NINETEENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1992-93)

(TENTH LOK SABHA)

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, 1993

LOK SABHA SECRETARIAT
NEW DELHI

April, 1993/Vaisakha, 1915 (Saka)

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COMMITTEE ON PUBLIC UNDERTAKINGS
(1992-93)

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Shri P.K. Grover — *Assistant Director*

* Ceased to be a Member of the Committee consequent on appointment as Minister in the Council of Ministers w.e.f. 18th January, 1993.

INTRODUCTION

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

2. The Committee took evidence of the representatives of Industrial Development Bank of India on 30th and 31st July, Ist September and 20th and 21st October, 1992 and of the Ministry of Finance (Department of Economic Affairs) on 11th and 25th January, 1993.

3. The Committee considered and adopted the Report at their sitting held on 23rd April, 1993.

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

5. The Committee would also like to place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

NEW DELHI;
April 27, 1993
Vaisakha 7, 1915 (S)

A. R. ANTULAY,
Chairman,
Committee on Public Undertakings.

CHAPTER I

ROLE AND OBJECTIVES

A. Historical Background

1.1 Industrial Development Bank of India established in July 1964 was originally constituted as a wholly-owned subsidiary of the Reserve Bank of India (RBI), so that the new institution could benefit from the financial support and experience of the central banking institution for shaping IDBI to serve as the principal financial institution for term finance for industry.

1.2 Under the Public Financial Institutions Laws (Amendment) Act, 1976, the ownership of IDBI was transferred from RBI to the Government of India from February 16, 1976 and various responsibilities which RBI earlier has *vis-a-vis* industrial financing institutions in the country were vested in the reconstituted IDBI. The IDBI was made 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 and for providing credit and other facilities for the development of industry and for matters connected therewith."

1.3 With the setting up of the Export-Import Bank of India (EXIM Bank) under the Export-Import Bank of India Act, 1982, the export finance operations of IDBI were transferred to the newly constituted EXIM Bank with effect from March 1982.

1.4 The small Industries Development Bank of India (SIDBI), a wholly-owned subsidiary of IDBI was set up under the Small Industrial Development Bank of India Act as the principal financial institution for the promotion, financing and development of small scale industries and also for co-ordinating the functions of existing institutions engaged in similar activities. SIDBI, commenced operations on April 2, 1990.

B. Role and Objectives

1.5 The main objective and role of IDBI is to serve as the principal financial institution. It has been assigned a special role in (i) planning, promoting and developing industries to fill the gaps in the industrial structure in India, (ii) co-ordinating the working of institutions engaged in financing, promoting or developing industries and assisting in the development of such institutions, (iii) providing technical and administrative assistance for promotion, manangement or expansion of industry, (iv) undertaking market and investment research and survey as also techno-economic studies in connection with development of industry, and (v) promoting, forming or conducting or associating in the promotion, formation or conduct of companies, subsidiaries, societies, trusts or such other associations of persons. It has also been assigned the role of co-ordinating, in conformity with the national priorities, the activities of the institutions engaged in financing, promoting or developing industry.

1.6 In this connection, the Committee were informed by the Managing Director, IDBI in evidence as follows:

> "IDBI gives direct loan to industries particularly large industries and refinance assistance through banks and state level institutions to medium industries. IDBI has a developmental and promotional role also to encourage development of industries in the industrially backward areas of the country. The third important activity given to IDBI is co-ordination of activities of other financial institutions engaged in financing of industries."

1.7 Asked about the types of industries assisted by IDBI the committee were informed in a note that IDBI's Charter provides for considerable operational flexibility. IDBI can finance all types of industries irrespective of the form of organisation or size of the unit. Also, there are no restriction on the nature and type of security and quantum of assistance which IDBI can provide. The forms of direct financing extended by IDBI include loans, equity participation and guarantees. Indirectly, IDBI can provide term finance to industrial concerns through refinancing of loans granted by other institutions, discounting / rediscounting machinery bills and by subscribing to the shares and bonds of eligible institutions engaged in providing term finance for industry.

1.8 The Committee desired to know how far the IDBI has been able to fulfil the objectives for which it was set up. The Secretary, Ministry of Finance (Department of Economic Affairs) stated in evidence:

> "We believe that IDBI has played a very important role in helping in providing development finance as well as in general co-ordination, policy guidance, building an entrepreneurship base, and so on, for the past several years. It has taken very special initiatives to deal with the problems of particular segments, particularly the small scale sector. We feel that the IDBI has indeed played the role assigned to it. Of course, every time this role keeps on evolving because of the economic circumstances in which the IDBI operates."

1.9 On being enquired about the new initiatives taken up by IDBI, the Joint Secretary, Department of Economic Affairs stated as follows:

> "There have been a number of initiatives that the IDBI has taken, which have been very different to the earlier business that it conducted. For instance it has gone into financing venture capital, in the last few years. For the last three years, it is financing

merchant banking operations. It has recently commenced exploration to see whether an off-shore mutual fund can be set up. It has taken steps to sponsoring the Stock Holding Corporation of India, and so on."

1.10 In a note submitted to the Committee , IDBI had expressed the opinion that keeping in view the priorities of the Eighth Plan and developments of the economy, there was a need to further expand the scope of IDBI Act. The specific areas in which the changes may be required could be worked out after the details of Eighth Plan became available.

1.11 Asked to state his views on the desirability of amending the IDBI Act, the Secretary, Department of Economic Affairs replied in evidence as follows:

> "Our feeling is that at present, the statutory framework does not need to be changed. But certainly if it were felt that there is a role for IDBI to play which is being held back by its present framework, we will have to have a look at the Act for a change. One possible area is how to raise more resources. The Planning Commission says that it will not be possible to provide budgetary support in the form of equity contribution to the financing institutions. Sir, it is very likely therefore in future that mobilisation of capital for the financing institutions itself is needed so that it can leverage its given capital through more borrowings. This capital will have to come not from the Budget but from the capital market. To that extent it may become necessary to make more changes but other than that we feel that the Act framed as at present certainly helps the IDBI to perform its functional role which the IDBI is performing."

C. Social Objectives

1.12 While taking oral evidence in connection with the examination of another subject, it was pointed out by the Committee to the representatives of IDBI that financial institutions were assisting public sector as well as private sector industries. In this context the Committee desired to know how far the industries set up by assistance from the financial institutions could be made responsible for development of the area where they are set up. The Chairman, IDBI stated in evidence held on 3rd February, 1993 as follows:

> "We are dealing with units in the private sector, cooperative sector and also the public sector...whatever may be the label of the corporate unit whether it is the private sector of public sector, ultimately everybody is using the inputs from the society...To my mind, no unit can work only serving their own stakeholders because...the local people are also the stakeholders, the customer is also a stakeholder, laymen and employees are also stakeholders

> because their future is also dependent on the working of the unit...I would like to mention here that over the last several years there has been a competition between States to attract industry. They will give all sorts of facilities such as sales tax concessions, loans, waiver of this duty and that duty and so on...while the States and the local authorities are vying with each other to attract different industries, side by side they must lay down certain guidelines not only about setting up of units but also about what they are going to do on environment, upgradation of skills and human resoruces *etc*...the States must have a standard MOU. The MOU should outline how are they going to accomplish the tasks regarding social responsibilities. And signing of that MOU is an essential part for getting incentive packages...I suggest that the local authorities while selling lands, they must first of all set targets in regard to setting up hospitals and they must take everybody sign the MOU. They must be asked to contribute capital cost and running cost."

1.13 Asked to state the role that the financial institutions could play in this respect, the witness stated:—

> "It is not necessary that everybody has to come to IDBI. Many people are raising money in different methods. This is a very important change in the financial system...I had often thought whether I should make condition in our sanctions. But after considerable deliberations, I am against such a proposition."

1.14 On being asked to state his views in regard to discharge of social obligations by IDBI and other financial institutions through the Industries assisted by them, the Secretary, Department of Economic Affairs deposed before the Committee in evidence:—

> "The financial institutions are not the best instruments for performing the social obligation...These are very important norms but should not be designed by these institutions...we feel that the financial institutions themselves cannot directly engaged in this."

1.15 Upon this the Committee enquired as to what should be the mechanism that could ensure the carrying out of such important social obligations like development of the particular area where an industry is set up with the assistance of a financial institution. the Joint Secretary, Department of Economic Affairs replied in his evidence before the Committee as follows:—

> "The first issue is about the project affected people, and training them so that finally they can also participate in the fruits of the industry which is to be located. We believe that this is very necessary and this is very desirable...The limited point we sought to make...was that we did not believe that this is conditionality that the financial institution should impose. We believe that this

sould be better imposed through a policy which is laid down by the Government of India and by the State Governments because primarily if one is to take note of the requirements of the local area, then it is in the State Government's jurisdiction...For instance, there are policies laid down by the State Governments on environment, etc. The moment those policies are laid down, the financial institutions do insist that unless the clearance is obtained, loans will not be given. In the same way, I would like to submit that if there is a policy laid down in individual States about the social responsibilities which need to be discharged by new companies which set up projects over there... I can assure that all the financial institutions including the IDBI would certainly see to it that they made it a conditionality, as we do, in respect of other laws which industries have to abide by."

D. Apex Role of IDBI

1.16 According to IDBI Act, IDBI is to act as the principal financial institution for co-ordinating, in conformity with national priorities, the working of institutions engaged in financing, promoting or developing industries and assisting in the development of such institutions. The Committee disired to know how such coordination was being achieved, IDBI informed the Committee in a written reply that IDBI sought to co-ordinate the working of the all India Financial and Investment Institutions mainly through the forum of Inter-Institutional Meetings (IIM) held at the level of heads of institutions under the leadership of Chairman, IDBI. The forum shaped the broad policy framework of the financial institutions and also of the investment institutions in so far as their term lending operations were concerned. At the micro-level, through the mechanism of IIM in the case of very large projects and Senior Executive Meetings in the other cases, it was ensured that only those project proposals which conform to national priorities and objectives were taken up for institutional support.

1.17 The Committee on Public Undertakings (1980-81) had in their 24th Report pointed out that no detailed regulations had been made by the Board of 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 had recommended 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.

1.18 The Government had in their reply stated *inter-alia* as follows:

"It is also felt that written instructions under the Act would tend to be rigid where as the present arrangement is flexible and would evolve according to the needs of the situation which is more advantageous for operational institutions."

1.19 The Committee had reiterated in their 45th Report (1981-82) that Government should atleast issue some broad guidelines in this regard leaving scope for flexibility of operations. On being enquired whether the Government had since issued any such guidelines, the Committee were informed by IDBI in a written reply that no specific guidelines have been issued by Government in this regard.

1.20 The Committee wanted to know the reasons for not issuing the guidelines. The Secretary, Department of Economic Affairs stated in evidence:

> "...the substantive position is that Ministry's view was that guidelines are not necessary....in deference to the point that you have now raised before us, I am noting that we are about to set up the Board for Financial Supervision, which could consider once again this issue.....once the Board for Financial Supervision is set up and the Board has looked at IDBI and given us its report, based on that the Government could consider whether we can change its position.....we will give you what the Government's decision is."

1.21 The Committee on the Financial System under the Chairmanship of Shri M. Narasimham in its report submitted in November, 1991 recommended that the IDBI should separate its promotional apex and refinancing role in respect of, for instance, State Financial Corporations, SIDBI etc. and its direct financing function. This could be brought about by setting up a financial institution which could be incorporated as a company to take over IDBI's direct lending function.

1.22 Asked to state his views and the present position in the matter, the Chairman, IDBI stated in evidence before the Committee:

> "Direct operations generate surplus and in other operations surplus is not generated........a decision has been taken and conveyed to us that splitting is not going to take place. The second thing is that no decision has been taken as far as incorporating it as a company is concerned.......If they want us to play a slightly different role, not the role of maximising the profit, then we have to be a statutory body. I must mention that as far as I see the budget situation, I see Government's inability to fund us as they were doing in the past."

1.23 When the Committee asked for Government's views in regard to the bifurcation of IDBI, the Joint Secretary, Department of Economic Affairs stated as follows:

> "Currently, the position is that we will not be separating IDBI into two organisations—one to conduct commercial business and the other to conduct refinance business. IDBI has in its charter not only the responsibility for lending directly to industries but also the responsibility of ensuring that State-level institutions, namely, State Financial Corporations and State Industrial Development Corporations are supported through an extensive mechanism of refinance

as well as of equity support to these organisations..........Now these two roles are different. It is partly a promotional role for ensuring that State Financial Corporations fund a system of development. The other is a straight-forward commercial role where they are directly financing as ICICI and IFCI are doing (which would not have IDBI's other responsibilities) Over time, these two responsibilities have not necessarily appeared to be synchronising in that IDBI has found that certain activities may be more profitable. It has begun to realise that direct financing is basically more profitable because when refinance is given, it has to be given at a lower rate of interest...........subsidies were earlier being given to financial institutions either directly by the Government or as part of the statutory liquidity ratio. Now, each institution necessarily has to find its own ways of ensuring commercial strength.........Now, SIDBI and IDBI have to mobilise resources in such a way that they would be able to give three percent below the final lending rate to the borrower. So they have been under considerable constraints. In view of this difficulty, that is, of becoming a strong competitor and profitable organisation, there was a thinking as to whether it would be proper to separate it into two different organisations with perhaps a claim for interest rates subsidy support for the promotional activities and refinancing activities which IDBI needs to take up.............There was considerable discussion on whether separation is necessary or not. The Narasimham Committee had, in fact, suggested that IDBI be separated into two organisations for these reasons .... When seen from a commercial point of view, there were merits in the proposal. But we also felt, when we discussed with IDBI, that there were also demerits in this........This recommendation has not been accepted. Currently, we have no plans to split IDBI. That is the current position."

1.24 The Industrial Development Bank of India was originally constituted in July, 1964 as a wholly owned subsidiary of the Reserve Bank of India. Its ownership was transferred from RBI to Government of India in February, 1976. Apart from its main objective to serve as the principal financial institution, IDBI has also been assigned a special role in planning, promoting and developing industries to fill the gaps in the industrial structure and coordinating the working of institutions engaged in financing, promoting or developing industries and assisting in the development of such industries. It has also a developmental and promotional role to encourage development of industries in the industrially backward areas of the country. In this context, it was brought to the notice of the Committee by IDBI that in view of the priorities of the Eighth Plan and developments of the economy, there was a need to further expand the scope of IDBI Act. Besides, as indicated by the Secretary, Department of Economic Affairs, it

might not be possible to provide budgetary support in the form of equity contribution to the financing institutions. Instead the capital would have to come from the capital market. The Committee would, therefore, suggest that Government, in consultation with IDBI, should identify the specific areas in which amendments to IDBI Act might be required in the light of priorities of Eighth Plan and the recent developments in the economic sector.

1.25 The Committee note that assistance by IDBI is being provided to private sector, joint sector and public sector. Whatever the nature of corporate entity, ultimately it is the public funds which are being utilised through assistance provided by IDBI and other financial institutions. Thus, the society at large is a major stakeholder in the units assisted by the financial institutions. Besides, the State Governments often provide various other concessions and facilities for setting up industries in a particular area. However there appears to be no mechanism whereby fulfilment of certain social obligations by the assisted units could be ensured.

1.26 In the opinion of the Committee, contribution towards development of the area where a particular industry is set up, timely payment of compensation to displaced persons, training and employment to local people and improvement in general quality of life of local people including medical facilities are the minimum social obligations which must be fulfilled by a unit—whether in private or public sector—which is set up by assistance from a public financial institution. The Committee have been given to understand that it may not be practicable for the financial institutions themselves to include such provisions as conditionalities in the loan documents. However, once there is a policy laid down by the Government of India and the individual State Governments about the social obligations to be discharged by the new projects set up, this would be made as conditionality by all financial institutions including IDBI as was being done in respect of other policies laid down such as environmental clearance etc. The Committee, therefore, recommend that model policy guidelines should be laid down by the Government of India in regard to the social obligations expected of the units assisted by the financial institutions and the State Governments should be asked to enforce them strictly with suitable modifications depending upon local needs. However, pending formulation of such guidelines, IDBI should insist atleast on provision of hospitals and drinking water facilities by large units assisted by it.

1.27 During evidence, it was pointed out by the Committee as an example that in the otherwise highly industrialised district like Raigad, the scarcity of drinking water to the poverty—stricken villages was a stark reality. It was one of such typical cases of affluence co-existing with affliction. The Chairman, IDBI, the Committee appreciate was quick to volunteer to work out a scheme to cover the whole district so that the acute problem of drinking water between February and June each year is solved. Satisfaction of such a dire need by pooling the resources of the industries will help the ideal of public, private and cooperative sector industries being socially conscious and publicly accountable. The Committee are happy that Chairman, IDBI has assured to coordinate this activity to set an example in all other similar areas/regions. The Committee hope that IDBI will, within a few months embark upon this scheme.

1.28 The Committee were informed that the coordination role of IDBI was being performed mainly through the forum of Inter-Institutional Meetings (IIM) held at the level of heads of institutions under the leadership of Chairman, IDBI and the Senior Executive Meetings. In this connection, the Committee wish to point out that as far back as in 1980-81, they had recommended that suitable guidelines should be issued to IDBI in regard to the apex role assigned to it by the amending Act of 1975. This was also reiterated in their 45th Report (1981-82). However the Committee find to their dismay that no such guidelines have so far been issued. It was only when the matter was again raised during evidence that the Secretary, Department of Economic Affairs agreed to examine the issue afresh after the proposed Board for Financial Supervision which is yet to be set up gives is report to Government. The Committee cannot but express their strong displeasure over the failure of Government in issuing any guidelines in regard to the apex role of IDBI even though a period of twelve years has elapsed since the recommendation was first made. They would now urge the Government to issue at least some broad guidelines in this regard to enable the IDBI to effectively discharge its coordination function which could later on be modified, if necessary, in the light of the report of the Board for Financial Supervision.

1.29 The Committee on the Financial System under the Chairmanship of Shri M. Narasimham had in its report submitted in November, 1991 recommended that the IDBI should separate its promotional apex and refinancing role in respect of, for instance, State Financial Corporations, SIDBI etc. and its direct financing function. The Government have reportedly not accepted this recommendation and currently there are no plans to split IDBI into two organisations. This Committee endorse the stand taken by Government. For, IDBI has in its charter not only the function of direct lending to industries but also the responsibility of supporting the state-level institutions, namely, State Financial Corporations and State Industrial Development Corporations through an extensive mechanism of refinance as well as of equity support to them. The latter responsibility is not being carried out by other financial institutions. With the accent now being on the financial institutions mobilising resources on their own, IDBI might not be able to provide refinance to State level institutions at three per cent below the final lending rate to the borrower, in case its direct lending function, which is admittedly more profitable, is separated from the refinancing role. In the circumstances, the Committee are of the view that IDBI should not be split into two organisations as long as it is expected to perform its promotional role.

CHAPTER II

OPERATIONS

A. Sanctions and Disbursements

2.1 The Industrial Development Bank of India provides financial assistance under the Direct Finance Schemes, Refinance Scheme and Bills Rediscounting. Under the Direct Schemes, IDBI provides project finance in the form of loans, underwriting of and direct subscription to shares and debentures and guarantees for loans and deferred payments.

2.2 The Committee were informed by IDBI in a note that as a matter of policy, it provides direct financial assistance for viable projects which are in conformity with national priorities laid down by the Government of India. Priority is thus accorded to projects such as those located in Centrally declared backward areas (including for development of infrastructural facilities), contributing significantly to direct and indirect employment generation, export-oriented and those contributing to agricultural and rural development. Direct financial assistance is extended to "Industrial concerns" as defined under Section 2(c) of IDBI Act. Assistance is normally provided to companies registered under the Companies Act in the public, private and joint sectors as also societies organised in the co-operative sector. Private limited companies may also be considered for assistance if they are export oriented or in high technology/priority industries. There is no limit on the amount of assistance that can be provided or on the size of the project to be financed. However, as a matter of prevalent policy, exposure to a single company does not normally exceed 25% of the paid up capital and free reserves of IDBI. For direct financing IDBI normally takes up projects costing more than Rs. 5 crores. However, on account of special problems in North-Eastern region. IDBI considers assistance for projects less than Rs. 5 crores coming up in that region.

2.3 Industrial projects in the small/medium sector costing not more than Rs. 500 lakhs are assisted by IDBI under its refinance scheme. These include medium sized units, small scale industries, small road transport operators (SRTOs) as also artisans, village and cottage industrial units in tiny sector. Loans granted to industrial concerns as defined in Sec. 2(c) of IDBI Act, 1964 having project cost upto Rs. 500 lakhs are eligible for refinance assistance. With the setting up of SIDBI refinance in respect of small scale sector is provided by SIDBI from April 1990. Refinance assistance is extended through State Finance Corporations (SFCs)/notified State Industrial Development Corporations/State Industrial Investment

Corporations (SIDCs)/(SIICs), scheduled commercial banks, Regional Rural Banks and the State Cooperative Banks.

2.4 The Bills Rediscounting scheme of IDBI introduced in April, 1965, enable the manufacturers of indigenous machinery/capital equipment to push up sales by offering deferred payment facilities to the prospective purchaser-user and helps the purchaser-user to acquire quickly and utilise the required machinery/equipment and repay its cost over the years.

2.5 The Committee asked for details of category-wise targets and actuals in respect of sanctions of assistance by IDBI during the last five years. The following information was furnished by IDBI:

Sanctions of Assistance — Targets and Actuals (Rs. Cr.)

(April-March)	1987-88		1988-89		1989-90		1990-91		1991-92	
Category	T	A	T	A	T	A	T	A	T	A
1. Direct Assistance	2082	1429	1790	2394	2849	3123	4800	4161	5025	4995
2. Refinance	1989	1924	2386	2501	2694	2608	900	897	640	705
3. Bills Financing	1110	1059	1165	1239	1340	1242	1250	1170	1300	1311
4. Others	136	194	295	373	371	591	350	669	775	629
	5317	4606	5636	6507	7224	7564	7300	6897	7740	7640
Actual as % of targets	86.6		115.4		104.7		94.5		98.7	

2.6 The Committee desired to know the reasons for the actual sanctions in respect of direct assistance and refinance being generally below the targets. The Managing Director, IDBI informed the Committee in evidence as follows:

> "The sanctions actually depend on the flow of applications. Every year, when we fix up our targets, we see what is the flow going to be during the year as a whole. At that point of time, we make some sort of estimate and fix the targets. But actually when we go along, we find that the flow is not actually according to what we have estimated. There is thus always some difference between the targets and the actual sanctions which we make."

2.7 The figures of actual sanctions and disbursement by IDBI for the years 1986-87 to 1991-92 were as follows:

Year	Sanctions	Disbursements	Amount* undisbursed	% of undisbursed amount to Sanction
1986-87	4162	3000	1162	27.9
1987-88	4606	3461	1145	24.8
1988-89	6507	4600	1907	29.3
1989-90	7564	4876	2688	35.5
1990-91	6897	4459	2438	35.3
1991-92	7640	5763	1877	24.5

2.8 The Committee enquired as to the reasons for the disbursements being always much less than the sanctions, the Chairman, IDBI replied in evidence:

> "At any point of time, there will be a difference between the figures of disbursement and sanction. The main reason is that sanction is as per the complete requirement of the project, whereas, implementation takes two to three years and the release of disbursement is according to the progress in the implementation of the project. While projects are implemented over a period of two or three years, sanctions keep on growing every year."

B. Performance of Assisted Companies

2.9 The Committee were informed by IDBI in a note that the number of public limited companies in the private sector directly assisted by it during 1988-89 (July-March), 1989-90 and 1990-91 were 369, 638 and 739 respectively.

2.10 When the Committee asked for the number of companies which earned profits during each of these years, IDBI informed that since a company took about 2 to 3 years to start commercial production, data on operating profit of companies assisted during these three years were not available at this stage. However, the results of the IDBI study on the financial performance of private sector companies would be indicative of overall performance of all IDBI assisted companies in general. Operating profits of the profit making companies in the IDBI sample study during the years 1988-89 to 1990-91 were Rs. 2058 crore, Rs. 2991 crore and Rs. 3844 crore while losses of the loss making companies amounted to Rs. 180 crore, Rs. 170 crore and Rs. 133 crore respectively for the same period.

2.11 During the three year period 1988-89 to 1990-91 out of the total sample of 401 IDBI assisted companies, the percentage of companies which made profits was stated to be around 82% while the percentage of loss making companies was around 18%. It was also stated that this proportion was in line with the findings of similar studies brought out by RBI and that the companies assisted by IDBI were performing in line with general trends in the economy.

2.12 Over the three year period, the major industries which did not fare well and in which most of the IDBI assisted loss making companies were to be found included textiles (especially mill sector), polyester staple fibre, paper and motor cycles and scooters. The performance of cement units was mixed.

2.13 In regard to the improvements needed in the IDBI's appraisal techniques the committee were informed that IDBI has been constantly reviewing its appraisal skills. The appraisal machinery has been further strengthened by setting up of the Technology Department and Market Research Department.

C. Monitoring of Assisted Projects

2.14 The Committee desired to be apprised of the system of monitoring and follow up of projects assisted by IDBI. They were informed in a written reply submitted by IDBI that as in the case of appraisal and sanction of assistance, follow-up and monitoring of the assisted projects is carried out by IDBI at Head Office, Regional Offices and Branch Offices. In so far as the follow-up system is concerned, during the implementation period of projects, quarterly progress reports are obtained from assisted concerns and analysed to see whether the physical and financial progress is in accordance with the original schedule and within the cost estimates made at the time of appraisal. In the case of certain large proejcts, mid-term review is made, with particular reference to the estimated project cost and time schedule. After the projects go into production, half-yearly reports are called for. These reports are examined to see whether the operational performance is satisfactory. Efforts are made to resolve problems identified upon analysis of progress reports.

2.15 It was also stated that besides scrutiny of the progress reports, follow-up visits are made for visual verification of the progress in project implementation and knowing the problems, if any, faced by them. Similarly, visits are also arranged to projects after they go into production. Follow-up visits are normally undertaken once in a year during the implementation phase and once in two years thereafter. Additional visits are undertaken if projects run into difficulties.

2.16 However, the committee were informed that project monitoring could be more effective if the assisted concerns furnish information about their projects in time and also readily come forward with their problems.

Asked to state the steps being taken to ensure that such information becomes available to IDBI in time, the Managing Director stated in evidence:

> "In terms of our loan agreement, they have to submit periodical reports about their progress during implementation and after they go into production, about their progress of the production and profit. That is a very important condition; and we see that it is followed by them. The main problem is with regard to inherent causes for sickness which do not get reflected in the statement. But our officers periodically visit these units. We also have a nominee Director on their Board. We are trying to make sure that the inherent causes of sickness come to our notice mush earlier that they normally do."

D. Sick Units

2.17 The total number of projects directly assisted by IDBI during 1964-91 was 5445 and the assistance sanctioned to these projects amounted to Rs. 19,472 crore. As at the end of March, 1991, IDBI had in its portfolio 278 sick units involving outstanding term loans of Rs. 748 crore.

2.18 On a query regarding number of potentially viable units, the Committee were informed in a note by IDBI that out of the 278 sick units 121 had been assessed as potentially viable and BIFR has finalised schemes for their rehabilitation and 90 more were in different stages of inquiry by BIFR. BIFR has formed *prima-facie* opinion for winding up in respect of 17 cases and recommended winding up in respect of 50 cases.

2.19 Asked about the factors contributing towards the units turning sick, it was stated that the units turned sick due to a combination of internal and external factors. The internal factors comprised management deficiency, characterised by frequent changes in managerial set up, absentee management, infighting among promoters, etc. time and cost overrun during implementation, technical obsolesence, labour roble, etc. while the external factors included changes in economic policies, demand recession, structural problems affecting a sector of industry as a whole.

2.20 The Committee desired to know as to why timely steps could not be taken to revent these units from turning sick. IDBI replied in a note submitted after evidence that on detection of on-set of sickness, steps are intitiated to prevent further deterioration and restore viability. Nevertheless, the sickness of some units get aggravated due to certain external factors *e.g.* demand recession, power cuts, labour unrest, etc. or managerial ineffectiveness; the curative process in such cases takes time.

2.21 Out of the 278 sick units in IDBI's portfolio, 12 were stated to be under liquidation and 59 were lying closed. The amount outstanding in respect of these 50 units was Rs. 127.19 crore.

2.22 On being enquired about the steps taken to recover this amount, the Managing Director, IDBI stated in evidence as follows:

> "In respect of units which have gone into liquidation, the only way to recover money is to file a suit and recover the money through sale of assets."

2.23 The Committee, thereupon, desired to know the efforts made for revival of sick units. They were informed in a note by IDBI that wherever called for, measures like management restructuring, market tie-up etc. were initiated. In respect of closed units which are considered potentially viable, efforts were made for their restart by adopting appropriate measures such as change of management, amalgamation with healthy units, generation of interest free funds by sale of surplus land etc. to ensure their long term viability. In some cases fresh assistance for rehabilitation of sick units was sanctioned. In 1990-91, rehabilitation assistance aggregating Rs. 26.2 crore to 20 sick units was sanctioned. In some cases need-based reliefs/concessions were provided.

2.24 On being asked to state the problems faced by IDBI and other Financial Institutions in regard to rehabilitation of sick units, IDBI stated in a note that the problems encountered in the timely formulation and effective implementation of rehabilitation schemes were largely on account of (i) non-cooperation of the borrowers for streamlining management and effecting financial discipline, (ii) delay on the part of promoters in raising the promoters contribution required as part of the package, (iii) delay on the part of other concerned agencies in implementing their part of the package and (iv) external factors affecting the industry as a whole or the unit in particular.

2.25 The Committee desired to know whether there were any possibilities of rehabilitating sick units which have turned non-viable. They were informed in a note by IDBI that the benefits that might derive out of rehabilitation efforts in such cases might not justify the high cost of rehabilitation. Banks and financial institutions therefore do not take up rehabilitation of those sick units which are not considered potentially viable though efforts are made by them to rehabilitate such units through amalgamations/expansion/diversification where feasible.

2.26 Asked to state the ultimate fate of such units where rehabilitation is not taken up by financial institutions and banks, the Department of Economic Affairs state in a note furnished after evidence:

> "If a unit is not considered potentially viable even after exploring the possibilities of its merger/change of management, etc, the unit may have to be wound up."

2.27 In regard to the rehabilitation of sick units, the Committee were informed by IDBI in a note that a set of detailed guidelines was issued by the RBI to banks in 1987 which were modified in June, 1989. Complementary guidelines were issued by IDBI to the State level financial institutions in 1987 and subsequent modifications and subsequent policy changes advised to them. The objectives of these guidelines were to ensure that the rehabilitation programme is implemented in a more co-ordinated and expeditious manner. The guidelines also cover the mechanism to be followed by the primary lending institutions like SFCs and banks to oversee the performance of these small scale units placed under the rehabilitation programme.

2.28 The Committee desired to know whether there was proper and effective co-ordination now between Financial Institutions on the one hand and commercial banks and state level implementation and rehabilitation packages for sick units. The Chairman, IDBI stated in evidence:

> "The co-ordination................has definitely improved. But I would not like to think that it is really still in a perfect order."

2.29 Asked to suggest the steps required to be taken to make the coordination more effective, IDBI in a note, made the following suggestions:

(i) The monitoring mechanism under the auspices of the Standing Co-ordination Committee constituted by Reserve Bank of India at All India Level should be made more effective to ensure compliance with the revised guidelines, especially in regard to medium and large industries.

(ii) RBI has set up State level Inter-Institutional Committees to monitor progress in drawing up and implementation of rehabilitation packages. This monitoring mechanism needs to be made more effective.

(iii) The banks should ensure that their officials having knowledge of the proposals attend the rehabilitation meetings regularly and are able to give decisions on the spot. They should designate a nodal official in each State/Region to facilitate the foregoing.

(iv) Drawing up of rehabilitation packages requires sacrifice on the part of the State Government and State Government agencies. These agencies should agree to the reliefs within a reasonable time.

2.30 The Committee on Public Undertakings (1981-82) had recommended that all India position regarding sick units and steps taken for their rehabilitation should be reflected in the Report on Development Banking in India. The recommendation was accepted by the Government. However, the Committee noticed that the above information was not being brought out in the Report on Development Banking.

2.31 Asked to state the reasons therefor, the Department of Economic Affairs informed in a written reply submitted after evidence that IDBI have been requested to initiate steps so that the data on sickness and rehabilitation of units finds a place in their next report on development banking.

E. Promotional Activities

2.32 IDBI was stated to have initiated certain promotional acitvities encompassing development of new entrepreneurs, economic upliftment of weaker sections of the community through self-employment in the industrial field, support to Science and Technology Entrepreneurs Parks, energy conservation etc. Some of these schemes are discussed in the succeeding paragraphs.

(i) Technical Consultancy Organisations

2.33 IDBI in association with other institutions has set up 17 Technical Consultancy Organisations (TCOs) for meeting consultancy requirements of new projects ranging from information on market to actual implementation. The primary object of TCOs was stated to be to provide under a single roof a total package of services to small and medium scale units at reasonable rates.

(ii) Entrepreneurship Development Programmes

2.34 IDBI has been supporting Entrepreneurship Development Programmes (EDPs) conducted by TCOs and other agencies. During the 4 year period upto March 1991 assistance aggregating Rs. 576.83 Lakh was stated to have been sanctioned in respect of 1134 EDPs of which 900 EDPs were completed during the period with an expenditure of Rs. 439.59 lakhs benefitting 22,754 potential entrepreneurs. During 1991-92, 318 EDPs were completed and the amount disbursed was Rs. 127.66 lakhs. Expenditure incurred by SIDBI on EDPs completed so far amounted to Rs. 9.42 lakhs.

2.35 Asked to state as to how far the EDPs have been effective, the Committee were informed in a written reply that the success rate of women EDPs was around 50% of general EDPs between 25-30% and that of Science & Technology around 10%. A comprehensive study on EDPs conducted so far was also stated to have been commissioned to assess the effectiveness of EDPs and suggest measures for improving the success rate. The study will be conducted by the Entrepreneurship Development Institute of India (EDII) at Ahmedabad which was set up in 1983 jointly by IDBI, IFCI, ICICI and SBI to function as a national resource institution in the field of EDPs.

(iii) Common Quality Testing Centres

2.36 With a view to promoting quality consciousness particulary in the small scale sector, IDBI introduced a scheme in 1986 for setting up Common Quality Testing Centres (QTCs) in selected locations having clusters of units from a homogeneous group of industry. The scheme envisaged provision of assistance for acquisition of testing and quality control instruments with land and building required for installing the equipments to be provided by the sponsoring organisation viz. Industry Associations, Technical Institutes, etc. When the Committee desired to be apprised of the progress of the scheme so far, they were informed by IDBI in a note furnished after evidence that the assistance sanctioned so far was Rs. 3.25 crore for setting up 11 QTCs one each at Bangalore, Bhubaneshwar, Cochin, Coimbatore, Ghaziabad, Howrah, New Delhi, Dhanbad, Panaji, Roorkee and Srinagar of which the first 7 have already started functioning. The setting up of QTC at Srinagar was stated to have not shown progress due to the disturbed conditions prevailing there and the other QTCs were at various stages of implementation.

(iv) Assistance to Voluntary Agencies

2.37 IDBI has been assisting Voluntary Agencies for their projects. The main focus of IDBI assistance to Voluntary Agencies (VAs) was stated to be on economic upliftment of the under-privileged through creation of opportunities for wage/self employment in the industrial field. The main categories covered among under-privileged comprised physically handicapped and socially disadvantaged groups like scheduled castes and scheduled tribes, rural and urban poor and poor women. During the period 1986-87 to 1991-92, IDBI sanctioned assistance aggregating Rs. 1048.73 lakhs to 114 VAs.

2.38 Region-wise and target group-wise break-up of assistance was as given below:

Region-wise break-up of assistance to VAs

Region	No. of agencies assisted	Assistance sactioned (Rs. in lakhs)
Eastern	18	103.44
Western	31	231.15
Northern	12	72.71
North Eastern	21	482.55
Southern	32	158.88
	114	1048.73

Target group-wise break-up of assistance to VAs

Target Group	No. of agencies assisted	Assistance sanctioned (Rs. in lakhs)
Women	35	219.04
SC/ST	19	87.27
Physically/mentally handicapped	31	153.38
Rural/urban poor	29	589.04
Total	114	1048.73

2.39 From the information furnished by IDBI, the Committee noticed that in the matter of providing assistance to voluntary agencies, there were wide disparities not only among different regions but among various states. Asked to state the reasons therefor, a representative of IDBI replied in evidence:

"We have been trying to identify agencies with various States. We have been trying to contact the agencies and invite proposals from them. We are able to assist agencies which provide employment in the industrial field. So, in some States the VAs were doing work mainly in agriculture. We find it difficult to assist them. I would agree that we have to improve our state-wise distribution. It is our continuous attempt to do and we have been trying to contact the voluntary agencies helping them to prepare project but I think we have to improve a lot."

2.40 On being enquired about the amount of assistance disbursed to the Voluntary Agencies, the Committee were informed in a note submitted by IDBI after evidence that the amount disbursed from 1986-87 to 1991-92 was Rs. 813.51 lakhs. SIDBI also extended assistance to Voluntary Agencies mainly under the Mahila Vikas Nidhi which was set up during 1989-90. Disbursements by SIDBI to VAs upto March, 1992 amounted to Rs. 101.82 lakhs.

2.41 Asked about the impact of assistance to Voluntary Agencies, the Committee were informed by IDBI in a written reply that IDBI has recently commissioned studies through 2 research agencies viz. Centre for Studies in Decentralised Industries and Centre for Quantitative Research on VAs assisted by IDBI in Southern and Western Regions respectively. Suitable researchers for other regions were being identified.

F. Refinancing of SFCs

2.42 Under IDBI's refinance scheme, primary lending institutions are allowed to finance projects with cost upto Rs. 5 crore, within the following loan limits.

	(Rs. in lakhs)
State Financial Corpn. (SFC)	90
State Industrial Development Corporation (SIDC)	150
Banks	100

2.43 While providing resource support to SFCs under its refinance scheme, depending on the debt-equity ratio and financial health of individual SFC, IDBI has been contributing to its share capital (including special capital) on matching basis with the concerned State Government. In addition, IDBI has been providing from 1987 special assistance to SFCs by way of New Debt Instrument (NDI) to meet the gap in resources.

2.44 Sanctions and disbursements by SFCs during 1986-87 to 1990-91 were given to be as follows:—

Sanctions and Disbursements by SFCs

(Rs. crores)

Year	Sanctions	Disbursements
1986-87	1244	784
1987-88	1352	934
1988-89	1469	1048
1989-90	1530	1151
1990-91	1848	1267

2.45 During 1990-91, the total resource support from IDBI and SIDBI was stated to be Rs. 86775 crore which constituted 68.5% of the total term loan disbursements of SFCs. The relative share of SFCs in the IDBI's total refinance during 1990-91 was 35.6%.

2.46 SFCs act vests certain powers and responsibilities in IDBI in certain matters such as appointment of Managing Director of SFC, nomination of Directors on their Boards of Directors/Executive Committees, approval of regulations framed by them, advice in issue of instructions by State Governments and inspection of working of SFCs etc.

2.47 The Committee desired to know the difficulties experienced as far as the operations of SFCs were concerned. IDBI stated in a note that in view of the rising volume of operations of SFCs and the growing industrial complexities, there was need for diversifying and broad-basing the Boards of Directors of SFCs by induction of independent outside professionals, preferably with experience in various facets of industry. This would need amendment to the SFCs Act. Meanwhile, the State Governments could consider appointing at least 2 persons having special knowledge/professional experience in industrial field, as their nominees.

2.48 The Committee pointed out that there was already a provision in the SFCs Act requiring the State Government to nominate a person who has special knowledge in small scale industries and asked IDBI to specify how it wanted the Boards of SFCs to be diversified. IDBI stated in a written reply that State Government nominee directors were mostly Government officials *viz.* Secretaries (Finance, Industry etc.) and Director of Industries. State Governments normally did not appoint outside professionals as their nominee directors. It was therefore, felt that the Board of Directors of SFCs needed to be broad-based by induction of outside professionals. It was stated in this context that the IDBI Act specifically provided for appointment of not less than five directors who have special knowledge of and professional experience in various facets relating to industrial development and financing. The SFCs Act could be amended to provide for co-option of 3-4 professional directors by the SFCs Boards with prior approval of IDBI. Representative of small scale industries could also be included in the categroy of coopted directors.

2.49 In pursuance of Section 37A of SFCs Act, IDBI has been undertaking annual inspection of SFCs and submitting to the concerned SFCs as also to the Central and the concerned State Government inspection reports. IDBI informed the Committee in a note that the performance of SFCs in recovery of their dues has not been encouraging and that their recoveries have average between 35% and 36% during the last 5 years. Six SFCs have Debt-Service Coverage Ratio (DSCR) below unity in 1988-89. The low recoveries have affected their internal generation of funds, increased their dependence on external sources and affected their profitability.

2.50 The Committee also observed from the Minutes of the meeting of the Board of Directors of IDBI that the Board in its meeting held as far back as in August 1989 expressed its concern over certain vital areas of SFCs such as the need for continuity in the top management of SFCs, development of a strong second line of management, building up of a sound protfolio and stepping up significantly the recoveries through appropriate follow-up mechanism. The Board felt that IDBI should suitably apprise the Government of India in this regard. IDBI also stated in a note that though the SFCs Act provided that Managing Director of an SFC should be appointed by the concerned State Government in consultation with and after obtaining the advice of IDBI, IDBI had no authority to approve an incumbent for the post of MD. MDs were changed frequently by the State Governments, in turn adversely affecting the performance of the Corporation. Besides, as MDs of SFCs were on a tenure basis, there was need for a strong second line of management with adequate professional background. In certain State, however, such positions were filled up by officers on deputation which was not conducive to building up a strong second line of management.

2.51 The Committee asked as to what remedial steps should be taken to strengthen the SFCs. They were informed by IDBI in a note submitted after evidence that a comprehensive plan of strengthening of the State Financial Corporations had been submitted to the Government of India which dealt with various aspects of functioning of SFCs such as management and organisation, recapitalisation, business operations, accounting policies of SFCs and resource support to them etc.

2.52 When the Committee desired to know the Government's views on the action plan, they were informed by the Department of Economic Affairs in a written reply that the organisational apparatus and functioning style of SFCs needed to be revamped with continuity in the management and professionalisation right from the Board level. For this purpose the SFCs Act needed amendments with respect to the following aspects:

(i) To enable SFCs Boards to appoint MDs on contractual basis for a tenure of 5 years with prospect of renewal; MDs so appointed could be competent professionals from Banks or financial institutions or other qualified persons in the areas of finance, investment, etc.

(ii) To require State Governments to appoint Chairman in prior consultation with and after obtaining written advice of IDBI.

(iii) To authorise SFCs Board to co-opt as directors 4-5 professionals with prior approval of IDBI.

2.53 It was further stated that the Action Plan referring inter alia to organisational aspect of SFCs, role of State Governments, etc. had already been received by Government. It had however not been possible to take a final view in the matter as the action plan envisaged extension of substantial financial support to the SFCs for their recapitalisation. Another major difficulty arose from the fact that SFCs being under the control of the concerned State Governments, they needed to take the initiative in setting right the SFCs.

2.54 In regard to the frequent change of Managing Directors of SFCs also, it was stated in the Department's note that though long tenure for the Chief executives was desirable, yet since SFCs were state level institutions, it was primary concern of the State Governments to take appropriate action in the matter.

2.55 The Industrial Deveplomert Bank of India mainly provides financial assistance under the Direct Finance Scheme, Refinance Scheme and Bills Rediscounting. Under the direct financing IDBI normally takes up projects costing more than Rs. 5 crores except in North-Eastern region, where projects costing less than Rs. 5 crores are considered for assistance. Under the Direct Schemes, project finance is provided in the form of loans,

underwriting of and direct subscription to shares and debentures and guarantees for loans and deferred payments. Industrial projects in the small/medium sector costing not more than Rs. 5 crores are assisted by IDBI under its refinance scheme. Assistance under this scheme is extended through State Financial Corporations, State Industrial Investment Corporations, Scheduled Commercial Banks, Regional Rural Banks and State Cooperative Banks. Refinance in respect of small scale sector is now being provided by SIDBI. The Bills Rediscounting Scheme of IDBI is intended to help the purchaser of machinery/equipment to acquire it quickly and repay its cost over the years.

2.56 From the information furnished by IDBI, the Committee notice that the actual sanctions by IDBI have generally been below the targets. Not only that, the disbursements have invariably been far less than the sanctions. Thus during the years 1986-87 to 1991-92, as much as 24.8% to 35.5% of the amount sanctioned during the year remained undisbursed. The Committee are not convinced with the explanation given by IDBI that while the sanctions are as per the complete requirement of a project, release of disbursement is according to the progress in implementation of the projects which takes two to three years. If that were the reason for the difference between sanctions and disbursements, the gap between the two should have narrowed down considerably over a period of time., if not completely vanished. That this has not happened, shows that there are some inherent deficiencies in the system of drawing up projections for sanction and disbursements required to be made in a particular year. The Committee would, therefore, suggest that IDBI should examine this matter thoroughly and take corrective measures in order to narrow down the gap between sanctions and disbursements.

2.57 The Committee note that the number of public limited companies in the private sector directly assisted by IDBI was 369, 638 and 739 during 1988-89 (July-March), 1989-90 and 1990-91 respectively. While the financial performance of the companies assisted during these years was not available, results of a sample study of 401 IDBI assisted companies indicate that the operating profits of the profit making companies in the sample study during 1988-89 to 1990-91 were Rs. 2058 crores, Rs. 2991 crores and Rs. 3844 crores while losses of the loss making companies amounted to Rs. 180 crores, Rs. 170 crores and Rs. 133 crores respectively for the same period. Out of the total sample of 401 companies, the percentage of companies which made profits was around 82% while the percentage of loss making companies was around 18%. This, according to IDBI, was in line with the general trends in the economy. However, the Committee are of the opinion that the performance of IDBI assisted companies ought to have been much better since in their case not only detailed project appraisal is undertaken but regular monitoring is also done by IDBI which has by now developed sufficient expertise in this regard. The Committee, therefore, desire that the appraisal and monitoring mechanism should be thoroughly looked into and corrective measures taken wherever necessary.

2.58 The Committee have been informed that as at the end of March, 1991, IDBI had in its portfolio 278 sick units involving outstanding term loans of Rs. 748 Crores. Out of these BIFR has recommended winding up in respect of 50 cases. The amount outstanding in respect of 59 closed units was Rs. 127.19 crores. 12 units were under liquidation and the only way left for IDBI to recover its money was to file a suit and recover the money through sale of assets. Apart from measures like management restructuring, market tie-up, amalgamation with healthy units, sometimes rehabilitation assistance is also sanctioned for revival of sick units. The Committee are of the firm view that all such post-operative measures can be avoided once IDBI is able to detect in time the problems of the units which eventually lead to sickness. The Committee see no reason why it should not be possible for IDBI to detect in time at least the internal factors leading to sickness such as management deficiencies, absentee management, infighting among promoters, technical obsolescence, labour trouble etc. and take corrective measures immediately to prevent a unit from turning sick.

2.59 The Committee have been informed that follow up and monitoring of the assisted projects is carried out by IDBI at Head Office, Regional Office and Branch Offices. Quarterly progress reports are obtained from assisted concerns during the implementation period and half-yearly reports are called for after the projects go into production. In the case of certain large projects, mid-term review with particular reference to the estimated project cost and time schedule is also made. Follow-up visits are normally undertaken once in a year during implementation phase and once in two years thereafter. However, as admitted by the Managing Director, IDBI certain factors which might subsequently lead to sickness of the unit, do not get reflected in the progress reports. The Committee would, therefore, recommend that the system of follow-up and monitoring should be thoroughly reviewed and strengthened and any flaws in the existing system should be rectified to ensure timely detection of problems in order to prevent the assisted units from turning sick. If necessary the frequency of follow-up visits should be increased.

2.60 In order to ensure the implementation of rehabilitation programme in a coordinated and expeditious manner, the RBI issued a set of detailed guidelines to banks in 1987 which were modified in June, 1989. Complementary guidelines were also issued by IDBI to the State level financial institutions in 1987 and subsequent modifications and policy changes advised to them. However, the Committee have been given to understand that there is still scope for improvement in coordination between Financial Institutions on the one hand and commercial banks and State level institutions on the other hand in the formulation and implementation of rehabilitation packages for sick units. The steps which could be taken in this direction include strict compliance with the revised guidelines especially in regard to medium and large industries, making the monitoring mechanism of the State level Inter-Institutional Committees set up by RBI more effective and regular holding of Rehabilitation Meetings among the various agencies involved.

2.61 The Committee on Public Undertakings (1981-82) had recommended that all India position regarding sick units and steps taken for their rehabilitation should be reflected in the Report on Development Banking in India brought out by IDBI. The recommendation was accepted by the Government. However, the Committee regret to notice that such information is still not being brought out in the Report of Development Banking. In view of the huge amount of institutional funds locked up in sick units, the Committee reiterate that the all India position in regard to the sick units together with steps taken for their rehabilitation should henceforth be brought out in the Report on Development Banking in India.

2.62 The Committee have been informed that in order to meet the consultancy requirements of new projects ranging from information on market to actual implementation, 17 Technical Consultancy Organisations (TCOs) have been set up by IDBI in association with other institutions. During the five years period upto March 1992 an expenditure aggregating Rs. 576.67 lakhs was incurred by IDBI/SIDBI in respect of 1218 Entrepreneurship Development Programmes (EDPs) completed by TCOs and other agencies reportedly benefitting more than 22000 potential entrepreneurs. The success rate was between 25-30 per cent in the case of general EDPs, around 50 per cent in the case of women EDPs and around 10 per cent in the case of Science and Technology. These success rates in the opinion of the Committee, are quite low. The Committee, would, therefore, urge that the study on the effectiveness of EDPs being conducted by the Entrepreneurship Development Institute of India, Ahmedabad should be completed expeditiously and they be informed of the measures taken for improving the success rate of EDPs.

2.63 A scheme for setting up common Quality Testing Centres (QTCs) in selected locations having clusters of units from a homogeneous group of industry was introduced by IDBI in 1986. 7 such centres have so far started functioning while a few more are under various stages of implementation. The Committee have been informed that an amount of Rs. 3.25 crores has so far been sanctioned for setting up these Quality Testing Centres. The Committee would emphasise that the QTCs which are under various stages of implementation should be made operational at the earliest. Meanwhile the effectivness of the existing QTCs should be evaluated to ascertain how far they are serving the purpose for which they were set up.

2.64 During the period 1986-87 to 1991-92, IDBI sanctioned an assistance aggregating Rs. 1048.73 lakhs to 114 Voluntary Agencies (VAs) covering various categories such as physically handicapped and socially disadvantaged groups like Scheduled Castes and Schedule Tribes, rural and urban poor and poor women. However, from the information furnished to the Committee, they find that there have been wide disparities not only among different regions but among various States. In some States, the number of Voluntary Agencies to whom assistance has been provided is very small. The Committee desire that special efforts should be made by IDBI to identify and assist more voluntary agencies in such States. Besides, preference should also be given to voluntary agencies working for development of tribals.

2.65 The Committee have been informed that IDBI has recently commissioned two studies in Southern and Western regions for evaluating the impact of assistance to voluntary agencies. They would suggest that such studies should be conducted in other regions as well. The Committee also recommend that in the light of these studies efforts should be made to ensure that the assistance to voluntary agencies leads to self-sustaining growth of the weaker sections.

2.66 Under its refinance scheme, IDBI provides resource support to primary lending institutions such as State Financial Corporations, State Industrial Development Corporations and banks etc. In the case of SFCs, depending on the debt-equity ratio and financial health of individual SFC, IDBI has been contributing to their share capital on matching basis with the concerned State Government. During 1990-91 the total resource support to SFCs from IDBI and SIDBI was Rs. 867.5 crores constituting 68.5% of the total term loan disbursements of SFCs. The relative share of SFCs in the IDBI's total refinance during 1990-91 was 35.6%. Still the financial health of the SFCs seems to be far from satisfactory. The Committee have been informed that their recoveries have averaged between 35% and 36% during the last 5 years. The low recoveries have obviously affected their internal generation of funds, increase their dependence on external sources and affected their profitability.

2.67 The State Financial Corporations Act vests certain powers and responsbilities in IDBI in matters such as appointment of Managing Directors of SFCs, nomination of Directors on their Board of Directors/ Executive Committees, approval of regulations framed by them, advice in issue of instructions by State Governments and inspection of working of SFCs. Inspite of these provisions, the Committee have an impression that the performance of SFCs has not been upto the mark. They are of the considered view that there is an urgent need for review of the SFC Act to streamline their functioning. IDBI has already submitted an action plan in regard to organisational aspects of SFCs, role of State Governments etc. which is under consideration of the Government. The Committee desire that Government should soon undertake a review of the SFCs Act in the light of the Action Plan and effect necessary amendments. Provisions should in particular be made about the continuity in top management and co-option of professionals on Boards of SFCs.

2.68 The Committee also feel that there is an urgent need to persuade the State Governments to make concerted efforts for toning up the functioning of SFCs. They should be advised to make appointment of professionals on the SFCs' Boards, take steps for ensuring a strong second line of management of SFCs, build up a sound portfolio and devise measures for stepping up significantly the recoveries of SFCs. The Committee feel that such steps would undoubtedly go a long way in improving the financial health of SFCs.

CHAPTER III

ASSISTANCE TO SMALL SECTOR

A. Availability of Funds

3.1 The Seventh Five Year Plan document had observed that the availability of institutional finance to the small industries sector had not been commensurate with their needs nor in proportion to the volume of activity generated by the sector. When the Committee desired to know the comments of Managing Director, SIDBI in this regard, the witness stated:

> "......the total production in small scale sector is Rs. 1,60,000 crores while the total working capital provided by the banking system to the small scale sector is only Rs. 13,500 crores, which works out to less than 10 percent. That indicates that there is inadequacy of working funds to the small scale sector and this aspect has been looked into by the Nayak Committee (appointed by RBI) and they are coming out with certain concrete suggestions to take care of this aspect."

3.2 The Ministry of Finance (Department of Economic Affairs) also informed the Committee in a note submitted after evidence that inadequacy of working capital for small industry has been reported from time to time though there has not been any constraint so far in the provision of term finance. In order to deal with this subject in detail, the Reserve Bank of India appointed in December, 1991, the P.R. Nayak Committee to examine *inter-alia*:

(1) the adequacy of institutional credit for the SSI sector, particularly, with reference to the increase in the cost of raw materials and locking up of the available resources due to delay in the realisation of sales proceeds from large companies and Government agencies;

(2) the adequacy of institutional credit for term finance to the SSI sector;

(3) the need for making any modifications/relaxations in the norms prescribed by the Tandon/Chore Committee in respect of SSI units; and

(4) whether any revision is required in the present RBI guidelines for the rehabilitation of sick SSI units.

3.3 On a query about the recommendations of the Nayak Committee, it was stated by the Ministry in a note that the Nayak Committee submitted its report to RBI in August, 1992. The report contains findings on adequacy and flow of institutional credit for working capital, adequacy of term credit provided to the SSI sector, Tandon/Chore Committee norms for inventory levels rehabilitation of sick SSI units, and other related aspects. These recommendations were stated to be under examination of the RBI.

3.4 The Committee desired to be furnished with the details of assistance sanctioned by IDBI to small sector. IDBI informed in a note that the year-wise assistance sanctioned and disbursed by IDBI to small sector and their share in the total assistance was as follows:

Year (April-March)	Sanctions	% to total assistance	Disbursements	% to total assistance
1985-86	1154	32.8	821	29.5
1986-87	1308	29.5	1030	32.1
1987-88	1616	33.7	1190	32.9
1988-89	2007	28.8	1412	29.7
1989-90	2255	27.7	1696	33.4

3.5 In April, 1990, the Small Industries Development Bank of India (SIDBI) was set up with a view to providing exclusive financing to the small scale industries. When the Committee desired to know whether the setting up of SIDBI had infact benefitted the small sector, the Ministry stated in a note that setting up of SIDBI was the Goverment's response to the long standing demand of the tiny and small scale industrial sector to have a separate apex bank for them.

3.6 SIDBI was set up as the principal financial institution for the promotion, financing and development of small scale industries and also for coordinating the functions of existing institutions engaged in similar activities. Upon its formation, SIDBI took over all the existing schemes of IDBI that were applicable to the SSI sector and also liberalised the terms and conditions of some of the schemes and widened their scope to help quick and smooth flow of credit to the small scale sector. Apart from this SIDBI has introduced several new schemes of assistance for helping small scale units in overcoming their difficulties. The overall sanctions and disbursements under the various schemes of assistance in 1991-92 recorded, growth of 20% and 10% respectively over the previous year. According to the Ministry this gives an indication that the SSI sector has benefitted considerably from the formation of SIDBI.

3.7 IDBI firnished the following figures of sanctions and disbursements by SIDBI during last two years:—

(Rs. crores)

Year	Sanctions	Disbursements
1990-91	2409	1838
1991-92	2898	2027

(Figures exclude short-term bills rediscounting)

B. Single Window Scheme

3.8 In order to alleviate the problems faced by smaller SSI units in getting timely and adequate working capital, IDBI in consultation with RBI introduced in May, 1988, the Single Window Scheme. Under the Scheme, SFCs/twin function SIDCs were authorised to provide both loans as well as working capital assistance to new tiny and small scale units whose project cost did not exceed Rs. 5 lakhs and requirements of working capital were upto Rs. 2.5 lakhs. IDBI provided 100% refinance to SFCs/ twin function SIDCs under the scheme. The ceilings on project cost and working capital requirements have since been enhanced to Rs. 20 lakhs and Rs. 10 lakhs respectively enabling a larger number of SSI units to avail of facilities under the scheme. With the setting up of SIDBI the scheme is now operated by SIDBI with effect from April, 1990.

3.9 Asked to state as to how far this scheme has benefitted the small scale sector, the Managing Director, SIDBI stated in evidence:—

"The small scale industries were experiencing difficulties in getting adequate working capital on time, and often this has delayed the commencement of production. If they do not get working capital, this affects their production. To solve this problem which was faced more by smaller among small scale units, we are operating a single window scheme where both the term loan for fixed assets and working capital could be given by the same agency....This scheme has been in operation for four years. According to the feed back received by us, this scheme is proving convenient and helpful to the small scale industries. The Committee which was appointed by the Reserve Bank of India to look into the credit needs of the small scale sector, has suggested, after a study, that this concept must be introduced for all the small scale industries in the country."

3.10 On a query whether any decision has since been taken on extending the single window scheme to whole of the SSI Sector, the Joint Secretary, Department of Economic Affairs, informed the Committee that the recommendation was under consideration of the RBI.

The witness, however, added as follows:—

"Actually, this is available upto Rs. 10 lakhs generally for the tiny sector and in the tiny sector the working capital can therefore easily be provided. The problem arise with the larger SSI units such as engineering units and large production units in the SSI Sector. I think, the dilemma that confronts the entrepreneurs who want to put up such units is a very real one, because, once capital investment is over, say in a year's time they are sometime not able to start the project commissioning although the entire project may be completed physically.......If a state financial institution gives only term assistance and does not give the working capital, it is inevitable that an industrialist has to go to a commercial bank. Many times he succeeds in getting it; sometimes he does not succeed. One solution is that the same financial institution should give both term assistance and the working capital."

3.11 The Committee enquired whether 'single-window' concept should not be extended to providing all clearances for a small sector unit at one place. The witness replied that the 'Single-Window' scheme as at present meant only providing term loan and working, capital loan by one institution. However, many State Governments had attempted to provide clearance within one window. In Gujarat they have had a concept of an Escort Service, of providing all services at one place. What was conceived/ was that much of the help should be available at one place.

C. Delays in realisations

3.12 One of the problems being faced by the small sector was stated to be the delays in realisations from big units for the products supplied by the smaller units. When the Committee desired to know the steps being taken to mitigate the hardship being faced by the small units on this account, the Managing Director, SIDBI stated before the Committee in evidence:—

"The problem relates to the delayed realisations of the bills for goods supplied by the small scale sector. In this respect also SIDBI has taken initiative in setting up factoring organisations in collaboration with commercial banks. Two such organisations have been set up. One for the Western region in collaboration with the State Bank of India and the other one in the Southern region in collaboration with the Canara Bank, both the factoring organisations which are doing factoring of domestic supplies right now, started their operations in 1991-92. the nodal agencies for the other regions have also been identified and they are in the process of setting up these factoring companies in the remaining two regions that is Northern and the Eastern Regions. In the meanwhile to supplement the efforts of these factoring organisations, SIDBI itself has started a scheme of direct discounting of short term bills to help the small scale industrialists.

This scheme has been received very well. Till July, 1992, we sanctioned assistance of about Rs. 130 crores which has benefitted some 50 units spread over 16 States. Thus, we are discounting the bills of small and tiny projects which supplied goods to the large and medium companies. Once the bills are accepted by the buyers, these bills are discounted by us and the payment are directly made to the small scale sector units."

3.13 When asked for Government's comments in the matter the Ministry of Finance informed the Committee in a note furnished after evidence that realising the importance of timely payment against the supplies made by the small scale sector to provide adequate legislative measures an Ordinance namely, the Interest on Delayed Payment to Small Scale and Ancillary Industrial Undertakings, 1992 was promulgated on 23.9.1992. The ordinance has since been replaced by an Act.

D. Rates of Interest

3.14 The Committee were informed in a note submitted by IDBI that institutions eligible for availing of refinance facilities from SIDBI comprised State Financial Corporation (SFCs), State Industrial Development Corporations/State Industrial Investment Corporations (SIDCs/SIICs), Scheduled Commercial Banks, Regional Rural Banks (RRBs) State Cooperative Banks, Scheduled Urban Cooperative Banks and Central and Primary Urban Cooperative Banks (through eligible state apex cooperative banks). The total number of such primary lending institutions was stated to be 873.

3.15 As regards the rate of interest charged, it was stated that SIDBI stipulated ceilings on the rates of interest chargeable by the eligible Primary Lending Institutions (PLIs) on their loans which are refinanced by SIDBI. With effect from August 27, 1991, SIDBI has prescribed a uniform rate of interest based on the size of term loans giving special consideration to small borrowers. The interest rate structure was revised from time to time, in keeping with the changes in credit/monetary policy of RBI.

3.16 The current rate structure in respect of refinance against loans to small scale borrowers effective from May 1, 1992 was stated to be as given below:—

		Maximum rate of interest chargeable on loans to the borrowers.	Rate of interest on refinance by SIDBI.
1	2	3	4
A.	*Refinance against term loans to SSI units.* (including Composite Loan Scheme and SRTOs owning upto 2 vehicles)		

1	2	3		4
	(i) Upto and inclusive of Rs. 7,500	**11.5%**		**8.5%**
	(ii) Over Rs. 7,500 & upto Rs. 25,000	**13.5%**		**10.5%**
	(iii) Over Rs. 25,000 & upto Rs. 2 lakh	**15.0%**		**12.0%**
	(iv) Loans exceeding Rs. 2 lakh to:			
	(a) SSI Units	**19.0%**		**16.0%**
	(b) Road Transport Operators	**20.0%**		**17.0%**
B.	*Refinance against all loans for following activities;*			
	(i) Hotels & Tourism related activities: (ii) Electro-medical equipment		19.0%	16.0%
	(iii) Hospitals & Nursing Homes			
	(iv) Mobile Sales Vans			
C.	*Refinance against loans for working capital under single Window Scheme:*		SFCs	Scheduled Commercial Banks.
	(i) Upto and inclusive of Rs. 7,500	11.5%	8.5%	9.5%
	(ii) Over Rs. 7,500 & upto Rs. 25,000	13.5%	10.5%	11.5%
	(iii) Over Rs. 25,000 & upto Rs. 2 lakh	16.5%	13.5%	14.5%
	(iv) Loans exceeding Rs. 2 lakhs	19.0% (minimum)	17.0%	17.0%

3.17 On a query regarding the rate of interest charged for loans beyond Rs. 2 lakhs, the Managing Director SIDBI informed in evidence:—

"Beyond two lakhs of rupees, the rates of interest have been deregulated and the minimum rate has been put as 15 per cent which is

the same for the large and medium sector. Upto Rs. 2 lakhs loans however they have slab system of rate of interest."

3.18 The Committee wanted to know the opinion of IDBI/SIDBI on the desirability of charging a concessional rate of interest from the smallest among the small sector and charging a higher rate of interest from the bigger ones. The witness replied as followed:—

> **"You are very right. That is exactly what has been attempted in the present interest rate structure. It was not there earlier. Smaller units are given subsidised rates. That is being compensated to a large extent, by charging higher rate from the modern and the other sector."**

E. Development of Rural Industries

3.19 The Committee desired to know the efforts being made by SIDBI towards development of rural industries and the coordination being maintained with other agencies. The Managing Director, SIDBI stated in evidence:—

> "We have been collaborating with KVIC and also other agencies which are engaged in rural industrialisation. As a first step, we engaged the Entrepreneural Development Insitute of India for conducting 25 programmes only in the rural areas. Under the programme, entrepreneurs are helped in identifying the project and thereafter industry-specific training is given to them. To facilitate this process, SIDBI had identified, with the help of technical consultants, the industrial projects which could be set up in rural areas based on locally available raw materials, skills or local demand. The first volume of such project-profiles for the North Eastern Region has already been published while few more such volumes are under preparation. The second scheme is in the smaller units where the KVIC is associated. There again, we have drawn up specific programme for collaboration with KVIC."

3.20 The witness further added that it has been decided on a selective basis by NABARD, SIDBI and KVIC who are working in coordination in the area of rural industrialisation that they would engage consultants and provide assistance on the basis of their reports. They would also provide assistance for training of the entrepreneurs. For this two centres are being set up at Nasik and Guahati. There was a proposal for setting up of 13 common quality Testing Centres of which 7 were stated to have started functioning.

3.21 The importance of small scale sector in the context of the Indian economy can hardly be over emphasised. In fact the total production in the small scale sector is stated to be well over Rs. 1.5 lakh crores. However, the availability of institutional finance to the small scale industries sector had not been commensurate with their needs nor in proportion to the volume of activity generated by the sector. There has been inadequacy of working capital in particular for small sector. The Nayak Committee appointed by the RBI which went into this subject in detail has since submitted its report in August, 1992. The report containing findings on various aspects such as adequacy and flow of institutional credit for working capital, adequacy of term credit provided to the SSI sector, rehabilitation of sick SSI units and other related aspects is still under examination of the RBI. The Committee would stress that considering the importance of the SSI sector, final decision on the findings of the Nayak Committee should be taken urgently and the Committee apprised in the matter.

3.22 The Committee find that the assistance sanctioned to small sector by IDBI as percentage of the total assistance sanctioned declined from 33.7% in 1987-88 to 28.8% in 1988-89 to in 27.7% in 1989-90 though the disbursements to small sector marginally increased from 32.9% in 1987-88 to 33.4% in 1989-90. The small Industries Development Bank of India (SIDBI) was set up in April, 1990 for providing exclusive financing to the small scale industries. During 1990-91 and 1991-92, assistance disbursed by SIDBI under the various schemes amounted to Rs. 3865 crores against the sanctions of Rs. 5307 crores. The Committee are, therefore, of the opinion that the flow of assistance to small scale sector cannot be termed adequate even after the formation of SIDBI.

3.23 The Committee also feel that with the progressive delicensing and liberalisation in the industrial sector, there is need for laying special thrust on small, tiny and rural industries for creation of employment opportunities to people near their place of residence. They would, therefore, recommend that concerted efforts must be made by SIDBI so that its assistance reaches the small industries in urban as well as rural areas. In the field of rural industrialisation, the coordination among SIDBI, National Bank for Agriculture and Rural Development and Khadi and Village Industries Commission needs to be strengthened. In addition, special emphasis should be laid on arrangements for marketing the products of small scale industries.

3.24 IDBI introduced in 1988, a scheme known as the single window scheme, which is now being operated by SIDBI. Under the scheme, SFCs/ twin function SIDCs are authorised to provide term loans as well as working capital assistance to new tiny and small scale units where project cost does not exceed Rs.20 lakhs and requirements of working capital are upto Rs.10 lakhs. The scheme enables such units to obtain term loan and working capital loan from the same institution. The Committee have been informed that the scheme is proving convenient and helpful to the small scale industries and in fact the Committee appointed by the RBI to look into the credit needs of the small scale sector has suggested that this concept

must be introduced for all the small scale industries in the country. The report of the Committee is still under consideration of the Government. The Committee recommend that this suggestion of the Nayak Committee should be implemented without any delay and the single window scheme should be extended to all the small scale industries.

3.25 **The Committee also observe that the 'Single Window' scheme as at present only means provision of term loan and working capital loan by a single agency. However, some State Governments are stated to have attempted some sort of an Escort service for providing all services at one place. The Committee recommend that IDBI should examine the feasibility of introducing such services all over the country so that all the procedural clearances and assistance to small scale sector are available at one place.**

3.26 **Prompt payment of money by buyers to small industrial units is of utmost importance. Small sector units have been facing the problem of delayed realisations from big units for the products supplied by the former. The Committee are glad that an Act** *viz.* **the Interest on Delayed payments to Small Scale and Ancillary Industrial Undertakings Act has since been passed to provide for and regulate the payment of interest on delayed payments to small scale and ancillary industrial undertakings. The Committee hope that this would enable the small scale sector to a large extent in making timely realisaions for the goods supplied by them.**

3.27 **In order to help the small scale units to get prompt payments for their products, SIDBI has reportedly set up two factoring organisations in 1991-92 for the Western and Southern regions in collaboration with State Bank of India and Canara Bank respectively. The Committee desire that the setting up of such factoring companies in the other regions of the country also should be expedited. They would also like to be informed as to how far such factoring organisations have been able to achieve their objective of ensuring prompt payments to small sector.**

3.28 **The Committee note that SIDBI stipulates the ceilings on the rates of interest chargeable by the Primary Lending Institutions (PLIs) such as State Financial Corporations, State Industrial Development Corporations etc. on their loans which are refinanced by SIDBI. At present the maximum rate of interest chargeable by the PLIs on loans given to the borrowers is 11.5% for loans upto Rs.7,500, 13.5% for loans over Rs.7,500 and upto Rs.25,000 and 15% for loans over Rs.25,000 and upto Rs.2 lakh. SIDBI provides refinance to SFCs at 3 percent lower rates in the corresponding slabs. In this connection the Committee would like to emphasise that they attach the greatest importance to the smallest units among the small sector such as rural artisans. They would, therefore, like the Government/SIDBI to examine the feasibility of working out an interest rate structure whereby a borrower of loan upto Rs.25,000 is required to pay a minimal rate of interest.**

CHAPTER IV

ASSISTANCE TO BACKWARD AREAS

A. Assistance by IDBI

4.1 IDBI informed the Committee in a note that policies and strategies of IDBI reflected socio-economic objectives of the Government. Some activities in this area were stated to be:

(a) Development of industrially backward regions/area and No-industry districts.

(b) Development of industrial units in the small, tiny, cottage and village industries.

(c) Introduction of specially designed schemes for socially disadvantaged target groups like Scheduled Caste and Scheduled Tribes, physically handicapped, women etc.

(d) Extension of industrial consultancy services, conduct of industrial potential surveys/studies, preparation of project profiles identification and training of entrepreneurs from different target groups etc.

(e) Provision of technical assistance for inducing development impulses amongst socially handicapped categories of population.

(f) Other programmes of national concern.

4.2 Asked to state the role played by IDBI in the development of backward areas, the Managing Director of IDBI stated in evidence:-

> "IDBI has a developmental and promotional role also to encourage development of industries in the industrially backward areas of the country."

4.3 On being enquired as to how the backward areas to be assisted by IDBI were identified, the Chairman, IDBI informed in evidence:

> "Backward areas are not decided by IDBI but we go by whatever the Government has defined as backward districts. We do not have any separate list of backward districts, we use the same definition and the same areas which are notified by the Govt. of India."

4.4 The Committee desired to know the criteria fixed by Government for identification of a district as backward. They were informed in a note submitted by IDBI that balanced regional industrial development has all along been one of the prime objectives of planning. Compared to the dimensions of the problem not much was achieved during the first three five-year plan periods due to absence of an effective policy framework. As a result, the developed states/regions having advantages of economics of conglomeration, attracted entrepreneurs and resources. With a view to achieving the avowed objective of balanced regional industrial development and initiating a process of growth in the relatively less developed regions/areas, the planning commission constituted in 1968, two working groups. The criteria for identifying in area/region as backward as accepted by the Planning Commission were stated to be as given below:-

(i) Per capita production of foodgrains.

(ii) Ratio of agricultural workers to population.

(iii) Per capita industrial output.

(iv) Number of factory workers per lakh of population.

(v) Per capita consumption of electricity.

(vi) Length of surface road and rail mileage in relation to production.

4.5 On being asked to state the efforts made by IDBI for development of the backward areas, the Committee were informed in a note submitted by IDBI that in 1970 it introduced schemes of concessional assistance in the form of reduced rate of interest. Lower promoters contribution, higher debt-equity ratio longer amortisation schedules, etc. for projects coming up in the backward areas. As the apex development bank of the country it sponsored Seminar on Industrial Development of Backward Areas at Bombay in May 1980 in Collaboration with the National Committee on Development of Backward Areas to examine the validity of various concepts of backwardness, review the working of various incentive schemes and recommend strategies required for speedier development of backward areas. With a view to accelerating the pace of industrialisation, especially in the No-industry Districts (NIDs) and other less developed areas, IDBI formulated a new scheme of concessions and incentives in April, 1983. Under the scheme, the policy thrust was towards providing graded scale of incentives to attract investments in backward areas. For this purpose, Government identified 301 districts as specified backward areas and classified them into 'A', 'B' and 'C' categories depending upon the degree of their backwardness.

4.6 IDBI was stated to have introduced a scheme in April, 1983 for providing assistance for area-specific infrastructure development (ASID) in (no-Industry Districts) (NIDs) in order to encourage setting up of industrial projects in such districts where there are no medium or large industries. As at the end of March, 1992, direct assistance of Rs.101 crore was sanctioned for ASID in 48 NIDs; disbursements amounted to Rs.24.6 crore in respect of such projects in 25 NIDs.

4.7 When the Committee desired to know the disbursements under the scheme being less than 25% of the sanctions, the Chairman, IDBI stated in evidence:-

"Yes, Sir, and it will remain so.

.....The states have not taken interest in this scheme."

4.8 When the Committee desired to know the details of assistance sanctioned by IDBI to backward areas, the following information was furnished by IDBI:

(Period July-June) (Kg. Crores)

Year	Assistance to backward areas*	% to aggregate
1964-70	44.6	15.0
1970-75	261.4	33.8
1975-80	1617.6	46.3
1980-85	4600.3	44.5
1985-86	1573.4	43.3
1986-87	1665.9	37.3
1987-88	2213.0	43.5
July 1988-March 1989	1653.9	38.9
April 1989-1990	2746.6	37.8
April 1990-91	2685.5	43.1
Total	19,062.2	41.6

*Includes direct finance, refinance and bills finance assistance.

4.9 The Committee desired to know whether any targets were being fixed for assistance to backward areas. The Chairman, IDBI stated in his evidence before the Committee:

> "I must admit that no separate target was fixed for that. Now that there is delicencing and regulations/restrictions have been removed, it is very difficult to have specific target fixed area-wise."

4.10 Asked to state whether the promotional activities undertaken by IDBI in the industrially backward States could be termed adequate and satisfactory, the witness deposed before the Committee in evidence:

> "Sir, compared to the problem we have nothing is adequate. Much more requires to be done."

4.11 On the efforts required to be made in this direction, the witness stated:

> "This has to be a joint effort. IDBI as one body cannot do it. State Government also has to do something in this regard. For instance in many cases there is no power. We are trying to do entrepreneur development but many people get frustrated because even after getting the training, in some States various permissions are not readily available. I would not like to criticise our brother institutions but in many areas the banking activities also create

problems. So, unless a joint effort is made it is very difficult for the IDBI to do it single-handedly."

4.12 In reply to a question regarding creation of employment in backward areas, IDBI informed the Committee in a written reply that cumulative sanctions to backward areas upto March 1991 were expected to catalyse investments of the order of Rs.52,000 crore and create additional employment potential for over 41 lakh persons. The Committee enquired whether this figure of additional employment potential was the net additional employment figure or included people who had earlier been employed else where.

The Chairman, IDBI replied in evidence:-

"I must admit that I do not have any survey done to give you net additional employment figure because whatever figures we have show the total employment generated though this figure may also include the persons who have shifted from the agriculture side or from the service sector and so on....We will make a survey of different types of industries *viz.* industries which are there in rural areas, urban areas and semi-urban areas, then large medium and small industries, the origin of the employment pattern and so on, I can assure the Committee that we will undertake this."

B. Regional Imbalances

4.13 The All India average of per capita assistance disbursed by all financial institutions (AFIs) upto March 1991 is stated to be Rs.815. The statement given below brings out the data regarding total assistance sanctioned by IDBI and AFIs in respect of nine states where assistance or/ and per capita assistance by AFIs was very much low:-

	IDBI (upto March, 1990)		AFI (upto March, 1991)	
	Amount (Rs. in crore)	% to total	Total (Rs. in crore)	Per-Capita Assistance by AFIs (in Rs.)
Arunachal Pradesh	13.3	Negligible	21.4	194
Assam	386.1	1.0	681.5	187
Bihar	1048.9	2.6	2301.3	183
Manipur	35.2	0.1	47.2	200
Meghalaya	64.2	0.2	93.0	466
Mizoram	27.1	0.1	37.5	476
Nagaland	26.9	0.1	42.2	349
Sikkim	24.5	0.1	34.6	790
Tripura	28.3	0.1	39.7	106

The following table brings out data regarding assistance sanctioned by IDBI to top five States as given below:—

Assistance Sanctioned

	IDBI (upto March, 1990)		AFI (upto March, 1991)	
	Amount (Rs. in crore)	% to totoal	Total (Rs. in crore)	Per-Capita Assistance by AFIs (in Rs.)
Andhra Pradesh	3553	8.8	8095	867
Gujarat	4894	12.2	11814	2032
Maharashtra	5926	14.8	19715	1800
Tamil Nadu	4022	10.0	8518	1153
Uttar Pradesh	4263	10.6	8808	470
All India	40141		94477	

4.14 The Committee pointed out that as seen from the above table seven States *viz.* Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura accounted for just 0.7% of total assistance sanctioned while five States *viz.* Andhra Pradesh, Gujarat, Maharashtra, Tamil Nadu and Uttar Pradesh accounted for as much as over 56% of the assistance sanctioned by IDBI. Besides, the Committee were also informed by IDBI in a written reply that as at the end of March, 1990 and 1991 the top 50 backward districts by size of assistance accounted for a share of 63% as against 71% at the end of June, 1978.When asked whether this position did not reflect that there were severe regional imbalances in assistance sanctioned by IDBI and other financial institutions, the Chairman, IDBI stated in evidence:-

> "Most of the investment in the backward areas has gone into those backward districts that are in forward States."

4.15 When the Committee desired to know the Government's comments in this regard, the Joint Secretary, Deptt. of Economic Affairs stated in evidence as follows:-

> "About 42 per cent of this assistance cumulatively has in fact gone to backward areas. But within backward areas in our country, there are indeed certain States where assistance given by IDBI has been extremely small, both in relation to the area of those States as well as the population of those States. The assistance which is given by the IDBI currently is for the non-SSI sector *viz.* medium scale

projects and large scale projects. One must recognise that the assistance really depends on viable projects being posed to the financial institutions. This problem is not only of IDBI but also of other financial institutions. Unless viable projects are posed, unless entrepreneurs either in the private sector or in the public sectror believe that they would like to locate a project in a particular area, there is no way in which IDBI can help. On the non SSI side FIs can only marginally help or encourage assistance to flow to these areas. If the State Governments do so, through adequate infrastructure provision, then it becomes easier for entrepreneurs to reach the backward areas from this point of view. For instance, in addition to IDBI, if there is at least one other financial institution which has opened an office in the North-Eastern Region, this makes it easier for the local entrepreneurs not approach the IDBI's office in Bombay or any other Office far distant, but an Office in the Region itself. This has been done by IDBI and also by the IFCI. We have a situation where we are facilitating help of this kind.

4.16 On a query as to when was the IDBI's office in Nortrh-Eastern Region opened, Government informed in a note furnished after evidence that prior to the formation of SIDBI, IDBI had its North-Eastern Regional Office at Guwahati and other Branch Offices at Agartala, Aizwal, Dimapur, Imphal, Itanagar and Shillong. After formation of SIDBI the six Branch Offices were handed over to SIDBI on 3.1.1991. Subsequently, IDBI has opened its own Branch Offices at Aizwal on 22.8.92, Dimapur on 2.11.92 and Shillong on 10.9.92. Branch Offices in the other three places would be opened by IDBI as soon as they are able to hire suitable premises.

4.17 When enquired whether opening of these offices has had the desired impact in providing assistance to these areas, the Joint Secretary, Department of Economic Affairs replied in evidence as follows:—

"It has really not made much difference though, the office has a very low work load and from a purely commercial point of view, perhaps, it would not even make any sense for IDBI to continue to have that Office over there. This was done from the view-point of ensuring that the entrepreneurs are able to reach IDBI through an office which is not distant, and with the intention that over time, the business transacted by this office would grow. Our experience is that this has not really resulted in giving too much assistance to the development of this region. The reason, as I said, is viable projects much be posed, either the public sector must pose the projects to the financial institutions where the Government has the responsibility viz. the State Government public sector enterprises must pose project or the Government of India should set up projects whch require assistance from the financial institutions or secondly, in the private sector, we must have entrepreneurs who believe that they have the confidence to locate and manage successful projects in the North-Eastern Region. The records say that this has not happened."

4.18 The Committee pointed out that besides the North-Eastern Region, the share of IDBI's assistance to Bihar also has been very meagre although this is a state which has a substantial share of India's mineral wealth. Asked about the reasons therefor, the Joint Secretary, Department of Economic Affairs stated in evidence:—

"The total allocation which has been given by financial institutions to Bihar by March 31st, 1991 was Rs. 2,301 crore and depending ofcourse on which parameters for assessment one uses, I think, this allocation is extremely inadequate and much more could have been done. For instance if you look at the per-capita assistance given by all the financial institutions, it comes to Rs. 183 per person. But when one compares it with certain other States which have also received very inadequate per-capita assistance, the position about Bihar does not seem that pessimistic....I do not think that IDBI or other financial institutions have been averse to financing good projects when they come up either in Bihar or in other backward areas. If there are any examples of this, then certainly the Government would view it with a great deal of concern. On the non-SSI sector infrastructure becomes a very major point. The availability of assistance from State Finance Corporations and Industrial Development Corporation also becomes important. In the specific context of Bihar, we are aware that the finance of the SFC are themselves in an extremely bad shape. As long as their finance is in bad shape, there is no way that financing for the SSI sector can successfully occur....The financial position of the Bihar SFC has deteriorated considerably".

4.19 On a query regarding assistance to industries in Bihar, the Committee were informed by IDBI in a note that during the last 5 years (1987-88 to 1991-92) direct assistance aggregating Rs. 403.8 crore was sanctioned in respect of 45 projects in Bihar. Assistance sanctioned and disburse to projects in Bihar under the various schemes of SIDBI aggregated Rs. 92.07 crore and Rs. 78.13 crore during the years 1990-91 and 1991-92. Subsequently, the Managing Director of IDBI informed in evidence:—

"A Seminar on Bihar was organised by DGTD at Patna on the 7th and 8th of September (1992). I participated in that Seminar and it was a very well-attended Seminar...On the policy side, it was suggested that sales tax royalty payments incentives on lines of other States should be introduced to attract the industries in the State. There should be a BIFR like state level organisation to look after the interests of the sick units in small scale sector. There is need for formulating a State Policy to rehabilitate all closed but potentially viable industrial units. On the session regarding project finance the recommendations were that the power situation was very bad; the Plant Load Factor was low and the transmission losses were very high compared to national average making the power situation very critical. It required the immediate attention of both the State and the Central Governments. A task force comprising the representatives of the State and the Central Governments there and industries may be set up to draw a detailed plan for augmenting power generation in the State.

It was mentioned that the performance of the State level institutions, namely the BSFC and BISICO has declined considerably and there was need for induction of professionals at various levels restructuring of liabilities and broad basing of capital. A number of small-medium scale units complained that because of the limit of Rs. 5 crores they were not getting any assistance from the all India institutions. Looking to the weak position of the State level Institutions and the need for accelerating pace of Industrialisation in the State I made an announcement that so far as IDBI was concerned we would be prepared to consider assistance for projects with project cost of even less than Rs. 5 crores, provided the projects are viable and if the State level institutions are not able to take care of their needs due to lack of resources. There were industry specific sessions relating to mining, sericulture and food processing. Some very useful suggestions came in the meeting."

4.20 The Committee wanted to know the concessions, if any, being offered by IDBI while providing assistance in backward areas. The Chairman, IDBI informed in evidence as follows:—

> "The centre had a special scheme for giving central subsidy for backward areas. The State Governments had their own schemes for doing something to the backward areas. Earlier there was concessionality of rate of interest for backward areas. I must mentioned to you that this is all gone. The centre has stopped the subsidy."

4.21 In this connection, the Committee were also informed by IDBI in a note that earlier the IDBI Act provided for a tax free status for IDBI which enabled it to effectively perform the developmental and promotional role assigned to it. The withdrawal of tax-free status by the Finance Act, 1991 would restrict IDBI's capacity to discharge promotional/developmental role assigned to it.

4.22 The Committee desired to know the steps contemplated by Government for removing the regional imbalances. They were informed by the Joint Secretary, Department of Economic Affairs in evidence:—

> "This is a matter on which we in the Finance Ministry are also deeply sensitive and concerned because the allocations from the banks and financial institutions to the States is not uniform. For many years the Central Government has given an investment subsidy to the backward

areas. Despite that, the investment has not grown. Interest rate subsidy also was given by the financial institutions under the parameters for setting up of industries....This was subsequently removed by the financial institutions.....The main reasons for re-assessment was that it was not very clear that the investments in backward areas depended on being supported by interest rate concessions....The main impediment to ensuring that industries come up in those areas is inadequate infrastructure. For these industries, some of the infrastructure has to be brought in to place by the Government of India and some by the State Governments."

4.23 The Committee asked whether the withdrawal of tax-free status of IDBI would not hamper its promotional role in providing assistance in backward areas and whether it would not be desirable to give some sort of fiscal concessions as far as industries in backward areas are concerned, The witness replied:—

"I think, if at all, concessions are to be given, they must be given from the Budget. Recently, the Government have decided that the tax free concession of IDBI should disappear.... in order to bring all the financial institutions which lend to industries on to a level playing field....We have three major financial institutions which lend to industries—IDBI, ICICI and IFCI. ICICI and IFCI since inception have been paying tax. IDBI was not paying tax.... in a way, it had a competitive advantage based on a fiscal system which was not uniform. Your second point regarding giving fiscal benefits for lending to backward areas, is a point which we will bring to the notice of the Finance Minister and take a decision."

C. Growth Centres

4.24 The Committee wanted to be apprised of the Government's current strategy for development of backward areas after the discontinuance of investment subsidy and interest rates subsidy. The witness informed the Committee:—

"....the backward areas, we believe, will only be benefited if there is adequate infrastructure that is brought in. We also believe that the State Governments and the Government of India together jointly need to promote the setting up of infrastructure in these areas. For this purpose, the Central Government and the State Governments are now collaborating for setting up the growth centres. The current initiative of the Government is to set up these growth centres in the backward areas and that is the main initiative of the Government.....If the growth centres are set up, it is our belief that industrialisation will take place. That is the strategy of the Government of India."

4.25 In this connection, the Committee were informed by IDBI in a note submitted after evidence that Government of India had decided to set up

100 Growth Centres throughout the country in the 7th and 8th Five Year Plans. These Growth Centres are expected to act as magnets for attracting industries to the backward areas with infrastructural facilities on par with the best available in the country particularly in respect of power, water, telecommunications and banking. The area of each Growth Centre will range from 400 to 800 hectares. The outlay on each of these Growth Centres is expected to be around Rs. 30 crores to be financed as under:

		(Rs. crores)
1) Share Capital		
Central Government	10	
State Government	5	
Financial institutions	2	17
2) Loans from institutions		3
3) Market borrowings		10
		30

4.26 Central Government has finalised, in consultation with State Government/Union Territory Administrations, the locations of 70 Growth Centres and also formulated the guidelines for preparation of project reports on Growth Centres. Two Committees *viz.* Project Appraisal Committee and Apex Committee have been constituted by the Government for screening project reports and granting approvals therefor. The Apex Committee of the Growth Centres has so far approved the project cost for 28 Growth Centres for various states *viz.* Andhra Pradesh (4), Madhya Pradesh (5), Gujarat (3), Haryana (1), Jammu & Kashmir (1), Karnataka (3), Maharashtra (4), Punjab (2), Rajasthan (3) and Tamil Nadu (2). As decided by Apex Committee, IDBI has been appointed as the nodal agency on behalf of other institutions in the matter of appraisal and sanction of assistance to these Growth Centres.

4.27 On being asked as to how the concept of growth centres would be implemented, the Joint Secretary, Department of Economic Affairs stated in his evidence:

> "The growth centres will be implemented through special companies, which will be incorporated as companies under the companies Act with their equities shared by the Union and State Governments and the financial institutions. In addition, the IDBI are also providing lending facilities to these infrastructure companies.........the role of the infrastructure companies to be set up would be to mobilise the various inputs that are required in order to ensure that industrialisation can take place."

4.28 In regard to the progress of the scheme so far, the witness informed the Committee:

> ".....the Apex Committee has approved these growth centres only one and a half years back......The Committee has so far identified 65 growth centres in various parts of the country. Of these 65 centres, so far for 28 growth centre projects detailed project reports (indicating proposed investment and the other various necessary inputs) have been sanctioned and the Government of India in the Ministry of Industry, has released so far Rs. 51 crores in order that the growth centres can take off implementation on the ground. During the Eighth Plan period, 65 growth centre projects are proposed to be implemented. That is the present status about the growth centres."

4.29 Subsequently the Committee were informed by Government in a note submitted after evidence that under the Growth Centre Scheme announed by the Government in June, 1988 for industrialisation of backward areas, it is proposed to develop 70 Growth Centres throughout the country during the Eighth Five Year Plan each at a cost of Rs. 30 crores. Out of these, 65 centres have been selected and announced. So far Ministry of Industry was stated to have received 53 project reports from the Governments of Andhra Pradesh, Bihar, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Nagaland Orissa, Punjab, Rajasthan, Tamil Nadu, Tripura and Uttar Pradesh. Out of these, 28 project reports have been appraised and approved. The remaining were under appraisal by the selected lead agencies. A sum of Rs. 51.50 crores has been released to the States so far as Central assistance.

4.30 The Committee note that IDBI has been assigned a developmental and promotional role to encourage development of industries in the industrially backward areas of the country identified by the Government. The assistance to backward areas sanctioned by IDBI during 1988-89 (July—March), 1989-90 and 1990-91 amounted to Rs. 1654 crore, Rs. 2747 crore and Rs. 2685 crore representing 38.9%, 37.8% and 43.1% respectively of the aggregate assistance sanctioned by IDBI during these years. Admittedly much more requires to be done in the direction of development of backward areas. As at the end of March, 1992, disbursements under the Area Specific Infrastructure Development Scheme in the No-Industry Districts were only Rs. 24.6 crore against sanctions of Rs. 101 crore reportedly due to lack of interest of State Governments. The Committee, therefore, suggest that a coordinated strategy for this purpose should be evolved involving the Central Government, the State Governments and the financial institutions.

4.31 The Committee have been informed that the cumulative sanctions of Rs. 19062 crore upto March, 1991 by IDBI for backward areas were expected to catalyse additional employment potential for over 41 lakh persons. However, this figure does not depict a true picture of the impact of the developmental efforts since it includes people who had earlier been employed else-where like agriculture side or service sector. The Committee, therefore, desire that IDBI should undertake a study of the net employment generated by its various schemes in backward areas and apprise them of the results.

4.32 Balanced regional development has all along been one of the prime objectives of planning. However, from the data made available to the Committee it is seen that seven States *viz.* Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura together accounted for just 0.7% of total assistance sanctioned by IDBI upto March, 1990. Not only that against an all India average of Rs. 815, the per capita assistance disbursed by all financial institutions upto March, 1991 to these States ranged from Rs. 106 to Rs. 476 except in Sikkim where it was Rs. 790. Against this five States *viz.* Andhra Pradesh, Gujarat, Maharashtra, Tamil Nadu and Uttar Pradesh accounted for as much as over 56% of the assistance sanctioned by IDBI. Even among the backward areas 50 backward districts by size of assistance accounted for as much as 63% of the assistance to backward areas as at the end of March, 1991. The Committee have, therefore, come to the inescapable conclusion that severe regional imbalances still persist in assistance sanctioned by IDBI and other financial institutions. They would recommend that urgent and concerted efforts should be made by Government and financial institutions to minimise such regional imbalances.

4.33 Besides the North-Eastern States, the Committee noticed that the total assistance sanctioned by all financial institutions to Bihar upto March, 1991 amounted to Rs. 2301 crore and the per-capita assistance worked out to a meagre Rs. 183. Admittedly this assistance is extremely inadequate whatever parameters for assessment are used. The Committee are given to understand that one of the main reasons for this state of affairs was the weak position of State level institutions. The Committee need hardly emphasise the need for taking steps to remove the bottlenecks in the functioning of State level institutions so that the funds made available by IDBI for assistance to industries in backward areas are utilised for the purpose to a greater extent. At the instance of the Committee a seminar was held at Patna in September, 1992 where besides certain other measures it was decided that in the case of Bihar IDBI would consider assistance for projects with cost of even less than Rs. 5 crore. The Committee suggest that such measures should also be taken in respect of other backward States.

4.34 The Committee note that earlier an investment subsidy was being given by Central Government in respect of backward areas. Interest rate subsidy was also being given by the financial institutions. Since these measures failed to give the desired impetus to development of industries in these areas, they have since been withdrawn. The interest free status of IDBI has also been withdrawn which might hamper to some extent its promotional role in backward areas. In this context the Committee feel that there is a strong case for providing some sort of fiscal benefits for lending to backward areas. They observe that to give a stimulus to new investment in industrially backward areas the Union Budget for the year 1993-94 contains a provision for a five-year tax holiday for new industrial undertakings located in all the North-Eastern States, Jammu & Kashmir, Himachal Pradesh, Sikkim, Goa and Union Territories of Andaman and Nicobar Islands, Dadra and Nagar Haveli, Daman and Diu, Lakshadweep and Pondicherry. This is a step in the right direction. However, the Committee are of the opinion that much more needs to be done for the industrial development of backward areas.

4.35 After the discontinuance of the investment subsidy and interest rate subsidy, the current strategy of Government for development of backward areas seems to be through creation of adequate infrastructure in such regions. Government was stated to have decided the setting up of 100 Growth Centres, throughout the country in the 7th and 8th Five year Plans which would be incorporated as companies under the companies Act with their equities shared by the Union and State Governments and financial institutions. These Growth Centres were expected to act as magnets for attracting industries to the backward areas with infrastructural facilities on par with the best available in the country particularly in respect of power, water, telecommunications and banking. The outlay on each of these Growth Centres was expected to be arround Rs. 30 crores of which Rs. 10 crores was to be provided by Central Government as share capital. The Committee are constrained to observe that now only 70 Growth Centres are proposed to be developed during the Eighth Five Year Plan of which 65 have so far been selected. Project reports in respect of only 28 projects have been appraised and a meagre sum of Rs. 51.50 crores has been released to the States as Central assistance. The Committee are not aware whether these centres have been able to attract any new industries. They cannot but express their deep anguish over the tardy progress of this important scheme meant for industrial development of backward areas. They desire that all efforts be made to substantially accelerate the pace of the scheme so that all the 70 Growth Centres come up within the stipulated time.

CHAPTER V

MISCELLANEOUS

A. Recovery of Loans

5.1 The total overdues of IDBI at the end of each of the years 1988-89 to 1990-91 were stated to be as given below:—

As on	Overdues Pertaining to		Total
	Direct loans	Others (Refinance) (Rs. in crore)	
31.3.1989	237.72	3.56	241.28
31.3.1990	261.37	4.98	266.35
31.3.1991	320.07	3.37	323.44

5.2 The age-wise classification of overdues pertaining to direct loans was stated to be as given below:—

(Rs. Crores)

As at	31.3.1989	31.3.1990	31.3.1991
Upto 6 months	48.71	64.10	99.05
6 to 12 months	42.47	56.53	112.81
Over 12 months	146.54	140.74	108.21
Total	237.72	261.37	320.07

5.3 Asked to state the reasons for the overdues under "over one year" category being considerably high, IDBI stated in a written reply that the major factors were specific industry problems, management deficiencies, process constraints, marketing difficulties, power shortage and labour trouble which have contributed to the uneconomic working of assisted concerns and resultant defaults.

5.4 The percentage of recovery during the last three years was stated to be as under:

Year ended	*Recovery percentage*
31.3.1989 (9 month period)	75.5%@
31.3.1990	83.1%
31.3.1991	84.1%

@Due to charge in financial year from July-June to April-March from 1988-89, the period covers only nine months ended March 31, 1989 and the figures therefore are not comparable. The percentage for 12 months period July 1988—June 1989 works out to 81.1%

5.5 77 suits filed by IDBI against the assisted concerns etc. to secure recovery of loan were stated to be pending in various courts as on 1.6.1992. Some of the suits were pending since 1983. The amount involved in these suits was Rs. 371.62 crore as on March 31, 1992.

On a query regarding huge sums being involved in litigations, IDBI stated in a note that it files suits for recovery of dues only as a last resort after a full opportunity to the borrower to clear the dues and exhausting all remedies available to IDBI. In some cases, where the borrowers comes forward with a proposal for one-tin settlement with IDBI, IDBI agrees to such arrangement in the terms are reasonable even if such settlement involves sacrifices on the part of IDBI in the form of waiver of interest, liquidated damages, etc.

5.6 When the Committee asked how much time taken in clearing the suits filed by IDBI, a representative of the Bank stated in evidence:

> "They may take 10 to 15 years. In some cases we are settling the matter out of court in which case we will be able to recover speedily otherwise, the normal procedure takes 10 to 12 years or more in some cases."

5.7 On being enquired as to the reasons for the loan documents not containing arbitration clause to facilitate quick settlements, IDBI stated in a note that even the award passed by Arbitrator cannot be enforced unless judgement is passed by the court in terms of the award after following the prescribed procedure. Besides, in view of the high stakes involved, it would be possible for the borrowers to protract even the arbitration proceedings by adopting dilatory tactics by approaching courts for various reliefs. Therefore, instead of having the arbitration clause, the existing legal system and the mechanism involved for recovery of the dues of the financial institutions and banks have to be simplified and streamlined.

5.8 In this connection, a representative of IDBI informed the Committee in evidence:—

"Narasimham Committee, Tiwari Committee and the recently constituted Hegde Committee have recommended constitution of special tribunals to expedite the recovery procedure............We have prepared a draft legislation and forwarded it to the Banking Division."

5.9 Asked to state the latest position in the matter the Joint Secretary, Department of Economic Affairs informed the Committee in evidence:

"Yes, in fact, the Finance Ministry is strongly of the idea that we should have a special tribunal for this purpose. I am happy to report that the Cabinet has already accorded approval for introduction of legislation for this purpose of setting up tribunal. It is under drafting and we hope as a consequence that the existing time lag in the settlement of judicial cases can be considerably cut short.

Many banks and financial institutions, as a matter of fact, have their own internal policy of encouraging one-time compromise with the client where it is very clear that it is not possible to retrieve the entire loan. Many of them, depending on the security they hold from the client, try and work up a one-time compromise so that subsequently there is no question of the loan asset remaining on the books of the institution unnecessarily. For the last three or four years, it has gained considerable momentum."

B. Payment of Tax and access to Funds

5.10 IDBI informed the committee in a note that in terms of Section 35 if the IDBI Act, 1964, IDBI was exempted from payment of income-tax, Super-tax, super profit tax or any other tax on its income, profits or gains. This Section was omitted by Finance Act, 1991, effective from April 1, 1992. The advance payment of income tax for 1991-92 was stated to be Rs. 168.5 Crores.

5.11 The Committee desired to know the implications of omission of Section 35 of the IDBI Act. They were informed by IDBI in a written reply submitted after evidence that the tax free status enabled IDBI to effectively perform the role assigned to it. The main dimensions of its developmental role were stated to be :

(1) "IDBI could assist ventures belonging to high priority industries which the other banks and institutions may not have been able to support on purely commercial considerations.

(2) IDBI provides equity support to State Financial Corporations (SFCs), twin function State Industrial Development Corporations (SIDCs) and Technical Consultancy Organisations (TCOs). Total equity support to such state level institutions aggregated to Rs. 457.3 crore by end-March, 1992.

Rs. 457.3 crore by end-March, 1992.

(3) IDBI could undertake responsibilities like support to Entrepreneurship Development Programmes, support to voluntary agencies, training programme for staff of other FIs and banks. It could also promote and finance research activities out of Technical Assistance Fund set up by IDBI out of its profits.

(4) The tax-free status enabled IDBI to plough back a larger share of its profits which augmented its equity without undue dependence on government for fresh induction of equity."

5.12 The withdrawal of tax free status, it was stated would restrict IDBI's capacity to discharge promotional/developmental role assigned to it as mentioned above and which are not undertaken by other financial institutions. IDBI's ability to contribute to share capital of SFCs/SIDBI would also be reduced considerably. It might not be possible to provide resource support to other institutions on concessional terms.

5.13 The Committee were also informed by the Managing Director, IDBI in evidence that it used to get funds at a concessional rate of 5 to 8 percent from the National Industrial Credit (Long-term Operation) Fund set up by RBI in 1964. Another source of funds for IDBI was the Government guaranteed bonds which also carried a low rate of interest of 11 to 12 percent. Access to these sources as also the Investment Deposit Account Scheme (IDAS) and capital gains bonds carrying interest rate of 10 and 9 percent respectively was stated to have been withdrawn under each of which IDBI was getting around Rs. 400 crore. The new borrowing which IDBI was raising from the market were stated to cost it 16 to 17.5 per cent as against RBI loans and Government guaranteed bonds which carried interest of five, eight or 12 per cent.

5.14 The Chairman, IDBI added in this connection as follows:—

> "We have not yet reached a situation where everything that is expected of IDBI can be done by raising resources in the market. In this context, the funding pattern of the IDBI will have to be looked into very carefully. If we have to pay 17 percent interest, then we will not have the wherewithal for many things."

5.15 When the Committee desired to know the Government's views in the matter, the Secretary, Department of Economic Affairs stated in evidence as follows:—

> "Earlier what used to happen was, very low profits were being declared for the purpose of transfer to Budget and a large part of the profit was simply being used to funnel the resources through IDBI and other institutions, as a result of which, the Government deficit was very high. What we have done this year is that a much larger proportion of the RBI profits are going back to the

Government. This is, in fact, reducing the budget deficit which reduces the flow of cheap resources to IDBI and other institutions. The rationale behind the policy is that the financial institutions must go to the market and raise resources. They should not depend on the cheap resources coming from the Reserve Bank at the expense of Government budget deficit leading to inflation. If you want to develop a strong financial system we want all the institutions to have similar status. That is to say, IDBI, IFICI, all of them are good and national institutions. It would not have been possible to give all these institutions together a tax-free status-.........The tax-free status of IDBI was relevant at the early stage when we were setting up the institution. Now it is a fully matured institution and is, in fact a much larger institution than ICICI, IFCI. They should pay the same tax rate which everybody is paying. Even the banks are paying tax.......For a very long time, we have had a tendency to develop industrialisation based on assumptions that the Budget can bear all sorts of burden, which is also not correct. This is what has led to high inflation in the country. I would submit high inflation as more damaging for industrialisation than anything else. We can bring about moderation in the rate of inflation. That factor alone can stimulate the industry rather than any extra money that may go for one or other institution. I would say the withdrawal was overdue and highly desirable."

5.16 The IDBI Act envisaged setting up of a separate fund called the Development Assistance Fund (DAF) in IDBI for financing, with the prior approval of Central Government, projects which were of strategic importance to the economy or were expected to fill up the gaps in the industrial structure but which might require assistance in magnitude which was unusually large in relation to ordinary funds of the financial institutions or were potentially risky or involved long gestation period.

5.17 The Committee were informed in a note furnished by CBI that DAF was established in March, 1965 with an intial contribution from the Central Government. The Government was expected to provide funds to the DAF, as and when needed, by way of budgetary support. In August 1977 the Government suggested that IDBI should allocate a part of the market borrowings to DAF to finance projects assisted under DAF. From 1978 onwards, IDBI provided funds for DAF by market borrowing and transfer from General Fund (GF). Profits and losses arising out of the operations of DRE were kept separately and not included in the General Fund of IDBI. It was a statutory requirement that separate accounts had to be maintained and a balance sheet was required to be prepared for DAF. However, the DAF was stated to have been wound up by the central Government with effect from April 1, 1991 and the assets and liabilities of DAF were transferred to General Fund.

5.18 When the Committee desired to know the reasons for winding up of the Development Assistance Fund, the Secretary, Department of Economic Affairs stated in evidence:

> "The principal reason for that decision was that there was no distinct advantage in keeping the accounting base for a separate Fund. The fact of the matter is that other institutions are funding similar projects from the existing funds. I think the idea is to have a Fund. But the same function can be achieved by merging with the geneal resources of the IDBI. In the early stages of setting up all the financial institutions, we have set up this fund in which the Government would be taking the risk in case something went wrong. That is why, there was a logic in setting up this fund. As the institutional system evolves, the financial system becomes more complex and the IDBI becomes less dependent on the Government resources. In a situation where the IDBI is heavily dependent on the Government-controlled sources of financing, it should be deploying these funds and the Government should be taking risks for this fund. As the system evolved, the IDBI developed very extensive capability to make all these financial judgements on its own. If we had continued the fund, the only thing it would be doing is, it would create a mechanism in which the Government would be taking the risk. That is not a logical thing for a financial institution to do. I think closing that fund and making the IDBI rely on its general fund to carry out its tasks was the right thing to do in order to develop a suitable financial system. This fund may have had an early role in the transitional stages, but in today's situation, it is not necessary. In order to mobilise investment, they must be able to pay an attractive rate of return to the people from whom they get the fund and they must earn the money."

5.19 On being enquired about the circumstances under which recourse was taken to DAF, the Committee were informed by IDBI in a note that funding out of DAF was sought when a project of high priority was, by reasons of size of assistance or risk involved, not likely to be financed to any significant extent by other financial institutions in the ordinary course of business. IDBI as a matter of prudent business practice, originally limited its exposure to a single project to less than 25% of IDBI's paid up capital and free reserves. Resource to DAF was also taken where assistance sought was for an amount in excess of this exposure limit. The DAF was thus sparsely used and only when considered essential.

5.20 Asked to state the number of projects assisted under DAF and the cumulative assistance, IDBI informed the Committee in a note furnished after evidence that as at the end of March, 1991, a cumulative assistance of Rs. 918.6 crores was sanctioned under DAF to projects of 16 companies.

5.21 On being enquired whether IDBI would like the DAF to be revived, the Chairman, IDBI stated in his evidence before the Committee:

> "My view is that it should be revived....we find that our net worth has risen to about Rs. 2500 crore. It is not always that we will be adding more than Rs. 600 crore assistance in the project. But every time, I see, the projects are growing bigger and bigger............ I also see that now the public sector is not able to raise or money from budget because that has been stopped. Some of their large projects which are very good are also coming to us. The Power Sector is coming to us. The other infrastructure is likely to come to us. I see in the near future we will be called upon to play a role in the capital intensive projects also. There we may have to provide an assistance of more than Rs. 600 crores. We must have the flexibility of doing so. So, some window has to be there where we can put up this sort of assistance."

5.22 Asked to state the Government's view in this regard, the Secretary, Department of Economic Affairs stated in evidence as follows:

> "When it was in the early or stages, we put the Government money into the fund, but that was stopped in the late 1970s. Thereafter, the fund continued based on their own resources, but the Government was taking the risk. The situation has changed now and today I would respectfully submit that it is not necessary."

C. Agri Business Consortium

5.23 The Committee were informed by IDBI in a note that a Small Farmers Agri-Business Consortium (SFAC) was proposed to be set up as an autonomous corporate entity funded by RBI, National Bank for Agriculture and Rural Development (NABARD) and Industrial Development Bank of India (IDBI). The Consortium would include respresentatives from various development boards dealing with individual crops and public sector corporations dealing with Agriculture and Agro Industries, private sector companies, banks, scientific organisations and farmers' associations.

5.24 Asked to state the present stage of the porposals, the Department of Economic Affairs informed in a note submitted after evidence that pursuant to Finance Minister's announcemment in his budget speech last February about Government's decision to constitute a "Small Farmers Agri Business Consortium", several meetings were held in the Planning Commission under the Chairmanship of Deputy Chairman to decide on the modalities for setting up the Consortium. It has been decided that the Consortium may be set up as a Society under the Registration of Societies Act. Primarily the objective of the Consortium would be promote accelerated agricultural development in association with farmers, research institutions, financial institutions and others. However no final decision have been taken by the Planning commission on the structure and functions of the Consortium and the matter is still under their consideration. Planning Commission have also not been able to indicate the likely date when the Consortium is expected to start functioning.

5.25 The Committee regret to note that IDBI is having large sums as overdues from the assisted units. As at the and of March, 1991, the overdues amounted to Rs. 323.44 crores. The percentage of recovery was 84 percent. Inspite of the IDBI reportedly making efforts for one time settlements, 77 suits were pending in various courts as on 1.6.1992 against the assisted concerns involving a sum of Rs. 371.64 crores. Some of the suits were pending since 1983. The Committee have been informed that the normal time taken for settlement by courts may range from 10 to 12 years. The Committee strongly feel that such situation could have been avoided had there been a provision for arbitration in the loan documents themselves. In this connection it is noticed that a proposal for enacting a legislation for setting up of tribunals for speedy recovery of overdues to the financial institutions has been approved by the Cabinet. The Committee urge that such legislation should be enacted at the earliest in order to ensure quick recovery by financial insitutions.

5.26 IDBI has informed the Committee that upto March, 1992 it was exempted from payment of income-tax, super-tax, super profit tax or any other tax on its income, profits or gains. With effect from 1st April, 1992, the relevant provision in the IDBI Act was deleted in order to bring IDBI at par with other finaricial institutions like IFCI and ICICI. The Committee have also been informed that the new borrowings being raised by IDBI from the market reportedly cost it 16 to 17.5 percent as against RBI loans and Government Guaranteed bonds which carried interest of five, eight or 12 percent. Besides, a separate fund called the Development Assistance Fund (DAF) which was set up in IDBI for financing projects which were of strategic importance to the economy or were expected to fill the gaps in the industrial structure was stated to have been abolished by Government with effect from April 1, 1991. IDBI has pleaded that withdrawal of tax free status and approach to concessional funds and the abolition of DAF would seriously affect its promotional and developmental activities some of which like providing equity support to State level institutions were not carried out by other financial institutions. The Committee are of the opinion that all these are related issues and need to be examined by Government afresh keeping in view certain promotional roles assigned to IDBI.

5.27 Government had decided in early 1992 to constitute a Small Farmers Agri-Business Consortium with a view to promote accelerated agricultural development in association with farmers, research institutions, financial institutions and others. The consortium was proposed to be funded by RBI, National Bank for Agriculture and Rural Development (NABARD) and

IDBI. However, the structure and functions of the consortium have not so far been decided and the matter is still under consideration. The Committee desire that an early decision on the structure and functions of the consortium should be taken.

NEW DELHI;
April 27, 1993
Vaisakha 7, 1915 (S)

A. R. ANTULAY,
Chairman,
Committee on Public Undertakings.

APPENDIX

Statement of Conclusions/Recommendations of the Committee on Public Undertakings contained in the Report

S. No.	Reference to Para No. in the Report	Conclusion/Recommendation
1	2	3
1	1.24	The Industrial Development Bank of India was originally constituted in July 1964 as a wholly owned subsidiary of the Reserve Bank of India. Its ownership was transferred from RBI to Government of India in February, 1976. Apart from its main objective to serve as the principal financial institution, IDBI has also been assigned a special role in planning, promoting and developing industries to fill the gaps in the industrial structure and coordinating the working of institutions engaged in financing, promoting or developing industries and assisting in the development of such industries. It has also a developmental and promotional role to encourage development of industries in the industrially backward areas of the country. In this context, it was brought to the notice of the Committee by IDBI that in view of the priorities of the Eighth Plan and developments of the economy, there was a need to further expand the scope of IDBI Act. Besides, as indicated by the Secretary, Department of Economic Affairs, it might not be possible to provide budgetary support in the form of equity contribution to the financing institutions. Instead the capital would have to come from the capital market. The Committee would, therefore, suggest that Government, in consultation with IDBI, should identify the specific areas in which amendments to IDBI Act might be required in the light of priorities of Eighth Plan and the recent developments in the economic sector.

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2	1.25 & 1.26	The Committee note that assistance by IDBI is being provided to private sector, joint sector and public sector. Whatever the nature of corporate entity, ultimately it is the public funds which are being utilised through assistance provided by IDBI and other financial institutions. Thus, the society at large is a major stakeholder in the units assisted by the financial institutions. Besides, the State Governments often provide various other concessions and facilities for setting up industries in a particular area. However there appears to be no mechanism whereby fulfilment of certain social obligations by the assisted units could be ensured. In the opinion of the Committee, contribution towards development of the area where a particular industry is set up, timely payment of compensation to displaced persons, training and employment to local people and improvement in general quality of life of local people including medical facilities are the minimum social obligations which must be fulfilled by a unit—whether in private or public sector—which is set up by assistance from a public financial institution. The Committee have been given to understand that it may not be practicable for the financial institutions themselves to include such provisions as conditionalities in the loan documents. However, once there is a policy laid down by the Government of India and the individual State Governments about the social obligations to be discharged by the new projects set up, this would be made as conditionality by all financial institutions including IDBI as was being done in respect of other policies laid down such as environmental clearance etc. The Committee, therefore, recommend that model policy guidelines should be laid down by the Government of India in regard to the social obligations expected of the units assisted by the financial institutions and the State Governments should be asked to enforce them strictly with suitable modifications

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		depending upon local needs. However, pending formulation of such guidelines, IDBI should insist at least on provision of hospitals and drinking water facilities by large units assisted by it.
3	1.27	During evidence, it was pointed out by the Committee as an example that in the otherwise highly industrialised district like Raigad, the scarcity of drinking water to the poverty-stricken villages was a stark reality. It was one of such typical cases of affluence co-existing with affliction. The Chairman, IDBI, the Committee appreciate was quick to volunteer to work out a scheme to cover the whole district so that the acute problem of drinking water between February and June each year is solved. Satisfaction of such a dire need by pooling the resources of the industries will help the ideal of public, private and cooperative sector industries being socially conscious and publicly accountable. The Committee are happy that Chairman, IDBI has assured to coordinate this activity to set an example in all other similar areas/regions. The Committee hope that IDBI will, within a few months embark upon this scheme.
4	1.28	The Committee were informed that the coordination role of IDBI was being performed mainly through the forum of Inter-Institutional Meetings (IIM) held at the level of heads of institutions under the leadership of Chairman, IDBI and the Senior Executive Meetings. In this connection, the Committee wish to point out that as far back as in 1980-81, they had recommended that suitable guidelines should be issued to IDBI in regard to the apex role assigned to it by the amending Act of 1975. This was also reiterated in their 45th Report (1981-82). However the Committee find to their dismay that no such guidelines have so far been issued. It was only when the matter was again raised during evidence that the Secretary, Department of Economic Affairs agreed to examine the issue afresh after the proposed

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		Board for Financial Supervision which is yet to be set up gives its report to Government. The Committee cannot but express their strong displeasure over the failure of Government in issuing any guidelines in regard to the apex role of IDBI even though a period of twelve years has elapsed since the recommendation was first made. They would now urge the Government to issue at least some broad guidelines in this regard to enable the IDBI to effectively discharge its coordination function which could later on be modified, if necessary, in the light of the report of the Board for Financial Supervision.
5	1.29	The Committee on the Financial System under the Chairmanship of Shri M. Narasimham had in its report submitted in November, 1991 recommended that the IDBI should separate its promotional apex and refinancing role in respect of, for instance, State Financial Corporations, SIDBI etc. and its direct financing function. The Government have reportedly not accepted this recommendation and currently there are no plans to split IDBI into two organisations. This Committee endorse the stand taken by Government. For, IDBI has in its charter not only the function of direct lending to industries but also the responsibility of supporting the state-level institutions, namely, State Financial Corporations and State Industrial Development Corporations through an extensive mechanism of refinance as well as of equity support to them. The latter responsibility is not being carried out by other financial institutions. With the accent now being on the financial institutions mobilising resources on their own, IDBI might not be able to provide refinance to State level institutions at three per cent below the final lending rate to the borrower, in case its direct lending function, which is admittedly more profitable, is separated from the refinancing role. In the circumstances, the Committee are of the view that IDBI should not be split into two organisations as long as it is expected to perform its promotional role.

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6	2.55 & 2.56	The Industrial Development Bank of India mainly provides financial assistance under the Direct Finance Scheme, Refinance Scheme and Bills Rediscounting. Under the direct financing IDBI normally takes up projects costing more than Rs. 5 crores except in North-Eastern region, where projects costing less than Rs. 5 crores are considered for assistance. Under the Direct Schemes, project finance is provided in the form of loans, underwriting of and direct subscription to shares and debentures and guarantees for loans and deferred payments. Industrial projects in the small/medium sector costing not more than Rs. 5 crores are assisted by IDBI under its refinance scheme. Assistance under this scheme is extended through State Financial Corporations, State Industrial Investment Corporations, Scheduled Commercial Banks, Regional Rural Banks and State Cooperative Banks. Refinance in respect of small scale sector is now being provided by SIDBI. The Bills Rediscounting Scheme of IDBI is intended to help the purchaser of machinery/equipment to acquire it quickly and repay its cost over the years. From the information furnished by IDBI, the Committee notice that the actual sanctions by IDBI have generally been below the targets. Not only that, the disbursements have invariably been far less than the sanctions. Thus during the years 1986-87 to 1991-92, as much as 24.8% to 35.5% of the amount sanctioned during the year remained undisbursed. The Committee are not convinced with the explanation given by IDBI that while the sanctions are as per the complete requirement of a project, release of disbursement is according to the progress in implementation of the project which takes two to three years. If that were the reason for the difference between sanctions and disbursements, the gap between the two should have narrowed down considerably over a period of time, if not completely vanished. That this has not happened, shows that there are some inherent deficiencies in the system of drawing up projections for sanctions and disbursements required to

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		be made in a particular year. The Committee would, therefore, suggest that IDBI should examine this matter thoroughly and take corrective measures in order to narrow down the gap between sanctions and disbursements.
7	2.57	The Committee note that the number of public limited companies in the private sector directly assisted by IDBI was 369, 638 and 739 during 1988-89 (July-March), 1989-90 and 1990-91, respectively. While the financial performance of the companies assisted during these years was not available, results of a sample study of 401 IDBI assisted companies indicate that the operating profits of the profit making companies in the sample study during 1988-89 to 1990-91 were Rs. 2058 crores, Rs. 2991 crores and Rs. 3844 crores while losses of the loss making companies amounted to Rs. 180 crores, Rs. 170 crores and Rs. 133 crores, respectively for the same period. Out of the total sample of 401 companies, the percentage of companies which made profits was around 82% while the percentage of loss making companies was around 18%. This, according to IDBI, was in line with the general trends in the economy. However, the Committee are of the opinion that the performance of IDBI assisted companies ought to have been much better since in their case not only detailed project appraisal is undertaken but regular monitoring is also done by IDBI which has by now developed sufficient expertise in this regard. The Committee, therefore, desire that the appraisal and monitoring mechanism should be thoroughly looked into and corrective measure taken wherever necessary.
8.	2.58 & 2.59	The Committee have been informed that as at the end of March, 1991, IDBI had in its portfolio 278 sick units involving outstanding term loans of Rs. 748 crores. Out of these BIFR has recommended winding up in respect of 50 cases. The amount outstanding in respect of 59 closed units was Rs. 127.19 crores. 12 units were under liquidation and the only way left for IDBI to recover its

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		money was to file a suit and recover the money through sale of assets. Apart from measures like management restructuring, market tie-up, amalgamation with healthy units, sometimes rehabilitation assistance is also sanctioned for revival of sick units. The Committee are of the firm view that all such post-operative measures can be avoided once IDBI is able to detect in time the problems of the units which eventually lead to sickness. The Committee see no reason why it should not be possible for IDBI to detect in time at least the internal factors leading to sickness such as management deficiencies, absentee management, infighting among promoters, technical obsolescence, labour trouble etc. and take corrective measures immediately to prevent a unit from turning sick. The Committee have been informed that follow-up and monitoring of the assisted projects is carried out by IDBI at Head Office, Regional Office and Branch Offices. Quarterly progress reports are obtained from assisted concerns during the implementation period and half-yearly reports are called for after the projects go into production. In the case of certain large projects, mid-term review with particular reference to the estimated project cost and time schedule is also made. Follow-up visits are normally undertaken once in a year during implementation phase and once in two years thereafter. However, as admitted by the Managing Director, IDBI, certain factors which might subsequently lead to sickness of the unit, do not get reflected in the progress reports. The Committee would, therefore, recommend that the system of follow-up and monitoring should be thoroughly reviewed and strengthened and any flaws in the existing system should be rectified to ensure timely detection of problems in order to prevent the assisted units from turning sick. If necessary the frequency of follow-up visits should be increased.
9	2.60	In order to ensure the implementation of rehabilitation programmes in a coordinated and expeditious manner, the RBI issued a set of

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		detailed guidelines to banks in 1987 which were modified in June, 1989. Complementary guidelines were also issued by IDBI to the State level financial institutions in 1987 and subsequent modifications and policy changes advised to them. However, the Committee have been given to understand that there is still scope for improvement in coordination between Financial Institutions on the one hand and commercial banks and State level institutions on the other hand in the formulation and implementation of rehabilitation packages for sick units. The steps which could be taken in this direction include strict compliance with the revised guidelines especially in regard to medium and large industries, making the monitoring mechanism of the State level Inter-Institutional Committees set up by RBI, more effective and regular holding of Rehabilitation Meetings among the various agencies involved.
10	2.61	The Committee on Public Undertakings (1981-82) had recommended that all India position regarding sick units and steps taken for their rehabilitation should be reflected in the Report on Development Banking in India brought out by IDBI. The recommendation was accepted by the Government. However, the Committee regret to notice that such information is still not being brought out in the Report on Development Banking. In view of the huge amount of institutional funds locked up in sick units, the Committee reiterate that the all India position in regard to the sick units together with steps taken for their rehabilitation should henceforth be brought out in the Report on Development Banking in India.
11	2.62	The Committee have been informed that in order to meet the consultancy requirements of new projects ranging from information on market to actual implementation, 17 Technical Consultancy Organisations (TCOs) have been set up by IDBI in association with other institutions. During the five years period upto March 1992 an expenditure aggregating Rs. 576.67 lakhs was incurred by IDBI/SIDBI in respect of 1218 Entrepreneurship

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		Development Programmes (EDPs) completed by TCOs and other agencies reportedly benefitting more than 22000 potential entrepreneurs. The success rate was between 25-30 per cent in the case of general EDPs, around 50 per cent in the case of women EDPs and around 10 per cent in the case of Science and Technology. These success rates in the opinion of the Committee, are quite low. The Committee, would, therefore, urge that the study on the effectiveness of EDPs being conducted by the Entrepreneurship Development Institute of India, Ahmedabad should be completed expeditiously and they be informed of the measures taken for improving the success rate of EDPs.
12	2.63	A scheme for setting up common Quality Testing Centres (QTCs) in selected locations having clusters of units from a homogeneous group of industry was introduced by IDBI in 1986. 7 such centres have so far started functioning while a few more are under various stages of implementation. The Committee have been informed that an amount of Rs. 3.25 crores has so far been sanctioned for setting up these Quality Testing Centres. The Committee would emphasise that the QTCs which are under various stages of implementation should be made operational at the earliest. Meanwhile the effectiveness of the existing QTCs should be evaluated to ascertain how far they are serving the purpose for which they were set up.
13	2.64	During the period 1986-87 to 1991-92, IDBI sanctioned an assistance aggregating Rs.1048.73 lakhs to 114 voluntary Agencies (VAs) covering various categories such as physically handicapped and socially disadvantaged groups like Scheduled Castes and Scheduled Tribes, rural and urban poor and poor women. However, from the information furnished to the Committee, they find that there have been wide disparities not only among different regions but among various States. In some States, the number of Voluntary Agencies to whom assistance has been provided is very small. The Committee desire that special efforts should

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		be made by IDBI to identify and assist more voluntary agencies in such States. Besides, preference should also be given to voluntary agencies working for development of tribals.
14	2.65	The Committee have been informed that IDBI has recently commissioned two studies in Southern and Western regions for evaluating the impact of assistance to voluntary agencies. They would suggest that such studies should be conducted in other regions as well. The Committee also recommend that in the light of these studies efforts should be made to ensure that the assistance to voluntary agencies leads to self-sustaining growth of the weaker sections.
15	2.66 & 2.67	Under its refinance scheme, IDBI provides resource support to primary lending institutions such as State Financial Corporations, State Industrial Development Corporations and Banks etc. In the case of SFCs, depending on the debt-equity ratio and financial health of individual SFC, IDBI has been contributing to their share capital on matching basis with the concerned State Government. During 1990-91 the total resource support to SFCs from IDBI and SIDBI was Rs.867.5 crores constituting 68.5% of the total term loan disbursements of SFCs. The relative share of SFCs in the IDBI's total refinance during 1990-91 was 35.6%. Still the financial health of the SFCs seems to be far from satisfactory. The Committee have been informed that their recoveries have averaged between 35% and 36% during the last 5 years. The low recoveries have obviously affected their internal generation of funds, increased their dependence on external sources and affected their profitability.
		The State Financial Corporations Act vests certain powers and responsibilities in IDBI in matters such as appointment of Managing Directors of SFCs, nomination of Directors on their Board of Directors/Executive Committees, approval of regulations framed by them, advice in issue of instructions by State Governments and inspection

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		of working of SFCs. Inspite of these provisions, the Committee have an impression that the performance of SFCs has not been upto the mark. They are of the considered view that there is an urgent need for review of the SFC Act to streamline their functioning. IDBI has already submitted an action plan in regard to organisational aspects of SFCs, role of State Governments etc. which is under consideration of the Government. The Committee desire that Government should soon undertake a review of the SFCs Act in the light of the Action Plan and effect necessary amendments. Provisions should in particular be made about the continuity in top management and co-option of professionals on Boards of SFCs.
16	2.68	The Committee also feel that there is an urgent need to persuade the State Governments to make concerted efforts for toning up the functioning of SFCs. They should be advised to make appointment of professionals on the SFCs, Boards, take steps for ensuring a strong second line of management of SFCs, build up a sound portfolio and devise measures for stepping up significantly the recoveries of SFCs. The Committee feel that such steps would undoubtedly go a long way in improving the financial health of SFCs.
17	3.21	The importance of small scale sector in the context of the Indian economy can hardly be over emphasised. In fact the total production in the small scale sector is stated to be well over Rs. 1.5 lakh crores. However, the availability of institutional finance to the small scale industries sector had not been commensurate with their needs nor in proportion to the volume of activity generated by the sector. There has been inadequacy of working capital in particular for small sector. The Nayak Committee appointed by the RBI which went into this subject in detail has since submitted its report in August, 1992. The report containing findings on various aspects such as adequacy and flow of institutional credit for working capital, adequacy of term credit provided to the SSI

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		sector, rehabilitation of sick SSI units and other related aspects is still under examination of the RBI. The Committee would stress that considering the importance of the SSI sector, final decision on the findings of the Nayak Committee should be taken urgently and the Committee apprised in the matter.
18	3.22 & 3.23	The Committee find that the assistance sanctioned to small sector by IDBI as percentage of the total assistance sanctioned declined from 33.7% in 1987-88 to 28.8% in 1988-89 and 27.7% in 1989-90 though the disbursements to small sector marginally increased from 32.9% in 1987-88 to 33.4% in 1989-90. The small Industries Development Bank of India (SIDBI) was set up in April, 1990 for providing exclusive financing to the small scale industries. During 1990-91 and 1991-92, assistance disbursed by SIDBI under the various schemes amounted to Rs.3865 crores against the sanctions of Rs. 5307 crores. The Committee are, therefore, of the opinion that the flow of assistance to small scale sector cannot be termed adequate even after the formation of SIDBI. The Committee also feel that with the progressive delicensing and liberalisation in the industrial sector, there is need for laying special thrust on small, tiny and rural industries for creation of employment opportunities to people near their place of residence. They would, therefore, recommend that concerted efforts must be made by SIDBI so that its assistance reaches the small industries in urban as well as rural areas. In the field of rural industrialisation, the coordination among SIDBI, National Bank for Agriculture and Rural Development and Khadi and Village Industries Commission needs to be strengthened. In addition, special emphasis should be laid on arrangements for marketing the products of small scale industries.
19	3.24	IDBI introduced in 1988, a scheme known as the single window scheme, which is now being operated by SIDBI. Under the scheme, SFCs/twin

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		function SIDCs are authorised to provide term loans as well as working capital assistance to new tiny and small scale units where project cost does not exceed Rs. 20 lakhs and requirements of working capital are upto Rs. 10 lakhs. The scheme enables such units to obtain term loan and working capital loan from the same institution. The Committee have been informed that the scheme is proving convenient and helpful to the small scale industries and in fact the Committee appointed by the RBI to look into the credit needs of the small scale sector has suggested that this concept must be introduced for all the small scale industries in the country. The report of the Committee is still under consideration of the Government. The Committee recommend that this suggestion of the Nayak Committee should be implemented without any delay and the single window scheme should be extended to all the small scale industries.
20	3.25	The Committee also observe that the 'Single Window' scheme as at present only means provision of term loan and working capital loan by a single agency. However, some State Governments are stated to have attempted some sort of an Escort service for providing all services at one place. The Committee recommend that IDBI should examine the feasibility of introducing such services all over the country so that all the procedural clearances and assistance to small scale sector are available at one place.
21	3.26	Prompt payment of money by buyers to small industrial units is of utmost importance. Small sector units have been facing the problem of delayed realisations from big units for the products supplied by the former. The Committee are glad that an Act *viz.* the Interest on Delayed payments to Small Scale and Ancillary Industrial Undertakings Act has since been passed to provide for and regulate the payment of interest on delayed payments to small scale and ancillary industrial undertakings. The Committee hope that this would enable the small scale sector to a large extent in making timely realisations for the goods supplied by them.

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22	3.27	In order to help the small scale units to get prompt payments for their products, SIDBI has reportedly set up two factoring organisations in 1991-92 for the Western and Southern regions in collaboration with State Bank of India and Canara Bank respectively. The Committee desire that the setting up of such factoring companies in the other regions of the country also should be expedited. They would also like to be informed as to how far such factoring organisations have been able to achieve their objective of ensuring prompt payments to small sector.
23	3.28	The Committee note that SIDBI stipulates the ceilings on the rates of interest chargeable by the Primary Lending Institutions (PLIs) such as State Financial Corporations, State Industrial Development Corporations etc. on their loans which are refinanced by SIDBI. At present the maximum rate of interest chargeable by the PLIs on loans given to the borrowers is 11.5% for loans upto Rs.7,500, 13.5% for loans over Rs.7,500 and upto Rs. 25,000 and 15% for loans over Rs.25,000 and upto Rs. 2 lakh. SIDBI provides refinance to SFCs at 3 per cent lower rates in the corresponding slabs. In this connection the Committee would like to emphasise that they attach the greatest importance to the smallest units among the small sector such as rural artisans. They would, therefore, like the Government/SIDBI to examine the feasibility of working out an interest rate structure whereby a borrower of loan upto Rs.25,000 is required to pay a minimal rate of interest.
24	4.30	The Committee note that IDBI has been assigned a developmental and promotional role to encourage development of industries in the industrially backward areas of the country identified by the Government. The assistance to backward areas sanctioned by IDBI during 1988-89 (July-March), 1989-90 and 1990-91 amounted to Rs. 1654 crore, Rs. 2747 crore and Rs. 2685 crore representing 38.9%, 37.8% and 43.1% respectively of the aggregate assistance sanctioned by IDBI during these years. Admittedly much more requires to be

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		done in the direction of development of backward areas. As at the end of March, 1992, disbursements under the Area Specific Infrastructure Development Scheme in the No-Industry Districts were only Rs. 24.6 crore against sanctions of Rs.101 crore reportedly due to lack of interest of State Governments. The Committee, therefore, suggest that a coordinated strategy for this purpose should be evolved involving the Central Government, the State Governments and the financial institutions.
25	4.31	The Committee have been informed that the cumlative sanctions of Rs.19062 crore upto March, 1991 by IDBI for backward areas were expected to catalyse additional employment potential for over 41 lakh persons. However, this figure does not depict a true picture of the impact of the developmental efforts since it includes people who had earlier been employed else-where like agriculture side or service sector. The Committee, therefore, desire that IDBI should undertake a study of the net employment generated by its various schemes in backward areas and apprise them of the results.
26	4.32	Balanced regional development has all along been one of the prime objectives of planning. However, from the data made available to the Committee it is seen that seven States *viz.* Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura together accounted for just 0.7% of total assistance sanctioned by IDBI upto March, 1990. Not only that against an all India average of Rs.815, the per capita assistance disbursed by all financial institutions upto March, 1991 to these States ranged from Rs.106 to Rs. 476 except in Sikkim where it was Rs.790. Against this five States *viz.* Andhra Pradesh, Gujarat, Maharashtra, Tamil Nadu and Uttar Pradesh accounted for as much as over 56% of the assistance sanctioned by IDBI. Even among the backward areas 50 backward districts by size of assistance accounted for as much as 63% of the

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		assistance to backward areas as at the end of March, 1991. The Committee have, therefore, come to the inescapable conclusion that severe regional imbalances still persist in assistance sanctioned by IDBI and other financial institutions. They would recommend that urgent and concerted efforts should be made by Government and financial institutions to minimise such regional imbalances.
27	4.33	Besides the North-Eastern States, the Committee noticed that the total assistance sanctioned by all financial institutions to Bihar upto March, 1991 amounted to Rs. 2301 crore and the per-capitais assistance worked out to a meagre Rs. 183. Admittedly this assistance is extremely inadequate whatever parameters for assessment are used. The Committee were given to understand that one of the main reasons for this state of affairs was the weak position of State level institutions. The Committee need hardly emphasise the need for taking steps to remove the bottlenecks in the functioning of State level institutions, so that the funds made available by IDBI for assistance to industries in backward areas are utilised for the purpose to a greater extent. At the instance of the Committee a seminar was held at Patna in September, 1992 where besides certain other measures it was decided that in the case of Bihar IDBI would consider assistance for projects with cost of even less than Rs. 5 crore. The Committee suggest that such measures should also be taken in respect of other backward States.
28	4.34	The Committee note that earlier an investment subsidy was being given by Central Government in respect of backward areas. Interest rate subsidy was also being given by the financial institutions. Since these measures failed to give the desired impetus to development of industries in these areas, they have since been withdrawn. The interest free status of IDBI has also been withdrawn which might hamper to some extent its promotional role in backward areas. In this context the

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		Committee feel that there is a strong case for providing some sort of fiscal benefits for lending to backward areas. They observe that to give a stimulus to new investment in industrially backward areas the Union Budget for the year 1993-94 contains a provision for a five-year tax holiday for new industrial undertakings located in all the North-Eastern States, Jammu & Kashmir, Himachal Pradesh, Sikkim, Goa and Union Territories of Andaman and Nicobar Islands, Dadra and Nagar Haveli, Daman and Diu, Lakshadweep and Pondicherry. This is a step in the right direction. However, the Committee are of the opinion that much more needs to be done for the industrial development of backward areas.
29	4.35	After the discontinuance of the investment subsidy and interest rate subsidy, the current strategy of Government for development of backward areas seems to be through creation of adequate infrastructure in such regions. Government was stated to have decided the setting up of 100 Growth Centres, throughout the country in the 7th and 8th Five Year Plans which would be incorporated as companies under the companies Act with their equities shared by the Union and State Governments and financial institutions. These Growth Centres were expected to act as magnets for attracting industries to the backward areas with infrastructural facilities on par with the best available in the country particularly in respect of power, water, telecommunications and banking. The outlay on each of these Growth Centres was expected to be around Rs. 30 crores of which Rs.10 crores was to be provided by Central Government as share capital. The Committee are constrained to observe that now only 70 Growth Centres are proposed to be developed during the Eighth Five Year Plan of which 65 have so far been selected. Project reports in respect of only 28 projects have been appraised and a meagre sum of Rs. 51.50 crores has been released to the States as Central assistance. The Committee are not aware whether these centres have been able to attract

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		any new industries. They cannot but express their deep anguish over the tardy progress of this important scheme meant for industrial development of backward areas. They desire that all efforts be made to substantially accelerate the pace of the scheme so that all the 70 Growth centres come up within the stipulated time.
30	5.25	The Committee regret to note that IDBI is having large sums as overdues from the assisted units. As at the end of March 1991, the overdues amounted to Rs. 323.44 crores. The percentage of recovery was 84 percent. Inspite of the IDBI reportedly making efforts for one-time settlements, 77 suits were pending in various courts as on 1.6.1992 against the assisted concerns involving a sum of Rs. 371.64 crores. Some of the suits were pending since 1983. The Committee have been informed that the normal time taken for settlement by courts may range from 10 to 12 years. The Committee strongly feel that such situation could have been avoided, had there been a provision for arbitration in the loan documents themselves. In this connection it is noticed that a proposal for enacting a legislation for setting up of tribunals for speedy recovery of overdues to the financial institutions has been approved by the Cabinet. The Committee urge that such legislation should be enacted at the earliest in order to ensure quick recovery by financial institutions.
31	5.26	IDBI has informed the Committee that upto March, 1992 it was exempted from payment of income-tax, super-tax, super profit tax or any other tax on its income, profits or gains. With effect from 1st April, 1992, the relevant provision in the IDBI Act was deleted in order to bring IDBI at par with other financial institutions like IFCI and ICICI. The Committee have also been informed that the new borrowings being raised by IDBI from the market reportedly cost it 16 to 17.5 percent as against RBI loans and Government Guaranteed bonds which carried interest of five, eight or 12 percent. Besides, a separate fund

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		called the Development Assistance Fund (DAF) which was set up in IDBI for financing projects which were of strategic importance to the economy or were expected to fill the gaps in the industrial structure was stated to have been abolished by Government with effect from April 1, 1991. IDBI has pleaded that withdrawal of tax free status and approach to concessional funds and the abolition of DAF would seriously affect its promotional and developmental activities some of which like providing equity support to State level institutions were not carried out by other financial institutions. The Committee are of the opinion that all these are related issues and need to be examined by Government afresh keeping in view certain promotional roles assigned to IDBI.
32	5.27	Government had decided in early 1992 to constitute a Small Farmers Agri-Business Consortium with a view to promote accelerated agricultural development in association with farmers, research institutions, financial institutions and others. The consortium was proposed to be funded by RBI, National Bank for Agriculture and Rural Development (NABARD) and IDBI. However, the structure and functions of the consortium have not so far been decided and the matter is still under consideration. The Committee desire that an early decision on the structure and functions of the consortium should be taken.

MGIP(PLU)MRND—2057LS—7.6.93.