection once in 3 years. However, only 12 out of 18 SFCs have been inspected during the last three years. A number of shortcomings in their working in regard to project appraisal, follow-up and recovery of loans etc. have been noticed. The Committee also note that a World Bank team had reportedly an occasion to criticise the functioning of the SFCs and opined that if the deterioration in their working continued then economic viability would soon be threaten. The overall arrears in the repayment of loans advanced by them were to the extent of Rs. 214.6 crores as at the end of March, 1980. The Committee are verymuch concerned about this situation. They desire that the programme of upgradation of the SFCs should be put through early and good performance ensured through the Director nominated by the IDBI on their Boards. The role of the IDBI directors on their Boards is not evidently satisfactory now.**

NEW DELHI;
*April* 29, 1981

*Vaisakha* 9, 1903(*S*)

BANSI LAL,
*Chairman,*
*Committee on Public Undertakings.*

## APPENDIX

## SUMMARY OF CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE ON PUBLIC UNDERTAKINGS CONTAINED IN THE REPORT

| Sl. No. | Reference to Para No. in the Report | Summary of Conclusions/Recommendations |
|---|---|---|
| (1) | (2) | (3) |
| 1. | 1.35 | The Industrial Development Bank of India was established in 1964 as a wholly-owned subsidiary of the RBI. Amendments made in 1975 to the IDBI Act, 1964, brought about a very significant change in the role of the Bank. It was no longer a mere operating concern but was also made the "principal financial institution for co-ordinating, in conformity with national priorities, the working of institutions engaged in financing, promoting or developing industry and for assisting the development of such institutions". The performance of the IDBI should therefore be evaluated not only on the basis of quantum and results of its assistance to the industry but also having regard to its role in organising the entire range of term-loan financing for industrial development of the country. |
| 2. | 1.36 | Although under Section 37 of the IDBI Act, the Board may make regulations for the purpose of giving effect to the provision of the Act which *inter alia* may provide for generally the efficient conduct of the affairs of the Bank, no detailed regulations have been made especially in regard to the apex role assigned to it by the Amending Act of 1975. There were also no guidelines issued by the Government in regard to the discharge of the enlarged responsibilities of the Bank. The Committee feel that suitable regulations and guidelines are necessary in order to first have a clear concept of the enlarged functions and then ensure the effiective discharge of the functions. |
| 3. | 1.37 | The national Five Year Plans are indicative in relation to the private sector investments. However, if the mechanism of industrial licensing and development financing is properly used even the private sector could be made to broadly adhere to the Plan. As regards the industrial licensing the Dagli Committee on Controls and Subsidies in its report presented in May 1979 had observed that lately industrial licensing and the plans were not properly integrated and added: "The |

| 1 | 2 | 3 |
|---|---|---|
| | | industrial licensing system has not in consequence ensured the development of industries according to Plan priorities; has failed to present the growth of capacity in non-essential industries; has not also been effective in securing proper regional dispersal of industries; and has not succeeded in containing monopolies and the concentration of economic power". The Committee would commend a similar critical study of the results of development financing for the industry for taking such corrective steps as may be warranted. |
| 4. | 1.38 | As an apex institution the IDBI ought to be responsible for business planning and resource forecasting in respect of the entire range of term loan financing of the industry in the country. The Committee note that a beginning has been made in this direction and a five-year plan has been prepared to coincide with the Sixth Plan. The Committee have, however, been informed that there has been so far no separate allocation of credit for the expansion of existing industrial units and for new projects. There should be in future separate allocation. |
| 5. | 1.39 | It is the responsibility, of the IDBI to assess and bring out the results of operations of term loan financing of all the financial and investment institutions. Here again the IDBI has made just a beginning to bring out a comprehensive report on development banking in India. The Committee desire that this report should be laid before Parliament annually. |
| 6. | 1.40 | The main objective of the financial institutions is to help step up capital formation in socially desirable direction. The major deciding criterion in appraisal of projects for assistance is the socio-economic benefits. In pursuance of the national priority of promoting employment opportunities the development banks ought to prefere as far as possible labour intensive processes. Financial viability of a private sector project may be a necessary condition but it is not a sufficient condition. The basic test is the expected returns from the national point of view. The project appraisal techniques, thus, assume crucial importance in the context of realising the planned objectives. According to the Member-Secretary, Planning Commission there is scope for improvement in regard to project appraisal and monitoring in view of the decline in productivity and profitability of the assisted concerns. The Committee recommend that the Planning Commission should issue suitable guidelines for the project appraisal and monitoring by the development banks. |
| 7. | 1.41 | The IDBI has so far in its 16 years of existence sanctioned an aggregate assistance of Rs. 5391 crores and disbursed Rs. 3611.7 crores. The IDBI has claimed that the assistance rendered by it so far has catalysed or will catalyse an investment of about Rs. 11,700 crores and directly created or will generate 15.5 lakh |

| 1 | 2 | 3 |
|---|---|---|
| | | new jobs. The IDBI do not have any reliable data in this regard for the totality of the assistance rendered by all the term-loan financing institutions. It is disappointing to the Committee that this should be so despite the coordinating role and the overall responsibility for the institutional finance assigned to the IDBI. The Committee desire that in future the data on the overall capital formation and employment generation as well as the value added to the economy on account of the activities of all the institutions should be brought out annually in the report on the 'Development Banking in India'. |
| 8. | 1.42 | The projects are assisted by the various institutions upto about 60 per cent of the cost of each project. The assistance is rendered in combination by a number of institutions and in that process there has been a lot of duplication of efforts. At present there is some vertical division of work between the regional and the all India institution. A sectoral division of work which has been attempted in the case of soft loans has now virtually been abandoned. The Committee feel that in the present context of scarcity of resources and limited expertise in regard to project appraisal, duplication of efforts of all Indian financial institutions should be avoided. They, however, note that the lead bank concept and the proposed participation certificate scheme would avoid such a duplication to a large extent. The Committee desire that as far as possible each financial institution should exclusively deal with a few industries so that matters could be made simpler to the assisted concerns and there could be no duplication of efforts by the financial institutions. This would also make for specialisation and better expertise in project appraisal. |
| 9. | 1.43 | There is not much of a formal control by the IDBI over other financial institutions except in relation to th IFCI and the SFCs. However, certain enabling provisions for exercising a measure of control have been made in the Articles of Association of SIDCs/SIICs. The coordination among the institutions is mainly ensured through Inter-Institutional Meetings and uniformity on policies secured informally. In this connection the Committee would like to recall what the then Finance Minister said when the IDBI Bill was considered by Parliament. According to him the IDBI would be concerned directly or indirectly with all problems or questions relating to the long and medium term financing of industry and would be in a position, if necessary, to adopt and enforce a system of priorities in promoting future industrial growth. The Committee desire that after a critical study of the effect of industrial financing as recommended by them, a review of working arrangement between othe IDBI and its sister institutions should be made to see whether it should be placed on a formal |

| 1 | 2 | 3 |
|---|---|---|
| | | footing to achieve better results. Incidentally the Committee would commend the idea of having a nominee of the Planning Commission on the Board of the IDBI. |
| 10 | 2.52 | As at the end of June 1980, the IDBI sanctioned assistance to 930 companies under the direct project finance schemes consisting mainly of Project Finances soft loans and technical development fund assistance. Assistance disbursed under the Project Finance Scheme during the 16 years aggregated Rs. 931 crores. The disbursals comprised of Rs. 857.5 crores of loan assistance and Rs. 73.5 crores of capital subscription. The Committee are concerned to note that nearly two-fifths of the total sanctions during the year 1979-80 was to meet cost over-runs of the projects assisted earlier and of this Rs. 101.2 crores was accounted for by a single project viz. Gujarat Narmada Valley Fertilizers Co. Ltd. This shows that something is wrong with the initial project appraisal. The result will be undoubtedly reduction in anticipated project benefits both in financial and economic terms. The position thus calls for an examination to evolve suitable and effective monitoring and control techniques. |
| 11 | 2.53 | The soft loan scheme for modernisation introduced in November 1976 covered cotton textiles, jute, cement, sugar and specified engineering industries. Of late there has been a decline in the level of assistance rendered under this scheme, the demand for modernisation needed by the textile industry, the main beneficiary of the scheme, having been largely met. The Committee recommend that the scheme should be extended to other sectors of industry on the basis of an assessment of the need for modernisation. It is not uncommon that request for assistance for modernisation is turned down. The Committee, however, understand that an appeal against the rejection could be entertained by the Chairman, IDBI. The Committee would like this fact to be publicised for the information of the prospective users of the assistance. |
| 12 | 2.54 | The fairly widespread sickness in industry causes grave concern to the Committee. Among the industrial units assisted by the all India financial institutions viz. IDBI, IFCI and ICICI there were 122 sick units as on 31 December 1980. Of these, 84 were handled by the IDBI for rehabilitation as on 30 June, 1980. The Committee feel that the monitoring and rehabilitation of the sick units on all India basis should be the responsibility of the IDBI. At present there seems to be no clear concept of which types of units could be regarded as sick. There also seems to be some depulication of efforts between the RBI and the IDBI. The Committee desire that uniform guidelines should be evolved to determine which units are sick and what follow-up action |

| (1) | (2) | (3) |
|---|---|---|
| | | should be taken to nurse them back to normal health. The all India position in this regard should be reflected in the report, 'Development Banking in India' brought out by the IDBI in future. |
| 13 | 2.55 | Loans are converted into equity since 1970-71 as per guidelines given by the Government. The purpose is stated to be to have a share of the prosperity of the assisted concerns and to participate in their management. Out of 569 cases where the conversion option was stipulated by the all India financial institutions, the option was waived so far (June 1980) in 128 cases. The Committee desire that since the scheme has been in operation for 10 years now, further guidelines should be issued. These guidelines should bring out the circumstances under which the option could be waived or how and at what stage the conversion should take place. A stage of conversion could be a certain level of production attained by a unit. |
| 14 | 2.56 | Working capital is an important determinant of the success of an industrial project but is seldom recognised by the financial institutions. Barring certain exceptions the IDBI has not extended working capital assistance and it is left entirely to be organised by the commercial banks. However, at the project appraisal stage no firm commitment is obtained from the commercial banks who also participate in term-loan financing. Often lack of working capital is the cause of sickness industry. The Committee are of the view that the commercial banks need not be associated in a big way in term-loan financing; instead they should be committed to working capital accommodation. An arrangement in the regard should be worked by the IDBI for the guidance of all the financial institutions and enforced. |
| 15 | 2.57 | In terms of the loan agreement, the financial institutions and investment institutions are empowered to have their nominees on the Board of Directors of the assisted units. The Committee note that out of 849 IDBI assisted companies as on 31 December 1980, 167 were without a nominee on their boards from any institution. It is not clear as to how many of these 167 companies are sick. Further, no study of the role of nominee directors has been made so far. It is only recently that the IDBI has commissioned such a study. According to the Member-Secretary, Planning Commission, the role of nominee directors was not quite satisfactory and there was need for feedback to government on sectoral trends and health of industry for future planning. As per the guidelines issued by Government, the financial institutions, in consultation with the IDBI, will be responsible for laying down drills for feeding the directors and feedback to themselves so |

| (1) | (2) | (3) |
|---|---|---|
| | | that institutional participation in the management of assisted concerns, particularly at the policy level develops into a meaningful reality. The Committee recommend that Government should give a new look at the institution of nominee directors and assess its contribution especially in regard to sick units in order to evolve fresh guidelines on the basis of the experience gained. |
| 16. | 3.21 | The IDBI entered the fields of export finance mainly after the amendment in 1972 to the IDBI Act 1964. It extends assistance to exporters, overseas buyers credit, overseas investment finance etc. to industrial concerns as well as persons. The Committee's examination revealed that there is no clear provision in the Act to cover the cash assistance rendered by the IDBI for equity participation in joint ventures abroad. The legality of this practice should, therefore, be examined. |
| 17. | 3.22 | The IDBI has assisted so far 10 joint ventures, 41 turkney projects and 90 constructions projects under the export finance schemes. Further, in view of the complexities of the construction jobs abroad, the IDBI has been entrusted with the task of scrutinising all proposals involving overseas construction contracts irrespective of the need or otherwise for any financial assistance from the IDBI. This is an important function. The Committee therefore regret that there is no perfect system whereby the IDBI could come to know of how the jobs undertaken, fared. It is common knowledge that a numbrer of jobs turned out to be unremunerative. Unless there is a feedback there could be no meaningful scrutiny of proposals. In regard to the projects assisted by the IDBI there is also no effective supervisory mechanism at present and the IDBI is in the process of developing a mechanism. On the whole, the Committee feel that the export finance does not directly promote industrialisation within the country. It is not quite appropriate to chanalise the finance through the IDBI, which is a development bank. The Committee have been informed that for want of a better institution, the IDBI has been entrusted with this function. They have further been informed that the proposed EXIM bank will take over the work after it is set up. |
| 18. | 3.23 | Incidentally, the Committee understand that performance guarantees given in connection with a construction work undertaken by Dalal Consultants & Engineers Pvt. Ltd. in Saudi Arabia have been invoked. The guarantees were issued by the SBI and the IDBI on 50:50 basis. The IDBI's Share was Rs. 131.72 crores. The Committee would await the outcome of the efforts for recovering the amount. |

| (1) | (2) | (3) |
|---|---|---|
| 19. | 4.25 | The IDBI's indirect assistance mainly flows through its refinance for industrial loans and machinery bills rediscounting. The Committee have been informed that the bills discounting scheme has not been extended to traders except when they happened to be the sole-selling agents of the machinery manufacturers. The Committee desire that traders other than sole-selling agents should not be allowed to avail themselves of this facility. |
| 20. | 4.26 | The bills rediscounting scheme is stated to be the most remunerative of all the schemes of assistance of the IDBI. The assistance under this scheme is stated to be essentially meant for replacement of machinery or for modernisation or moderate expansion programmes of the existing units. Whereas for the soft loans which are also meant for modernisation the interest rate is 8.1 per cent, the normal rate charged for discounting of bills by the primary lenders goes upto 11.5 per cent. The Committee feel that this difference of 3.4 per cent is not quite justified. The margin of about 2 per cent that the commercial banks get seems high. The Committee are not impressed with the plea of the Secretary, Department of Economic Affairs, that concessional financing on rediscounting deals is fraught with a number of administrative difficulties. As the assistance as a whole rendered by the IDBI is purpose-oriented administrative difficulties cannot stand in the way of a desirable concession. The Committee accordingly desire that the rate of interest applicable for discounting/rediscounting of bills should be reviewed and reduced. |
| 21. | 4.27 | Sanctions under the refinance scheme aggregated Rs. 1900.7 crores since the inception of the IDBI. Commercial banks are stated to be the major users of the refinance facility. The expertise for project appraisal and monitoring available with the commercial banks cannot be regarded as satisfactory. In fact, even the SFCs are found to be lacking badly in this respect. The advisability of pumping the funds largely through the commercial banks needs to be gone into. As the Committee have pointed out earlier, their role should be confined to working capital accommodation for the industry as far as possible. The Committee would like to have an assessment of the role of the commercial banks in development financing. If such an assessment has not been made already it should be made now. |
| 22. | 4.28 | Evidently there was not much of a control over the utilisation of the funds made over to the commercial banks under the refinance schemes. The commercial banks have reportedly lent for a shorter period and got refinance from the |

| (1) | (2) | (3) |
|---|---|---|
| | | IDBI for a longer period. The banks have undoubtedly derived a substantial benefit. Some mechanism seems to have been evolved recently for suitable adjustment at the end of each year. This also has not entirely eliminated the unintended benefit derived by the Commercial banks. This aspect deserves critical examination. |
| 23. | 4.29 | The IDBI's assistance to the small-scale sector mainly flows through its refinance scheme. In view of their low capital output ratios and shorter gestation period, the development of small-scale industries will result in more efficient use of capital in fields where economies of sale are not sizeable. The share of small-scale sector has gone upto 71 per cent of the assistance under the refinance scheme. Considering, however, that only 35 per cent of the total assistance of IDBI was covered by the refinance, the share of the small scale sector in the total assistance of the IDBI would be only 25 per cent. The Committee desire that the refinance scheme should be made more attractive to this sector and greater promotional as well as publicity efforts should be directed towards ensuring increased flow of assistance to the small-scale sector. |
| 24. | 5.20 and 5.21 | There is a pronounced regional imbalance in the assistance rendered by the IDBI. The Committee regret that the share of the North Eastern region was almost negligible and it was around 1 per cent. Under a special programme for development of backward areas introduced in 1970-71, the IDBI sanctioned assistance of Rs. 1999 crores. An analysis of assistance has indicated that the top 50 districts of 245 backward districts assisted by the Bank accounted for the bulk of the assistance, their share ranging from 69 per cent to 85 per cent. Statewise three top districts accounted for 60 to 70 per cent of the assistance to the State. The Committee would like to have a similar analysis of the amount actually disbursed. Though the Committee realise that the role of the development banks is somewhat limited, regret that the pattern that has emerged shows that underdevelopment has been allowed to perpetuate further relative underdevelopment. The perpetuation of this position has serious socio-economic implications. The Government are yet to take a decision on a suggestion made to them by a working group that the present list of backward districts could be classified into two or three broad groups and separate incentives offered for the different groups. The Committee understand that a committee headed by Shri Sivaraman has gone into the matter and hopefully a new way of classifying the backward areas would emerge in order to ensure more balanced regional development. The Committee would urge that decision in this regard should |

| (1) | (2) | (3) |
|---|---|---|
| | | be taken early. The promotional activities and the identification of potential projects in the backwards also required to be stepped up to achieve the end in view. |
| 25 | 6.71 | There is delay in disposal of applications for assistance and there is also delay in disbursement of assistance sanctioned despite various measures taken to expedite the work. During 1979-80, 17 per cent of the applications were delayed by more than 6 months. The number of applications pending as on 30 June, 1980 was 780 and the quantum of assistance sought for by the applicants was Rs. 1082.6 crores. The undisbursed sanctions were of the order of Rs. 1424.1 crores. Obviously the delay in sanction and the delay in disbursing the amounts sanctioned are also the causes of time slippage and consequent cost escalation of projects leading to request for additional assistance from the financial institutions. The Committee desire that case studies of a few typical cases of the delays should be made independently and on the basis of the outcome of the studies further steps should be taken to streamline the procedures to expedite the work. |
| 26 | 6.72 | The Committee would stress the need to check at the time of appraising the projects the price of equipments, imported and indigenous, to ensure that there is no inflation of cost. A foolproof system in this regard should be evolved. |
| 27 | 6.73 | Incidentally, there have been cases where the applications were asked to be withdrawn rather than being rejected by some financial institutions. This practice, in the opinion of the Committee, is not correct as it might land the other financial institutions in trouble. There should be a system of exchange of information on projects rejected among the financial institutions to safeguard the overall interest of the institutions. |
| 28 | 6.74 | On the whole, the average rate of borrowing of the IDBI is reported to be 6.48 per cent and the average return 8.28 per cent during 1979-80. The refinance assistance for backward area development and direct loans for exports are reported to be unremunerative. The highest return is from the bills rediscounting followed by project loans and refinance on exports. The Committee desire that the precise position in this regard for each scheme operated by the IDBI and the other financial institutions should be brought out in the annual reports and the consolidate position shown in the report 'Development Banking of India'. Steps should be taken, on the basis of analysis of costs for each scheme, to cut down overhead expenses. In this connection the Committee find that the administrative cost as percentage of operating margin |

| (1) | (2) | (3) |
|---|---|---|
| | | ranged from 20.3 to 38.4 during the period 1971--79. The Committee feel that this is on the high side considering the fact that a substantial portion of the IDBI's lending is through refinance. |
| 29 | 6.75 | The position of defaults in repayment by the assisted units disturbs the Committee. The amount of overdues was of the order of Rs. 93.35 crores as at the end of June 1980. Of this, Rs. 51.78 crores were more than 18 months old. The Committee would like this position to be depicted in the Annual Reports relating the position of overdues to the amount due for payment and not to the total amount disbursed. As many as 244 out of 640 companies assisted by the IDBI under the Project Finance Scheme were in arrears to the extent of Rs. 82.4 crores, 45 per cent of which was accounted for by 8 companies alone. Of the 244 companies in default, 54 were reported to be sick units. This gives room for a doubt about the efficacy of the project appraisal techniques now employed. The Committee desire that on the basis of a post implementation appraisal of such projects, necessary improvement should be made in the project appraisal techniques. The Committee further feel that in future the desirability of obtaining personal guarantees should be considered unless the nature of a company is such that it is not possible. |
| 30 | 6.76 | The IDBI is not aware of the extent of default in repayment by the 244 companies in respect of loans advanced by other financial institutions. This is surprising to the Committee as Section 29(IA) of the IDBI Act enables the IDBI to collect and exchange credit information. This should be ensured in future and a consolidate picture of overdues should emerge. |
| 31 | 6.77 | The Committee are concerned about the lack of continuity in the top position of the IDBI and the vacancies on the Board. There were 4 Chairmen of the IDBI since February 1976 and 5 vacancies were kept on the Board for two years. The vacancies on the Board were reflected in the Executive Committee of the IDBI. The attendance of the Executive Committee meetings was to the extent of 50% or less in 13 out of 65 sittings held during 1975—80. The Committee desire that it should be ensured in future that there is a continuity for atleast 3 years in the top position and the vacancies on the Board are not allowed to remain for unduly long time. Further, the attendance at the Board and the Executive Committee meetings should be improved. |

| (1) | (2) | (3) |
|---|---|---|
| 32 | 6.78 | The SFCs work under the guidance and directions of the IDBI. A measure of control is also to be exercised by the IDBI by means of inspection once in 3 years. However, only 12 of 18 SFCs have been inspected during the last three years. A number of shortcomings in their working in regard to project appraisal, follow-up and recovery of loans etc. have been noticed. The Committee also note that a World Bank team had reportedly an occasion to criticise the functioning of the SFCs and opined that if the deterioration in their working continued then economic viability would soon be threatened. The overall arrears in the repayment of loans advanced by them were to the extent of Rs. 214.6 crores as at the end of March, 1980. The Committee are very much concerned about this situation. They desire that the programme of upgradation of the SFCs should be put through early and good performance ensured through the Director nominated by the IDBI on their Boards. The role of the IDBI directors on their Boards is not evidently satisfactory now. |

MGIPRRND—II—11 LSS/81—5-6-81—1355.