C. P. U. No. 472

COMMITTEE ON PUBLIC UNDERTAKINGS (1981-82)

(SEVENTH LOK SABHA)

FORTY-FIFTH REPORT

Action Taken by Government on the recommendations contained in the Twenty fourth Report of the Committee on Public Undertakings (Seventh Lok Sabha)

on

INDUSTRIAL DEVELOPMENT BANK OF INDIA

(MINISTRY OF FINANCE)

(Department of Economic Affairs)

Presented to Lok Sabha and
Laid in Rajya Sabha on 28 Apr. 1982

LOK SABHA SECRETARIAT

NEW DELHI

April, 1982/*Vaisakha*, 1904 (*Saka*)

Price: *Rs*. 1.75

CORRIGENDA
to

Forty-fifth Report on Action Taken by Government on the recommendations contained in the Twenty-fourth Report of the Committee on Public Undertakings on Industrial Development Bank of India.

Page	Para	Line	For	Read
(iii)	-	3 from below	Shri H.K. Paranjpe	Shri H.G. Paranjpe
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1	3	2	my	by
3	footnote	2	annual	annually
6	2nd	2	obtained	contained
6	3rd	1st	to	the
7	1st	read existing line 1 after existing line 4		
7	2nd	6	as	has
7	last	6	DBI	IDBI
8	last	3	now	new
13	2nd	3	insert an asterisk mark over "institution" and read the following footnote *At the time of factual verification the Ministry of Finance(Department of Economic Affairs)intimated that EXIM Bank has since been set up and the functions of the Export Loan Department of IDBI were handed over to the new institution w.e.f. 1.3.1982	
14	(i)	3	papment	payment
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19	1st	4	in the	despite
20	last	13-14	delete "a post implementation appraisal of such"	
27	2nd	5 from below	delete "si"	

P.T.O.

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7	last	last	consertium fincing	consortium financing
8	1st	5	far	for
8	-	8	Serial No. 14	Serial No. 15
8	3rd	9	capial	capital
2	last but one	1	<u>insert</u> "in" <u>after</u> "been"	
3	3rd	5	<u>insert</u> an asterisk mark over "every year" and repeat the foot note given on page 3 of the Report.	

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(1981-82)

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*Ceased to be a Member consequent on his appointment as Deputy Minister on 15 January, 1982.

**Ceased to be a Member consequent on his retirement from Rajya Sabha on 2 April 1982.

SUB-COMMITTEE ON ACTION TAKEN OF THE COMMITTEE ON PUBLIC UNDERTAKINGS

(1981-82)

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*Ceased to be a Member consequent on his retirement from Rajya Sabha on 2, April 1982.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present, this 45th Report on Action Taken by Government on the recommendations contained in the 24th Report of the Committee on Public Undertakings (Seventh Lok Sabha) on Industrial Development Bank of India.

2. The 24th Report of the Committee on Public Undertakings was presented to Lok Sabha on 30 April, 1981. Replies of Government to all the recommendations contained in the Report were received in batches on 26, 27 and 30 March, 1982. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 22 April, 1982. The Report was finally adopted by the Committee on Public Undertakings on 24 April, 1982.

An analysis of the Action Taken by Government on the recommendations contained in the 24th Report (1980-81) of the Committee is given in Appendix I.

NEW DELHI;
April 27, 1982
Vaisakha 7, 1904 (*Saka*).

BANSI LAL,
Chairman,
Committee on Public Undertakings.

CHAPTER I

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Twenty-fourth Report (Seventh Lok Sabha) of the Committee on Public Uudertakings on Industrial Development Bank of India which was presented to Lok Sabha on 30 April, 1981.

2. Action Aaken Notes have been received from Government in respect of all the 32 recommendations contained in the Report. These have been categorised as follows:

(i) Recommendations|observations that have been accepted by Government;

Serial Nos. 1, 6, 7, 10-12, 15-17, 19 and 22-32.

(ii) Recommendations|observations which the Committee do not desire to pursue in view of Government's replies:

Serial Nos. 4, 8, 13, 14, and 20.

(iii) Recommendations/observations in respect of which replies of Government have not been accepted by the Committee:

Serial Nos. 2, 3, 5, 9, and 21.

(vi) Recommendations|observations in respect of which final replies of Government are still awaited:

Serial No. 18

The Committee will now deal with the action taken by Government on some of their recommendations.

A. Guidelines to the IDBI

Recommendation (Serial No. 3)

3. The Committee had pointed out that no detailed regulations had been made my the Board of the IDBI in regard to the apex role assigned to it by the amending Act of 1975 and that there were also no guidelines from government. The Committee felt that suitable regulations and guidelines were necessary in order to first have a clear concept of the enlarged functions and then ensure the effective discharge of the functions.

4. In reply, government have stated *inter-alia* as follows:

> "It is also felt that written instructions under the Act would tend to be rigid whereas the present arrangement is flexible and would evolve according to the needs of the situation which is more advantageous for operational institutions. For these reasons, it has not been found necessary to frame separate Regulations or issue specific guidelines in this regard."

5. Although the Committee agree that needless rigidity should not be introduced in the system, they feel that Government should atleast issue some broad guidelines leaving scope for flexibility of operations.

B. *Critical study of Development Financing for Industry*

Recommendation (Serial No. 3)

6. Pointing out that Development Financing is one of the important instruments to make even the private sector to broadly adhere to the national plans and taking note of a study of operation of industrial licensing in the country the Committee recommended a critical study of the results of development financing for the industry for taking such corrective steps as might be warranted.

7. In reply, government have stated that the pattern of development financing in India has been in conformity with plan objectives and priorities and that government have indicated for the confidential use of the financial institutions a list of industries eligible for priority assistance and another list of industries which are not to be normally finanaced by the term finanacing institutions.

8. The Committee are constrained to reiterate that there should be an independent critical study of the outcome of the development financing for the industry. The question should, therefore, be reconsidered seriously in consultation with the Planning Commission.

C. *Report on Development Banking in India*

Recommendation (Serial No. 5)

9. Noting a beginning made recently to bring out a comprehensive report on development banking in India, the Committee desired that the report should be laid before Parliamnet annually.

10. In reply, government have stated that the report on Development Banking in India is more in the nature of reference material on the activities of development banks in the country and is not

published every year.* Copies of the Report could, however, be sent to the Lok Sabha and Rajya Sabha libraries for reference purposes.

11. The Committee had given various suggestions to improve the coverage and the contents on the Report on Development Banking in India and these have been accepted by government. The Committee reiterate that the Report should be laid before Parliament.

D. *Guidelines for project appraisal and monitoring*

Recommendation (Serial No. 6)

12. The Committee recommended that the Planning Commission should issue suitable guidelines for the project appraisal and monitoring by the development banks. The Member Secretary, Planning Commission had expressed a view before the Committee that there was scope for improvement in regard to project appraisal and monitoring in view of decline in productivity and profitability of the assisted concerns.

13. In reply, government have stated that guidelines had been issued in consultation with the Planning Commission in June 1979 for the confidential use of the financial institutions setting out certain important consideration to be taken into account in the appraisal ot projects.

14. The Committee feel that there is a need for a fresh look at the guidelines issued in 1979 for revising these in consultation with the Planning Commission.

E. *Coordination of Development Financing*

Recommendation (Serial No. 9)

15. The Committee had desired that after a critical study of the effect of industrial financing a review of the working arrangement between the IDBI and its sister institutions should be made to see whether it should be placed on formal footing to achieve better results.

16. In reply, government have stated that the present arrangements are working satisfactorily from the point of view of both IDBI and the Government.

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*At the time of factual verification, the Ministry of Finance (Department of Economic Affairs) intimated that the Report on Development Banking is being published annual from 19[illegible]9-80 onwards.

17. As reiterated by the Committee there should be a critical study of the effect of development financing and thereafter it should be examined whether any modification to the existing arrangement between the IDBI and its sister institutions is necessary to achieve better results.

F. Role of Commercial Banks in Development Financing

Recommendation (Serial No. 21)

18. Observing that in the context of the inadequacy of expertise for project appraisal and monitoring available with the commercial banks, the advisability of pumping funds under the refinance scheme largely through the commercial banks needed to be gone into, the Committee had awaited an assessment of the role of the commercial banks in development financing.

19. In reply, government have stated *inter-alia* that the IDBI has agreed to take necessary action in consultation with the RBI for further strengthening the appraisal and monitoring mechanism of commercial banks for ensuring proper and effective end use of the refinance assistance.

20. The Committee are glad to note the attempt made to strengthen the appraisal and monitoring mechanism of commercial banks. They nevertheless desire that a study of the role of the commercial banks in development financing should be undertaken as already suggested by them.

G. Backward area development

Recommendation (Serial No. 24)

21. Taking note of the serious regional imbalance in the assistance rendered by the IDBI and the study under progress by the National Committee on Development of Backward Areas (Shivaraman Committee) which was likely to *iner-alia* bring out a new way of classifying the backward areas to ensure more balanced regional development, the Committee had urged that decision in that regard should be taken early and the promotional activities and the identification of potential projects in the backward areas stepped up to achieve the end in view.

22. In reply, government have stated that the Shivaraman Committee constituted by the Planning Commission has studied matter and submitted its report, which is being examined by the concerned authorities.

23. The Committee desire that the report of Shivaraman Committee should be processed early. Besides offering graded incentives for different groups of backward areas, promotional activities and the identification of potential projects in the backward areas should be stepped up to achieve balanced regional development.

H. *Scheme-wise costs and returns*

Recommendation (Serial No. 28)

24. The Committee had desired that the precise position of cost and return for each scheme operated my the IDBI and the other financial institutions should be brought out in their annual reports and the consolidated position shown in the report 'Development Banking in India'.

25. In reply, government have agreed that data on overall returns and cost of funds of institutions could be published in the Development Banking Report, but stated that it would not be practicable to published similar data in respect of each scheme of the institutions.

26. The Committee believe that scheme-wise data on costs and returns are available with the financial institutions. They are of the view that the publication of data in the annual reprots of the institutions would be desirable and that it should be done with such explanation as may be necessary to enable correct appreciation of the position.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1)

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 the 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.

(Paragraph—1.35)

Reply of the Government

The Government is in agreement with the observations of the Committee obtained in this recommendation. The IDBI has been taking all possible measures to organise the entire range of term-loan financing for industrial development of the country in accordance with the provisions of the IDBI Act. The IDBI's Annual Reports (upto 1978-79) and the Reports on Development Banking in India (for the subsequent period) present a comprehensive analysis in this regard.

[Ministry of Finance O.M. No. 10(103)|IF-I|80 dated 29-3-82]

Recommendation (Serial No. 6)

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 promotig employment opportunities to development banks ought to returns from the national point of view. The project appraisal 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 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.

(Paragraph—1.40)

Reply of the Government

Government have issued guidelines dated 7-6-1979 for the confidential use of the financial institutions setting out certain important consideration to be taken into accout in the appraisal of projects. These considerations, *inter-alia*, include evaluation of technological choices in order to promote employment. A comparison with likely domestic prices and inter-national prices as also been suggested in the evaluation of projects. These guidelines had been formulated in consultation with the Planning Commission.

2. The institutions on their part have also taken a number of steps to improve the appraisal and monitoring of projects and are also conscious of the need for further improvements especially in the monitoring of projects. The review of the project appraisal and monitoring procedures is a continous process and necessary improvements are, in fact, being carried-out from time to time by the institutions.

[Ministry of Finance O.M. No. 10(103) IF-1/80 dated 27-3-82]

Recommendation (Serial No. 7)

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 new jobs. The DBI 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."

(Paragraph—1.41)

Reply of the Government

The recommendation has been brought to the notice of the IDBI and the IDBI has agreed to arrange to collect and present information as indicated by the Committee in its future reports on "Development Banking in India."

[Ministry of Finance O.M. No. 10(103)|IF-1|80 dated 29-3-82]

Recommendation (Serial No. 10)

As at the end of June 1980, the IDBI sanctioned assistance to 930 companies under the direct project finance schemes consisting mainly of project finance, soft loans and technical development fund assistace. Assistance disbursed under the Project Finance Scheme during the 16 years aggregated Rs. 9.31 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.

(Paragraph—2.52)

Reply of the Government

It is felt that year-wise variations in sanctions and disbursements of assistance and state, industry and sector-wise distribution of assistance and distribution of assistance between now, expansion and cost overrun schemes may not project a correct perspective particularly for a financial institution like IDBI. Besides being lender of last resort, IDBI assistance to a single or a few large projects in a year, would necessarily bring about wide variations. Assistance for cost overruns during 1977-78, 1978-79 and 1980-81 aggregated Rs. 15.9 crores (20 projects), Rs. 18.2 crores (24 projects) and Rs. 57.7 crores (32 projects), and constituted 7 per cent, 6 per cent and 10 per cent respectively of total project assistance sanctioned during these years as against Rs. 121 crores (26 projects) or 40 per cent in 1979-80. It may be added that in the case of large projects, the initial cost estimates and appraisals are often based on preliminary information and it is only after receipt of designs and layouts and detailed engineering from technical collaborators|consultants that firm estimates could be made. This accounts for the large overrun in the case of the single project referred to by the Committee. Nevertheless, to minimise the overrun in project cost and also for its timely detection the recommendation has been brought to the notice of the IDBI and the Development Bank has initiated steps for setting up a Data Bank besides intensifying its monitoring mechanism.

[Ministry of Finance O.M. No. 10(103)|IF-1|80 dated 29-3-82]

Recommendation (Serial No. 11)

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 published for the information of the prospective users of the assistance.

(Paragraph—2.53)

Reply of the Government

Besides assistance for modernisation of 5 selected industries under Soft Loan Scheme IDBI is extending, since July 1980, assistance for modernisation of all other industries too.

All cases of rejection of proposals for modernisation assistance are reported to the Senior Executives 'Meetings of the institutions'. However, in view of the recommendation of the Committee, institutions have now decided that henceforth all cases involving rejection of applications would be submitted to IIM once a quarter. The submission would indicate the reasons for rejection, and the final decision on rejection would be taken by IIM which is presided over by Chairman, IDBI. As such a separate procedure for appeals does not appear necessary.

An entrepreneur is always free to make a representation to the Chairman, IDBI, as to the Government, and in practice, many entrepreneurs do make such representations which are considered on merits.

[Ministry of Finance O.M. No. 10(103)/IF-I/80 dated 29-3-82]

Recommendation (Serial No. 12)

"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 unit 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."

(Paragraph—2.54)

Reply of the Government

The recommendation has been brought to the notice of IDBI and the Development Bank has agreed that "Development Banking in India" would present data regarding sickness and rehabilitation of industrial units as desired by the Committee.

Sickness in industry is a general phenomenon prevailing in all sectors and in almost all industries; the reasons for sickness as well as the extent of sickness vary from case to case. Institutions have been following certain criteria for classifying a unit as sick, and in respect of units assisted exclusively by banks, RBI monitors their rehabilitation. While there could be broad unanimity about the definition of sickness and the general approah in drawing up rehabilitation measures for sick units, it is felt that it is neither desirable nor feasible for any single institution to be vested with the responsibility for all the sick units. Measures for reviving sick units would necessarily involve coordinated efforts by all concerned *i.e.* Central Government, State Governments, commercial banks and financial institutions and would require a consortium approach.

In so far as the banks & financial institutions are concerned instructions have already been given for ensuring coordinated action between the various banks & institutions for idealification & rehabilitation of sick units. These arrangements are kept under constant review for ensuring their effectiveness.

In accordance with the new policy on sick units announced by Government, responsibility for rehabilitation of sick units has been cast on the concerned administrative ministries, the institutions are expected to inform the Ministries in regard to such units which they cannot rehabilitate at their level. Suitable instructions have been issued to the institutions for action on these lines.

[Ministry of Finance O.M. No. 10(103)|IF-1|80 dated 29-3-82]

Recommendation (Serial No. 15)

"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 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".

(Paragraph—2.57)

Reply of the Government

A High Powered Committee was appointed by the Government to look into the working of the system of nominee directors. The Committee submitted its Report in August 1981. The Report contained a number of recommendations for strengthening the system of nominee directors for more effective functioning of this institutional arrangement. Government has accepted most of the recommendations and suitable instructions have since been issued to the institutions.

Institutions have also prescribed guidelines and standardized proformae for feed back of information by the nominee directors and have also strengthened the monitoring arrangements.

[Ministry of Finance O.M. No. 10(103)/80-IF.I. dated 25-3-1982]

Recommendation (Serial No. 16)

"The IDBI entered the field 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."

(Paragraph—3.21)

Reply of the Government

It may be mentioned that out of the 14 projects assisted by IDBI so far, involving an aggregate assistance of Rs. 12.5 crores for equity participation in joint ventures abroad, in respect of only one case, cash assistance of Rs. 18 lakhs was extended by IDBI. The lacuna, if any, has been taken care of in the EXIM Bank Act wherein specific provision enabling EXIM Bank to provide cash assistance has been incorporated.

[Ministry of Finance O.M. No. 10(103)|IF-1|80 dated 29-3-82]

Recommendation (Serial No. 17)

"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 with the country. It is not quite appropriate to channelise 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."

(Paragraph—3.22)

Reply of the Government

Legislation to set up the EXIM Bank has since been enacted and IDBI is taking steps to hand over the functions relating to export finance to the new institution.

[Ministry of Finance O.M. No. 10(103)|IF-1|80 dated 29-3-82]

Recommendation (Serial No. 19)

"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 rediscounting 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."

(Paragraph—4.25)

Reply of the Government

Assistance under this scheme is not extended to traders for sale or purchase of machinery. Only the authorised selling agents| distributors of machinery manufacturers are eligible to sell the machinery provided they have paid in full to the manufacturers before drawing such bills of exchange. With a view to helping the farming community, the following categories of purchasers are, however allowed to purchase agricultural machinery, equipment on deferred payment terms under the scheme.

(i) A selling agent/distributor/dealer of agricultural machinery and equipment provided he offers similar deferred papment facilities to the farmers in respect of his sales of agricultural machinery and equipment to them and will not charge them unduly high prices; and

(ii) A farming enterprise not doing farming itself but providing machanised services to small farmers.

It is, however, replied that in practice, purchasers in the above categories have not so far made use of these facilities, probably because of the availability of finance for these purchases at lower rate of interest from other sources like co-operative banks, regional rural banks, etc.

[Ministry of Finance O.M. No. 10(103)/IF. I/80 dated 29-3-82].

Recommendation (Serial No. 22)

"Evidently there was not much of 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 seem 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."

(Paragraph 4.28)

Reply of the Government

The observations of the Committee presumably relate to the Automatic Refinance Scheme (ARS) operated by the IDBI. Under the normal Refinance Scheme (i.e. refinance other than under ARS), the repayments to IDBI are generally fixed coterminus with repayments to primary lending institutions by the assisted units. In respect of ARS, however, in view of the small size of the loans and the large number of units involved, it was though desirable to fix repayment schedules on a consolidated basis in respect of each institution availing assistance. Accordingly, assistance availed under ARS is repayable over a 7 year period by the primary lending agency. However, in respect of small road transport operators, the primary lending agencies are reported to be receiving back their payments within 5 years. IDBI has introduced annual balancing for ensuring that the primary lending institutions repay to IDBI amounts collected by them as repayments from their assisted units as at the end of each year. However, in view of the delays in annual balancing by certain commercial banks, this could not be strictly ensured by the IDBI. Currently, IDBI is examining the type of modifications that need to be introduced in ARS so that primary lending agencies do not obtain any unintended benefit or advantage under the scheme and the repayments by primary lending agencies to IDBI would as far as possible be co-terminus with the repayments fixed for the primary borrowers.

[Ministry of Finance O.M. No. 10(103)|IF-1|80 dated 29-3-82]

Recommendation (Serial No. 23)

"The IDBI's assistance to the small-scale sector mainly flows through its refinance scheme. In view of their low capital output rates and shorter gestation period, the development of small-scale industries will result in more efficient use of capital in fields where economics of scale 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 the 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."

(Paragraph—4.29)

Reply of the Government

Introduction of Automatic Refinance Scheme (ARS), composite loan scheme, concessional discount rates under Bills Rediscounting Scheme and greater delegation of powers to the Regional and Branch Officers are some of the steps taken by the IDBI towards achieving the objective recommended by the Committee. The share of small-scale sector in refinance assistance was 67.9 per cent in terms of amount sanctioned and as high as 98.1 per cent in terms of number of applications sanctioned during 1980-81. In this connection, it may be noted that under the refinance scheme, concessional rates of interest have been stipulated for units belonging to small scale sector and for assistance to artisans etc. under composite loan scheme. The rates at which refinance assistance is extended for these purposes are relatively low as compared to the cost of funds to IDBI. In some cases (e.g. composite loans) the refinance rates are even lower than the cost of funds to IDBI. Thus, the scheme is very attractive to small scale units. Wide publicity is given to the facilities available under both Refinance and Rediscounting shcemes *inter alia* through seminars arranged in various parts of the country by the Regional| Branch Offices of the IDBI from time to time. The promotional and publicity efforts would be continued on an on-going basis by the IDBI for ensuring increased flow of assistance to the small scale sector.

[Ministry of Finance O.M. No. 10(103)|IF-1|80 dated 29-3-82]

Recommendation (Serial No. 24)

"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 prenetuate further relative underdevelopment. The perpetuation of this position has serious socio-economic implications. The Government are yet to take a decision on a sugestion 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 backward areas also required to be steped up to achieve the end in view.

(Paragraphs—5.20 and 5.21)

Reply of the Government

Establishment of industrial projects in backward areas depends upon a number of factors such as industrial licencing policy, availability of infrastructural facilities and the promotional work of the State Governments and their institutions etc. The financial institutions' ability to influence the locational decisions is limited by these factors. The institutions would come in only at the stage where a project comes up for financial assistance. However, in accordance with the general policy of the Government and in compliance of specific guidelines, the institutions have attached high priority to project located in industrially backward areas and have evolved certain concessional terms for such projects in the form of low rates of insterest, longer repayment schedules, lower promoters' contribution etc. With a view to supplementing the promotional activities of the State Governments, the institutions have set up Technical Consultancy Organisations in most of the States. Consequent on these efforts, the share of the backward areas in the total direct institutional finance has steadily risen and is now about 40 per cent. In fact, their share in the new projects is in the region of 65 per cent.

In view of the differing level of infrastructural support in the various backward areas and other related factors like proximity to major markets, raw material sources etc., it may be expected 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 identified backward areas has been steadily coming down indicating a wider dispersal of institutional assistance to other backward areas.

The National Committee on Development of Backward Areas (Sivaraman Committee) constituted by the Planning Commission, has studied the matter and submitted its report which is being exmined by the concerned authorities.

[Ministry of Finance O.M. No. 10(103)|IF.1|80 dated 27-3-82]

Comments of the Committee

(Please *see* paragraphs 21 to 23 of Chapter I)

Recommendation (Serial No. 25)

"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 tne studies further steps should be taken to streamline the procedures to expedite the work."

(Paragraph—6.71)

Reply of the Government

As number of steps have been taken by IDBI to streamline its sanction and disbursal procedures. However, Government has brought the recommendations to the notice of IDBI and the Bank has agreed to the suggested study of a few typical cases of delays. Based on such study, further steps could be taken to further streamline tne procedures and expedite the work relating to sanction and disbursement of assistance.

[Ministry of Finance O.M. No. 10(103)/IF.I/80 dated 29-3-82]

Recommendation (Serial No. 26)

"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 fool-proof system in this regard should be evolved."

(Paragraph-6.72)

Reply of the Government

The recommendation has been brought to the notice of the IDBI and the Development Bank has informed the Government that steps will be taken to make the system as foolproof as possible.

[Ministry of Finance O.M. No. 10(103)/IF.I/80 dated 29-3-82]

Recommendation (Serial No. 27)

"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 insitutions 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."

(Paragraph-6.73)

Reply of the Government

Applications which are not considered support-worthy are rejected by the institutions and all such cases are reported at the IIM that all the participating institutions are aware of cases of rejection. Similarly, in cases where the applicants do not furnish full information in the repeated requests, the applications are deemed by the concerned institution to have been withdrawn or closed and the matter is reported at the IIM. The IDBI is working on the idea of setting up a data back for exchange of information between various institutions.

[Ministry of Finance O.M. No. 10(103)/IF.I/80 dated 29-3-82]

Recommendation (Serial No. 28)

"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 consolidated 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."

Reply of the Government

While data on overall return and cost of funds of institutions may be published in the Development Banking Report, it would not be practicable to publish similar data in respect of each scheme of the institutions. The interest rate structure is deliberately fixed at low levels for certain schemes taking into account socio-economic considerations as in the cases of composite loan scheme, entrepreneurs belonging to Scheduled Castes/Scheduled Tribes, small scale industry, projects in backward areas, entrepreneurs in hilly area/regions, export finance schemes etc. The rates are kept at somewhat higher levels for modernisation assistance under Bills Rediscounting Scheme. Detailed data on costs and returns if published on scheme-wise basis could be misleading.

As regards administrative cost of the Bank as a percentage of its operating margin, the higher level of administrative cost for IDBI during the period 1976-77 was due to the fact that consequent upon the delinking of IDBI, sizable expenditure had to be incurred to acquire new premises for office as well as residential accommodation of staff. After the initial process of adjustment, the percentage has declined in subsequent years and was lower at 20.3 per cent in 1978-79. While it is true that a substantial portion of IDBI's lending is through bills rediscounting and refinance which are risk-free, on the other hand, IDBI finances exports of capital goods at highly concessional rates, provides bulk of refinance against industrial loans at highly concessional rates and also finances large risky projects with long gestation periods. It also undertakes to fianance the residual gap in the financing arrangement of large projects and is expected to play the key development role by undertaking promotional activities which involve heavy expenditure.

[Ministry of Finance O.M. No. 10(103)/IF.I/80 dated 29-3-82]

Comments of the Committee

(Please see paragraphs 24 to 26 of Chapter I)

Recommendation (Serial No. 29)

"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 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."

(Paragraph—6.75).

Reply of the Government

As suggested by the Committee, the defaults position of IDBI has been incorporated in the Annual Report of IDBI for 1980-81.

Post implementation evaluation of projects is a well established practice in other development financial institutions such as World Bank and Regional Development Banks like Asian Development Bank. IDBI has also agreed to undertake post evaluation of projects on a regular basis so as to improve its appraisal and follow up techniques.

The Reserve Bank of India and the other financial institutions have over the years relaxed the requirements regarding personal guarantees by promoters. Such guarantees are now asked for only in exceptional cases such as those where the assisted companies are closely held ones. Personal guarantees are not insisted upon as the focus in the project financing is on the viability of the project and not so much on security. Even in cases where personal guarantees are insisted upon, it is done mainly with a view to securing the full involvement of the promoters in the projects rather than from the security angle. In many cases, promoters of large projects, whose proportionate stake and hence share in the benefit of the project would be relatively small, are reluctant to extend personal guarantees. Similarly, insisting on personal guarantees from new or technician entrepreneurs or from directors of companies managed by professionals would not be desirable, in all cases.

[Ministry of Finance O.M. No. 10(103)|IF-1|80 dated 29-3-82]

Recommendation (Serial No. 30)

"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."

(Paragraph—6.76)

Reply of the Government

The recommendation has been brought to the notice of the IDBI. It has been agreed the IDBI to arrange to collect information on the extent of defaults in repayment of loans to other financial institutions and present a consolidated picture of overdues as desired by the Committee.

[Ministry of Finance O.M. No. 10(103)|IF-1|80 dated 29-3-82]

Recommendation (Serial No. 31)

"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 per cent 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."

(Paragraph—6.77)

Reply of the Government

Since the delinking of IDBI from RBI in February 1976, the following have held the posts of its Chief Executives:

1. Shri Raghuraj February 1976 (1 year 3 months)
2. Shri J. N. Saxena May 1977 to September 1979 (2 years 5 months)
3. Shri R. K. Talwar October 1979 to December 1980. (1 year 3 months)
4. Shri N. N. Pai Since January, 1981.

2. Shri Raghuraj and Shri J. N. Saxena were initially appointed for a period of one year and 2 years respectively but these terms were extended by 3 months and 5 months respectively pending the selection of the next incumbent to this office. Shri Talwar was appointed for a period of 5 years w.e.f. 3rd October, 1979 but submitted his resignation w.e.f. 31st December, 1980. The present incumbent Shri N. N. Pai has been appointed for a term of 3 years w.e.f. 1st January 1981, which is in conformity with the recommendation of the Committee.

Government's effort has been to give a suitable tenure to the person appointed as Chairman and Managing Director of the IDBI. The present incumbent has been given a tenure of 3 years. The previous incumbent had been given a tenure of 5 years though he resigned before the completion of his tenure. There is no evidence that the changes in the chairmen have adversely affected the operations of the IDBI. Even when the chairmen had changed there was continuity of the senior executives at other levels.

Presumably the reference to vacancies on the Board of IDBI being kept for two years relates to the vacancies on the IDBI Board from February, 1976 when the Development Bank was delinked from the RBI, to August, 1977 when the first appointment of the non-official directors was made by the Government. This time was taken for selecting suitable professionals from the various disciplines and for completing the formalities required for their appointment. Subsequently, there have not been vacancies for long periods on the Board of IDBI. As observed by the Committee, the Executive Committee of the IDBI could not be constituted to its full strength pending the appointment of the non-official directors. However, since October, 1977, the Executive Committee has been having its full strength of Members.

IDBI has informed that the dates of Board and Executive Committee meetings are generally decided in advance taking into account the need for better attendance. The contents of the Memorandum dated March 3, 1981 from the Bureau of Public Enterprises regarding regular attendance of all the members at the Board Meetings were brought to the notice of the IDBI by the Government. These instructions, in turn, have been brought to the notice of the Directors by the IDBI.

[Ministry of Finance O.M. No. 10(103) IF. 1/80 dated 27-3-82]

Recommendation (Serial No. 32) .. ..

"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."

(Paragraph—6.78)

Reply of the Government

A number of steps have been taken by the IDBI to improve the arrangements for supervision and upgradation of SFCs such as the introduction in 1979-80 of the requirement that each SFC should prepare a Business Plan and Resource Forecast (BPRF) and that besides annual evaluation studies of the institutional development programmes prescribed for each SFC there would be a full fledged inspection of SFC once in two years. As the State Governments concerned have also a major role in determining the performance of the SFCs, the State Governments/Ministries were addressed, at the highest level for bringing about necessary improvements.

[Ministry of Finance O.M. No. 10(103)/IF-I/80 dated 29-3-82]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation (Serial No. 4)

As an apex institution the IDBI ought to be responsible for business planning and resources 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.

(Paragraph—1.38)

Reply of the Government

While estimating future resource requirements of IDBI and other institutions, a view is taken about the quantum of assistance required for creating new capacities and for modernisation and up-gradation of existing units. No further break-up of new capacity to be created through expansion of existing units or through setting up of new units is, however, attempted. It is felt that separate allocation of funds for expansion of existing units *vis-a-vis* new projects and consequently earmarking of such funds, may not be desirable as this might lead to pre-emption of funds and consequent non-utilisation of available funds. Given the tight resources position of institutions, any predetermined allocation of funds between new and expansion projects might not be practicable or desirable.

[Ministry of Finance O.M. No. 10(103)|IF-1|80 dated 29-3-82]

Recommendation (Serial No. 8)

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 appriasal, duplication of efforts of all India 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 would be no duplication of efforts by the financial institutions. This would also make for specialisation and better expertise in project appraisal.

(Paragraph—1.42)

Reply of the Government

The present system of lead institution concept, both for project appraisal and follow-up, which provides for pooling and dissemination of information on technological changes, has been working satisfactorily. Also, the geographical location of projects helps entrepreneurs to go to particular institutions. There is very little duplication of efforts among the institutions at present, and there would be further improvement in this regard when the Power of Attorney arrangement and the Participation Certificate Scheme which are already being implemented in suitable cases—are fully evolved.

[Ministry of Finance O.M. No. 10(103)/IF-I/80 dated 29-3-82]

Recommendation (Serial No. 13)

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.

(Paragraph—2.55)

Reply of the Government

In the light of experience gained so far with the working of the convertibility scheme, Government issued certain fresh guidelines relating to convertibilty clause in August 1980. Uuder the new guidelines convertibility stipulation is obligatory only in cases where the total institutional assistance exceeds Rs. 1 crore (as against the earlier limit of Rs. 50 lakhs) and the convertibility stipulation may be so exercised that the total institutional holding does not normally exceed 40 per cent of the share capital of the company. Besides, the soft loan scheme and modernisation assistance has been exempted from the conversion option.

The question of exercise or waiver of conversion option is considered by the institutions in the light of all relevant factors such as working of the company at the time of exercise of conversion option, company's future prospects, managerial competence etc. In respect of units with weak or recalcitrant managements, if it is felt necessary to strengthen the voting rights of the institutions for bringing about needed changes in management, conversion option is exercised for achieving this purpose. As regards timing of the exercise of convertibility option, it is determined in such a manner that it commences after the operations of the unit got stabilised at a reasonably satisfactory level of production and profitability. Thus, the exercise of conversion option is already linked to level of production but in addition linkage with profitability and dividend paying capacity is also important, to meet the intention behind the government guidelines of sharing in prosperity of assisted units. Conversion option is waived in respect of companies which are unlikely to declare dividend in the near future or whose share are quoted below par, or whose equity has been eroded or where existing institutional shareholding exceeds 40 per cent of the total equity of the company concerned. Fixing the timing of conversion to a certain level of production of a unit as recommended by the Committee, may not be desirable or practical as in the inflationary and uncertain conditions, it may si happen that even after achieving a certain level of production by a unit, its operations may not result in profit. It is, therefore, felt that a certain amount of flexibility should be allowed both in respect of circumstances and the timing for exercising the conversion of option.

The decision to waive the conversion option is taken by the Board of Directors of the institutions if the loan has been provided by a single institution. In cases of consertium fincing, the decision is taken at the Inter Institutional Meeting. Governmet is also keeping a watch on the waiver of the conversion option by the Institutions by obtaining regular periodical reports in this regard. In these circumstances, the need for issuing fresh guidelines in regard to the circumstances and timings far exercise of the conversion option has not been felt.

[Ministry of Finance O.M. No. 10(103) IF-1|80 dated 25-3-82]

Recommendation (Serial No. 15)

Working capital is an important determinant of the success of an industrial project but in 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 participated in term-loan financing. Often lack of working capital is the cause of sickness in 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 workéd by the IDBI for the guidance of all the financial institutions and enforced.

(Paragraph—2.56)

Reply of the Government

The financial institutions estimate the working capital requirements of units seeking assistance at the time of appraisal and the necessary margin money for working capital is included in the project cost. The actual requirement of working capial would arise only after completion of the project. If any of the assisted units face shortage of working capital, the matter is taken up by the institutions with RBI and the concerned banks and efforts are made to overcome the difficulties faced by the units. Banks which are likely to provide working capial finance, are normally associated with the appraisal of projects, especially large ones, but the actual commitment for working capital limits is made by them, only when the project is nearing completion as there is considerable time-lag between the appraisal stage and the point when units go into production.

Banks concentrate on giving only short term loans for working capital purposes. According to existing policy, Banks can term loans normally to overall projects costing less than Rs. 1.5 crores or very large projects costing over Rs. 5 crores where the term loan requirements are large. In each case, banks can give term loans only in consortium with the term lending institutions. For ensuring proper coordination between term lending institutions & the banks, an Inter-Institutional Group had been appointed by RBI. The recommendations of the Group were accepted by GOI, RBI & IDBI and accordingly arrangements have been made for coordination between the banks & institutions.

[Ministry of Finance O.M. No. 10(103)/IF-I/80 dated 29-3-82]

Recommendation (Serial No. 20)

"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 mechinery 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."

(Paragraph—4.26)

Reply of the Government

The Committee has raised two issues (i) the justification for difference in the interest rates under Soft Loan Scheme and under Bills Rediscounting Scheme though both are for modernisation assistance, and (ii) the need for a margin of 2 per cent to commercial banks under the Bills Rediscounting Scheme. In regard to the former, it may be mentioned that the Soft Loan Scheme is essentially meant to take care of the backlog of modernisation in only the five specified industries. The concessional elements in the lending rates under the Scheme were intended to suit the needs of relatively weak units as well as to serve as an incentive for timely modernisation by the not so weak or better off units. The Bills Rediscounting Scheme is availed of normally by healthy units for their regular replacement, balancing needs, etc. There is also a limit of Rs. 1 crore for availment of this facility by any unit in a given year. Modernisation requirements beyond this limit as well as requirements for finance on somewhat softer terms in regard to rate of interest and repayment period, are met through modernisation assistance under project finance or through soft loans (in respect five industries eligible for Soft Loans). Bills Rediscounting Scheme has a number of advantages for the borrowing units in so far as no detailed project preparation and appraisal are necessary. Under the Scheme, productive equipments could be acquired with minimum delay and could contribute to the profits of borrowing units almost immediately. Therefore, the borrowers generally do not find it difficult to bear the slightly higher cost of raising funds under the Scheme. The slightly higher return under the Scheme enables IDBI to undertake a number of developmental and promotional activities including extension of refinance assistance and concessional assistance for units in backward areas on which the financial returns are low.

The margin enjoyed by commercial banks under the Bills Rediscounting Scheme would work out to 1 per cent after adjusting for interest tax payable by commercial banks, and at this level the margin does not appear to be high.

[Ministry of Finance O.M. No. 10(103)/IF-1/80 dated 29-3-82]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendations (Serial No. 2)

"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". (Paragraph—1.36)

Reply of the Government

The responsibilities of IDBI as an apex development bank and as coordinating agency of all development banks as envisaged in the Industrial Development Bank of India Act are not regulatory or controlling but are in the nature of ensuring effective co-ordination and bringing about development of other institutions. There is, in fact, a clear understanding about the functions of IDBI even as enlarged by the amending Act of 1975 and these functions are being effectively discharged. A detailed memorandum on the enlarged functions was also adopted by the IDBI Board at its first meeting held in March, 1976, after IDBI's delinking from the Reserve Bank of India. Over the years, IDBI has evolved certain institutional arrangements for exercising its coordinating role. These are the periodical Senior Executives Meetings and Inter-Institutional Meetings at which all important matters regarding institutional finance as well as all major cases are discussed. The IDBI finds representation on the Boards of other financial institutions and similarly other financial institctions are also represented on the Board of the IDBI. The above arrangements are working satisfactorily from the point of view of both IDBI and the Government.

2. It is also felt that written instructions under the Act would tend to be rigid whereas the present arrangement is flexible and would evolve according to the needs of the situation which is more advantageous for operational institutions. For these reasons, it has not been found necessary to frame separate Regulations or issue specific guidelines in this regard.

[Ministry of Finance O.M. No. 10(103)/IF-1/80 dated 29-3-82]

Comments of the Committee

(Please see paragraphs 1 to 5 of Chapter I)

(Recommendation (Serial No. (3)

"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 industrial licensing system has not in consequence ensured the development of industries prevent the growth of capacity in non-essential industries; has not also been effective in securing proper regional dispersal of industries 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." (Paragraph—1.37).

Reply of the Government

The pattern of development financing in India has been conformity with plan objective and priorities. The institutions take up for processing and sanction only such projects which have an industrial licence or letter of intent and also fit in the plan framework. This is borne out by the fact that nearly 80 per cent of IDBI's assistance has gone to priority and core industries and a substantial portion of the assistance has gone to backward areas.

Government has indicated for the confidential use of the financial institutions a list of industries eligible for priority assistance and another list of industries which are not to be normally financed by the term financing institutions. These lists have been prepared by the Government in accordance with the plan priorities.

[Ministry of Finance O.M. No. 10(103)|IF-1|80 dated 29-3-82]

Comments of the Committee

(Please see paragraphs 6 to 8 of the Report)

Recommendation (Serial No. 5)

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." (Paragraph—1.39).

Reply of the Government

The annual reports of the IDBI and the annual review of its operations are being laid before Parliament annually. The Report on Development Banking in India is more in the nature of reference material on the activities of development banks in the country and is not published every year. Copies of the Report on Development Banking in India could, however, be sent to the Lok Sabha and Rajya Sabha Libraries for reference purposes.

[Ministry of Finance O.M. No. 10(103)/80-IFI dated 25-3-82]

Comments of the Committee

(Please see paragraphs 9 to 11 of Chapter I)

Recommendation (Serial No. 9)

"There is not much of a formal control by the IDBI over other financial institutions exept in relation to the IFCI and 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 that 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 its 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."

(Paragraph—1.43)

Reply of the Government

IDBI has evolved over the years, certain institutional arrangements for exercising its coordinating role. These are the periodical Senior Executive Meetings and Inter Institutional Meetings at which all important matters regarding institutional finance are discussed. In case of all the institutions IDBI has nominee Director(s) on their Boards through whom IDBI is in a position to influence their decisions and exercise the coordinating role. The other institutions, including State Financial Corporation and banks, also have their representatives on the Board of the IDBI. The above arrangements are working satisfactory from the point of view of both IDBI and the Government. It is also felt that the present flexible arrangement is more advantageous for operational reasons.

In terms of the provisions of the IDBI Act, two director shall be officials of the Central Government. The Ministry/Division of the Government that are very closely associated with all the activities of the development bank *viz.* Ministry of Industry and Banking Division are accordingly represented on the Board of IDBI. Planning Commission is consulted in all matters where their advice could be of use to the institutions. The Planning Commission also has an opportunity at the time of annual Plan discussions and at other times to review the performance of IDBI and other institution and make suitable suggestions. In these circumstances it is felt that it would not be necessary or possible to nominate a representative of the Planning Commission as one of the two Government nominees on the Board of IDBI.

[Ministry of Finance O.M. No. 10(103) IF-1|80 dated 25-3-82]

Comments of the Committee

(Please see paragraph 15 to 17 of Chapter I)

Recommendation (Serial No. 21)

"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."

(Paragraph—4.27)

Reply of the Government

As indicated in comments against Serial No. 14 commercial banks concentrate mainly on short terms fianacing for working capital and their role in term financing has been kept at the minimum. However, banks involvement in term financing cannot be entirely ruled out. Particularly in the case of small scale and tiny & village industries, banks with their wide network of branches and closer contracts with borrowers, are in a better position to provide timely assistance and monitor the progress of assisted units. State level institutions, viz. SFCs and SIDCs with limited number of branches would find it extremely difficult to cater to the entire requirements of this category of industries. The refinance mechanism of IDBI should not be viewed only as a resource support to banks and State level institutions but as an instrument for ensuring the flow of assistance to small, tiny and village industries according to priorities. The refinance assistance to commercial banks would, therefore, be in the national interest and would need to be continued.

The RBI has been conducting some special courses for bankers at their Training College in Bombay for improving the appraisal and monitoring mechanism of commercial banks. The IDBI has also agreed to take necessary action in consultation with the RBI for further strengthening the appraisal and monitoring mechanism of commercial banks for ensuring proper and effective end-use of the refinance assistance.

[Ministry of Finance O.M. No. 10(103)|IF-1|80 dated 29-3-82]

Comments to the Committee

(Please see paragraphs 18 to 20 to Chapter I)

CHAPTER V

RECOMMENDATION IN RESPECT OF WHICH FINAL REPLY OF GOVERNMENT IS STILL AWAITED

Recommendation (Serial No. 18)

"Incidentally, the Committee understand that the 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 lakhs. The Committee would await the outcome of the efforts for recovering the amount."

(Paragraph—3.23)

Reply of the Government

The share of IDBI in the guarantee was for Rs. 131.72 lakhs. ECGS has provided cover to the extent of 90 per cent of the total guarantee committed. Efforts for recovery of the amount from M/s. Dalal Consultants are being continued by the IDBI and the assisted concern has since submitted a repayment programme which is being examined by IDBI, SBI and ECGC.

[Ministry of Finance O.M. No. 10(103)/IF-1/80 dated 29-3-82]

NEW DELHI;
April 27, 1982
Vaisakha 7, 1904 (*S*)

BANSI LAL,
Chairman,
Committee on Public Undertakings.

APPENDIX

(*Vide* Para 3 of Introduction)

Analysis of action taken by Government on the recommendations contained in the Twenty fourth Report of the Committee on Public Undertakings (Seventh Lok Sabha).

I.	Total number of recommendations made	32
II.	Recommendations that have been accepted by the Government (*Vide* recommendations at S. Nos. 1, 6, 7, 10 to 12, 15 to 17, 19 and 22 to 32)	21
	Percentage to total	65·62%
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies (*Vide* recommendations at S. Nos. 4, 8, 13, 14 and 20)	5
	Percentage to total	15·63%
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (*Vide* recommendations at S. Nos. 2, 3, 5, 9 and 21)	5
	Percentage to total	15·63%
V.	Recommendation in respect of which final reply of Government is still awaited (*Vide* recommendation at S. No. 18)	1
	Percentage to total	3·12%

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