CHAPTER-IV
SCHEMES AND POLICIES
NON-BANKING FINANCIAL INSTITUTIONS (NBFIs)
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4.1.1 Schemes of Financial Assistance by IDBI

The IDBI is empowered to finance all types of industrial concerns which are engaged, or which propose to be engaged, in the manufacture, processing or preservation of goods, or in mining, shipping, transport, hotel industries, or in the generation or distribution of power, in fishing or in providing shore facilities for fishing, or in the maintenance, repairs, testing or servicing of machinery or vehicles, vessels, etc. or for the setting up of industrial estate. The Bank may also assist industrial concerns engaged in the research and development of any process or product or in providing special or technical knowledge or other services for the promotion of industrial growth. Besides, it provides finance for the export of engineering goods and services on deferred payment basis.

The IDBI has been playing a significant role in the promotion of small-scale industries. Its assistance has been channeled through its scheme for the refinance of industrial loans, and to a limited extent, through the Bills Rediscounting Scheme. Since its inception, the IDBI has been operating a special scheme of concessional assistance to the small-scale sector. The procedure in respect of loans to the small-scale sector has been put on a semi-automatic basis under the Liberalized Refinance Scheme (LRS). As a result of the progressive liberalization and simplification of its refinance operations, its assistance to the small-scale sector has increased substantially since 1971-72. Its
assistance to small and medium industrial units flows through 18 SFCs and 26 SIDCs, commercial banks and regional rural banks.

**Schemes of IDBI**

IDBI is having the following schemes for the benefit of enterprises and entrepreneurs in the small and medium scale sector:

**Direct Assistance**

Project Finance Scheme (loans, underwriting, direct subscription and guarantees);
- Modernization Assistance Scheme for all industries;
- Textile Modernization Fund Scheme;
- Technical Development Fund Scheme;
- Technology Upgradation Scheme;
- Venture Capital Fund Scheme;
- Energy Audit Subsidy Scheme;
- Equipment Finance for Energy Conservation Scheme;
- Equipment Finance Scheme;
- Foreign Currency Assistance Scheme.

**Indirect Assistance**

- Refinance scheme for Industrial Loans for Small and Medium Industries;
- Refinance Schemes for Modernization and Rehabilitation of Small and Medium Industries;
- Equipment Refinance Scheme;
- Bills Discounting/Rediscounting Scheme;
- Seed Capital Scheme;
- Scheme for Concessional Assistance for Development of No Industry Districts and Other Backward Areas;
- Scheme for Concessional Assistance for Manufacture & Installation of Renewable Energy Systems;
- Scheme for Investment in Shares and Bonds of Other Financial Institution.

Sources of Funds

- Capital Contribution from Government;
- Loan Capital from Government;
- Loan Capital from RBI out of National Industrial Credit (Long Term Operation) Fund created out of its annual profits;
- Borrowings by way of Government guaranteed bonds from domestic market;
- Borrowings in foreign currency from international capital market;
- Deposits under Investment Deposit Account Scheme in lieu of investment allowance under Section 32-AB of Income tax Act;
- 3-years IDBI Capital Bond Scheme;
- Own generation by way of repayment of past borrowings and plough-back of profits.

(i) **Soft Loan Scheme**

The IDBI extends soft loans to units in selected industry group, namely, cotton textiles, jute, cement, sugar and specified engineering industries, to enable them to overcome the backlog in modernization & replacement and renovation of plant
and machinery so that they may achieve higher and more economic levels of production and improve their competitiveness. The scheme is operated in participation with the IFCI and the ICICI, with the overall responsibility vesting in the IDBI. The IFCI is the lead institution for jute and sugar industries, the ICICI for engineering and the IDBI for cotton textiles and cement industries. The loans under the Soft Loan Scheme are extended on concessional terms not only in regard to the rate of interest but also in regard to the promoters' contribution, debt-equity ratio, initial moratorium and repayment period. In pursuance of the decision taken by the Government of India, loans under this scheme have been exempted from the convertibility stipulation.

(ii) Technical Development Fund Scheme

In order to promote a fuller utilization of capacity, technological upgradation and export development, the Government of India set up the Technical Development Fund (TDF) in March 1976, which provides foreign exchange for the import of small value balancing equipment, technical know-how, foreign consultancy services and drawings and designs.

The salient features of the modified TDC Scheme are as follows:

1. **Eligibility criteria:** Assistance under the scheme will be available as hitherto only to existing industrial concerns with a good record of performance and sound financial position. Sick units have been kept out of license granted by the Government of India under the Technical Development Fund and should also satisfy IDBI that the proposed imports will improve its productivity, exports, etc.
2. **Type of industries eligible for assistance:** The facilities under the scheme shall be available to existing units for product diversification/product-mix rationalization through the introduction of new and more sophisticated range of products, provided the industrial license/registration of the unit covers these items. The scheme will also be applicable for taking up the manufacture of any item included in the broad-banded group in the license/registration held by the industrial unit, even though the unit may not be currently manufacturing that item. In the case of non-MRTP/non-FERA companies, including Section 20(b) MRTP companies in respect of products in which they are not dominant, there will be no limit on expansion of capacity arising out of the implementation of the technology upgradation or modernisation scheme. The existing limit of 49% for such capacity expansion will, however, continue in the case of MRTP/FERA companies, including Section 20(b) MRTP companies in respect of products in which they are dominant.

3. **Purpose for which assistance is available:** Under TDF Scheme, existing industrial units will be allowed foreign exchange for the import of the following items for their modernisation and upgradation of technology:

(a) Capital equipment (all types).
(b) Technical Know-how.
(c) Technical consultancy services.
(d) Technical drawings and designs.
(e) Technical assistance.
The proposed modernisation/upgradation of technology should contribute significantly to any of the following:

(a) Enhancement of export potential.
(b) Cost reduction.
(c) Productivity gains.
(d) Quality improvement.
(e) Product diversification / product mix rationalization.
(f) More efficient utilization or conservation of raw materials/inputs.
(g) Energy saving.

Assistance under the Scheme is to be utilized for such import of items as detailed in the license granted by the Department of Heavy Industry, Government of India.

4. *Extent of assistance:* The maximum limit of assistance under the scheme has been raised from Rs. 125 lakh to Rs. 350 lakh per unit per annum. In deserving cases, a part of the import duty and other incidentals may also be financed, subject to a ceiling of 25% of c.i.f. value of the import license and within the overall limit of Rs. 350 lakh.

5. *Rate of interest.* The loans will carry the normal lending rate (current rate being 14% p.a.) as against the present rate of 12.5% p.a. In the case of companies whose shares are not listed on a recognized stock exchange, the loans will carry an additional interest at the rate of 1% over the normal lending rate from the date of first disbursement.
6. **Refinance of Industrial Loans**

Under this scheme, IDBI provides replenishment finance (refinance) to eligible institutions- commercial banks, co-operative banks, rural banks, State Financial Corporations (SCFs) or State Industrial Development Corporations / State Industrial Investment Corporations (SIDC/SIIC) for their loans to Industrial concerns. To ensure that the industrial concern receives the benefit of the lower rate of interest to be charged by the primary lender.

Keeping in view the resources position of IDBI as also resources available with the primary lending institutions, the loans extended by financial institutions are refinanced by IDBI to the extent of 75%-100%. The main features of the scheme are:

1. **Promoters’ Contribution:** The promoters’ contribution normally varies from 10% to 22.5%.

2. **Rate of Interest:** IDBI provides refinance at concessional rates of interest in respect of loans to certain special category of borrowers. IDBI has stipulated ceilings on the rates to be charged by primary lenders in order to ensure that the benefits of Concessional rates of interest are passed on to the ultimate borrowers.

3. **Repayment Period:** Repayment schedules are fixed by the eligible institutions on loans extended by them after taking into account the profitability and debt-servicing capacity of the assisted units, subject normally to a maximum period of 10 years.
4. **Concessions under Refinance Scheme:** Apart from the lower rate of interest, IDBI offers the following relaxations and incentives to small industries:

(i) In the case of small industrial units, a debt equity ratio up to 3:1 is permitted, except for projects involving seed/special capital assistance where a debt-equity ratio of 2:1 will be applicable.

(ii) Assistance to SRTOs holding national permits is sanctioned without insisting on minimum-security margin and promoters contribution. Loans to single/two vehicle owners and SRTOs (i.e. those who own up to six vehicles are refinanced at 15% margin.

(iii) A rebate of 0.5% in the interest rate is allowed to small industrial units which obtain ISI mark for all their products.

(iv) Assistance to single/two vehicle operators is provided at concessional rate of interest of 12.5%, interest on refinance being 9%.

(v) No commitment charge is levied on the undrawn sanction of refinance for a period of 12 months from the date of sanction in the case of small units.

(vi) Central/State investment Subsidy, available to projects coming up in specified backward areas, is treated as equity for the purpose of debt-equity ratio.

(vii) For units coming up in specified backward areas, IDBI treats development loans, such as interest-free sales-tax loans granted by state Governments as equity for determining acceptable debt-equity ratio provided they satisfy certain criteria.
(viii) **Automatic Refinance Scheme**

With effect from 1st July 1978, the IDBI has introduced an Automatic Refinance Scheme, under which eligible institutions may obtain a sanction and disbursal of refinance for loans up to Rs 5 Lakhs on an automatic basis for advances to small scale industrial units, including the tiny sector covered under the Credit Guarantee Scheme, and to small road transport operators. The eligible institutions need not furnish detailed appraisal reports; but a simple statement, containing the minimum essential data relating to a group of loans to be sanctioned must be attached to the application. The IDBI accords on-the-spot sanction, The execution of separate loan agreements for such set of loans refinanced under the ARS has been dispensed with; instead, only one loan agreement is required to be executed by each eligible institution covering drawls of refinance under the different schemes of IDBI. The disbursal of assistance would also be automatic. No commitment charge is levied on refinance for such loans, because the purpose is to ensure a speedy flow of institutional finance to this sector. Branch offices of the IDBI in various States are empowered to grant such assistance. The scheme has already made an impact on the flow of assistance to these sectors.

(i) **Composite Term Loans**

In the New Industrial Policy and in order to augment the flow of credit to village and cottage industries, the IDBI has, from January 1979, extended its Automatic Refinance Scheme to cover composite terms loans upto Rs. 50,000 sanctioned to artisans, village and cottage industries, and granted by
the SFCs/Banks. The assistance may be utilized for equipment finance, or working capital, or both. The eligible loans are repayable over a period of 7 years to 10 years or even longer, with an initial moratorium of 12 months to 18 months both for interest and principal.

For this purpose, the term "village and cottage industries" is defined to cover "artisans (irrespective of location) or small industrial activities (viz., manufacturing, preservation and servicing) in villages and small towns with a population not exceeding 5,00,000 involving the utilization of locally available resources and/or human skills (where individual credit requirements do not exceed Rs. 50,000)."

(ii) Single Window Scheme

Taking into account the problems by the smaller among the small-scale units in regard of to availability working capital, IDBI has introduced the Single Window Scheme under which for projects costing up to Rs 5 lacks, working capital loan upto Rs. 2.5 lacks along with term loan will be sanctioned by a single agency, viz., the State Finical Corporation (SFC). Working capital loans will be repayable over a period of 10 years including an initial moratorium of 3 years; loans upto Rs.2 lacks carry interest of 14 % p.a. and for loans beyond Rs. 2 lacks and upto Rs. 2.5 lacks, the applicable rate is 15.5%. Application for working capital loan should be submitted to the SFC concerned along with the term loan application.
(iii) Assistance for Quality Control Facilities by Units

In pursuit of excellence of production of SSI sector, emphasis is being laid on quality. Refinance is made available to the full extent of loans, generally up to Rs. 7.5 lakhs, sanctioned for setting up in-house quality testing facilities. No promoters’ contribution is insisted upon for assistance under the scheme to existing units, while for new projects, the contribution will be reckoned on the basis of project cost excluding the outlay on quality control facilities.

(iv) Bills Rediscount Assistance

The IDBI rediscounts bill/promissory notes arising out of the sale of indigenous machinery on deferred payment basis. Under the scheme, the latter in the first instance discounts bills/promissory notes drawn in favour of or by machinery manufacturers with their bankers who, in turn, rediscount them with the IDBI. The facilities under the scheme are also available for approved design engineering concern, which get the machinery fabricated according to their own specifications and design under their own supervision and sell them under their own brand names. The sales made by selling agents/distributors of the machinery manufacturers to purchaser-users on deferred payment basis, too, are eligible for assistance, provided that the agents/distributors of the have paid in full to the manufacturers for the machinery under sale before the execution of relative bills/promissory notes.

The period of deferred payment ranges between 6 months and 5 years. The purchasers in sugar, jute, cotton textile, cement and engineering industries may avail themselves of the 7-year deferred payment facilities on an
automatic basis. The request for 7-year facilities in other deserving cases will be favorably considered. The minimum amount of a transaction covering a set of bills/promissory notes is fixed at Rs. 10,000 (no minimum in the case of sales of agricultural implements and in respect of a small-scale industry), while the maximum limit for a single purchaser-user (July-June) is fixed at Rs. 100 lakhs (face value of bills); the limits is Rs. 200 lakhs in the case of State Electricity Boards. Assistance under the scheme will not be available for the setting-up of new projects, except in the small-scale sector. The larger units may use the facilities for the purchase of the machinery required for replacement, renovation, modernisation or moderate expansion programs.

Rediscounting assistance is given at concessional rates to seller-manufacturers/purchaser-users in the small-scale sector, for the purchaser of chassis/machinery by State Electricity Board/State Road Transport Corporations in the North-Eastern and Himalayan Hill Regions, and to the West Bengal State Electricity Board for use in the hill district of Darjeeling. The IDBI has given special limits to banks for the exclusive use of seller-manufactures and purchaser-users in the small-scale sector.

The facilities under the scheme may also be utilized to finance the purchase of indigenous machinery meant for export against allotment of equity in foreign companies to Indian entrepreneurs.
(v) Seed capital Assistance

With a view to assisting entrepreneurs who have skills but lack finance to put in the requisite promoters' contribution, the IDBI has been operating two Seed Capital Schemes, viz.

(i) SFCs special share capital scheme under which the SFCs provide seed capital assistance to projects in the small-scale sector from their special class of share capital contributed by the concerned State Government and the IDBI in agreed proportion and

(ii) The IDBI's own scheme for such assistance to be operated mainly through the SIDCs/SIICs for medium-sized projects costing up to Rs. 1 crore.

The IDBI has been operating a special scheme of concessional assistance to small-scale industrial units under the Credit Guarantee Scheme of the Government of India. The units located in specified backward areas are eligible for additional concessional facilities. As it will not be possible for the IDBI to reach a large number of small industrial units scattered all over the country, the flow of its assistance to this sector has necessarily to be direct in the form of refinancing of loans granted by banks and State Financial Corporations (SCFs). A small amount of assistance also flows through the rediscounting of the bills arising out of the sale of indigenous machinery on deferred credit basis. The main features of these schemes are given in the following paragraphs.

SCFs/Small SIDCs raise a special class of share capital contributed by the concerned State Government and IDBI with the object of providing equity
type of assistance on soft terms to such small-scale entrepreneurs who lack adequate financial resources to set up projects in the small-scale and tiny sectors. The special capital assistance takes the form of subscription to share capital (equity or redeemable cumulative preference shares) or soft loans or both in the case of proprietary/partnership concerns or cooperative societies. Assistance is extended to bridge the gap between the minimum promoter's contribution and the amount actually brought in. The amount of assistance is limited to 20% of the project cost, subject to a maximum amount of Rs. 4 lakhs per project. Relaxation of the debt-equity norm of 2:1 will be considered in the case of units seeding special assistance.

(iii) Assistance to Technician Entrepreneurs

The SFCs/banks have introduced special schemes for providing financial assistance on soft terms to projects in the small-scale sector promoted by self-employed technician-entrepreneurs. These schemes are intended to help such entrepreneurs as have the technical ability to set up new industrial units but are not in a position to provide "owner's equity" towards the capital cost of the project. The IDBI has been providing refinance against loans at concessional rates of interest. These loans are up to a maximum amount of Rs.2 Lakhs, and are granted to technicians under the special schemes without insistence on the promoters' contribution.

(iv) Seed Capital Assistance to Entrepreneurs

The IDBI has already issued guidelines to SFCs for the provision of seed capital assistance from their special class of share capital to units in the small
sector. The assistance is by way of equity or soft loans towards bridging the gap between the normal expected level of the promoter's contribution as envisaged by the SFC and the actual amount which the promoter brings in as his own, subject to a ceiling of 20 per cent of the project cost or Rs. 1 lakh, whichever is less. The soft loans will carry a rate of interest which is one per cent lower than the rate of interest applicable to projects set up in backward areas, and a moratorium in payment of interest installments up to three years. All types of industrial concerns - proprietary, partnership and private, as also public limited companies – are eligible under this scheme, preference being given to new technician – entrepreneurs and projects in backward areas. The IDBI has also introduced another scheme, to be operated through the agency of SIDCs/SIICs, covering entrepreneurs establishing projects costing up to Rs., 1 crore. Assistance under both the schemes is interest free and carries only a service charge of one per cent per annum. The moratorium for the repayment of the principal is up to a maximum period of five years.

(v) Liberalization of Seed Capital Scheme

Following a review of the operations of the Seed Capital Scheme in May 1979, the IDBI introduced certain liberalization /modification therein, aimed at promoting new entrepreneurs and dispersing entrepreneurship. The liberalization / modifications cover, inter alia:

(a) Broadening of the definition of the term “new entrepreneurs” to include entrepreneurs technically qualified or otherwise, who possess, acquire or secure technical Know-how, who have a worthwhile project technically feasible and
economically viable, and who possess the ability to set up and run the enterprise, but who lack adequate resources to bring the required promoter's contribution;

(b) Extension of the scheme to successful entrepreneurs in the small sector who propose graduating into a medium scale sector whether by setting up a new enterprise or by undertaking expansion/diversification schemes;

(c) Extension of the scheme to all projects which are eligible for financial assistance from the IDBI either directly or through refinance; and

(d) Reckoning of the contribution mobilized by the promoter from his relatives, associates and friends for the purpose of his matching contribution to determine the quantum of eligible (seed capital) assistance.

The purpose of effecting these changes in the scheme is to make it more accessible to deserving promoters having the necessary entrepreneurial potential.

(vi) Rehabilitation of Sick Units in the SSI Sector

The IDBI has been operating a refinance scheme for rehabilitation of sick units in the small and medium scale sectors since January 1984. Its coverage was, however, restricted to industrial units assisted by state level institutions. Following the setting up of SIDF and with a view to giving a special thrust to the rehabilitation efforts of the SSI units, the Rehabilitation Refinance Scheme was extended to cover sick SSI units in the portfolio of banks also. In order to ensure that the rehabilitation problem is handled on a more co-ordinate and expeditious manner, Reserve Banks also, in consultation with IDBI, issued a new set of
guidelines to banks laying down broad parameters for handling rehabilitation proposals. IDBI has also issued appropriate guidelines to state level financial institutions in this regard.

A SSI unit is classified as 'sick' if it has (a) incurred cash loss during the previous accounting year and is likely to continue to incur cash loss in the current accounting year and has an erosion on account of cumulative cash losses to the extent of 50 percent or more of its net worth and/or (b) continuously defaulted in meeting four consecutive quarterly term loans and there are persistent irregularities in the operation of its working capital limits. While both the condition (a) and (b) should be satisfied in the case of larger SSI units, it would suffice if either alternative besides, the unit should be capable of revival within a reasonable period of time. A unit is regarded as potentially viable if it is in a position, after implementing a relief package spread over a period not exceeding five year from the commencement of the package from banks, financial institutions, Government and other concerned agencies, as may be necessary, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period for restructured (past) debts should not exceed 7 years from the date of implementation of the package. In the case of tiny/decentralized sector units, the period of reliefs/ concessions and repayment period of restructured debts will be 2 years and 3 years respectively. In such cases, the usual norms of debt equity ratio, promoters' contribution, margin, etc. are not insisted upon. However, the promoter's contribution towards the
rehabilitation assistance is expected to be not less than 5% of the additional long
term requirements under the package in the case of tiny sector units and at 10%
of such requirements for other units. In the case of units in the decentralized
sector, promoters' contribution is not insisted upon for rehabilitation. These and
the extent of relief would depend upon the merits of individual cases. However, it
is not necessary that past loans extended by primary lending instructions should
have been refinanced by IDBI. Further, the rehabilitation assistance might cover
inter alia margin money for additional working capital, payment of statutory
liabilities, cash losses that may be incurred during the nursing program, overdue
installments a greed to be funded into a separate term loan, apart from the
minimum capital expenditure required for restarting the unit on a viable level.
Equity type of assistance under the National Equity Fund is also available to
small entrepreneurs for rehabilitation of viable sick units.

(vii) Refinance Scheme for Modernisation

The primary objective of this scheme is to encourage industrial units to overcome
the backlog of modernisation and to adopt improved /updated technology and
methods of production with a view to achieving higher production and productivity
and improvement in the quality of products. To be eligible, the units should
normally be in existence for a least five years. However, a flexible view is taken
in respect of industries involving fast changing technologies.

Loans up to Rs. 7.5 lakhs for modernisation will be covered under ARS. For
proposals above Rs. 7.5 lakhs, the credit institutions are required to submit their
proposals for refinance together with a certificate from the Technical Constancy
Organization of the State or from the Small Industries Service Institute that the scheme will result in modernisation of the unit and will satisfy one or more of the following main objectives of the Scheme:

- Upgradation of process, technology and product;
- Export-orientation;
- Import-substitution;
- Energy saving;
- Anti-pollution measures;
- Conservation/substitution of scarce raw materials and other inputs, including recycling / recovery of wastes and by products;
- Improvement in capacity utilization within the existing capacity, through increase in productivity and debottlenecking ; and
- Improvement in material handling.

(viii) Assistance to National Small Industries Corporation

In keeping with the objective of enlarging assistance to organizations providing services to the small-scale sector, IDBI has been extending resource support to National Small Industries Corporation (NSIC) for over 6 years by way of subscription to its ad-hoc bond issues. During the years, IDBI sanctioned assistance of Rs. 10 crore to NSIC for financing mainly its hire -purchases activities and introduction of equipment leasing scheme as an alternative source of quick finance to small-scale units. Cumulative assistance sanctioned by IDBI to NSIC till the end of June 1987 was of the order of Rs. 48 crore.
(ix) Assistance to Tiny and Rural Enterprises

Economic rehabilitation of socially and physically handicapped groups has been considered as one of the objectives deserving institutional support and IDBI has been assisting such target groups jointly with some of the well known agencies working in the field. As IDBI's association with voluntary agencies in the field was considered essential for the effective implementation of such programs of assistance, keeping in view the nature and type of assistance required to be extended, IDBI brought out during the year 1986-87 a Directory of Voluntary Organizations giving information about their activities, standing, geographical area of operation, target groups etc. The Directory covers over 1000 agencies with a State wise break up. During the year, IDBI also stepped up its effort to support voluntary organizations working in the less developed areas like Orissa and the States in the North Eastern Region. Among projects assisted in the category, mention may be made of a production cum training centre in cane and bamboo craft, sabai grass ropes and earthenware for SC/ST groups in Bhubaneswar, assistance to a technical training institute in Rourkela for training in welding, fitting, turning etc., support for activities like knitting, scented supari preparation, printing units at Cherrapunji and Jonkshi, both in Meghalaya and bamboo and cane centretre at Agartala. Assistance was also granted for a TV manufacturing centre exclusively run by women at Vanian Chavidi in Tamil Nadu and to Annapurna Mahila Mandal, Bombay, a Gram Seva Sangh in West Bengal for glazed pottery tiles and to an Audio Visual Education Centre for preparation of
audio-visual aids. Activities of all these centres had a high socio-economic content deserving special support.

**Promotional Role of IDBI**

To bring about a greater participation of small entrepreneurs in the promotion of a balanced regional growth, the IDBI has assumed an active role in association with other financial institutions. These financial institutions have conducted industrial potential surveys of States/areas demarcated as backward regions in the Pande Committee Report. With the exception of the Andaman and Nicobar Islands, surveys of all the States/areas have been completed. A number of project ideas have been suggested by these reports, which have been discussed with States level institutions. The IDBI has also taken the lead in setting up Inter-Institutional Groups (IIGs) at the State level, composed of representatives of the SFCs, State Industrial Development /Investment Corporations, lead banks, State Industrial Developments and all-India financial institutions. Twenty-two Inter institutional Groups have already been set up at the State level with a view to facilitating the identification of new projects and their follow-up. They provide a useful and informal forum for discussion and for a co-ordination of the activities relating to industrial promotion by several state level agencies, as well as for the training of prospective entrepreneurs.

Due to the very dispersed nature of such activities, the IDBI has been concentrating and strengthening the institutional structure at the State level, and bringing about a co-ordination between various development agencies, both at the Central and State levels. Towards this end, it has taken steps to set up Technical Constancy Organizations (TCOs) and Inter-Institutional groups (IIGs), conducted
industrial potential surveys of less developed states, and extended assistance for Entrepreneurial Development Programs (EDPs). It has also set up a Technical Assistance Fund (TAF) and sponsored research studies, programs and seminars. A brief review of these activities in 1979-80 has been presented in the following paragraphs.

(A) Technical Constancy Organizations (TCO)

With the setting up of one more TCO in Tamilnadu under the lead of the ICICI, the total number of TCOs has risen to 13; eight sponsored by the IDBI, three by the IFCI and two by the ICICI. More important than the number of TCOs, however, is the stress laid by them on improving their capability and capacity to render better and more diversified constancy services to their clients.

Though the major function of the TCOs continues to be project preparation and the undertaking of feasibility studies, they are increasing undertaking rehabilitation programs for sick units, turn key assignments, area and market studies and design engineering services. A few have been entrusted with constancy responsibilities on a retainer basis. The other important areas in which the TCOs have ventured are: motivation and training of entrepreneurs, preparation of district action plans and integrated area development plans, organization of industrial campaigns and provision of comprehensive services for functional industrial complexes.

(B) Technical Assistance Fund (TAF)

The TAF, constituted in 1977 to give impetus to the IDBI's promotional activities, was activated to sponsor a number of studies. These include a study of the efficacy of incentives for the small industry, a tech-economic survey of the efficacy of incentives for
the small industry, an industrial estates in Southern India, and joint sector projects in various regions of the country. Studies were also undertaken on carpet weaving and sericulture in Jammu & Kashmir, Himachal Pradesh, Rajasthan, Andhra Pradesh and Orissa. Besides, various aspects of the development of backward areas were examined with the help of studies on the dynamics of growth in Jamshedpur, the foundry industry in Dhanbad and Coimbatore as well as the impact of Concessional finance on industrial development in eight selected districts of Maharashtra, Uttar Pradesh, Rajasthan and Andhra Pradesh.

The IDBI has been attaching great importance to the encouragement of EDPs in association with State-level agencies. It organized a national seminar on EDPs in March 1980 to provide a forum for the concerned institutions and individuals for an exchange of views on various related aspects. The major recommendations made at the seminar related to innovations in designing EDPs suited for different target groups; the identification of the right kind of training institutions; the linking of technical institutions to industrial estates for in plant training; and the conduct of courses in regional languages. The need for the Institution of a package deal for the purpose of linking all the necessary facilities and support systems in the fields of finance, marketing and technology, post training counseling building up of adequate follow-up machinery and periodical evaluation of the success of the success of the EDPs as a continuous process was also emphasized with a view to deriving the maximum benefit from the EDPs. The IDBI is in the process of formulating a workable plan, which envisages a wider dispersal of EDPs in the light of deliberation at the seminar.
The IDBI continued to assist entrepreneurs and other State-level agencies in identifying, formulating and implementing projects. This was mainly done by the supply of information on economic and related matters and by offering guidance on the selection and use of consultants.

In addition to about 100 project profiles prepared and circulated earlier, about an equal number of profiles were prepared and circulated among the IDBI's regional and branch offices to enable them to guide the entrepreneurs who approach them for advice on setting up projects. Constant efforts are made to bring these project profiles up to date and offer information on the latest manufacturers and suppliers of machinery, raw materials, etc.

A growing need was felt to establish a 'focal' point to coordinate and step up assistance to this sector and, towards this end, the Small Industries Development Fund (SIDF) was set up in May 1986. The Fund began operations with a corpus of Rs. 2500 crores. An SIDF Advisory Board with members representing various interests and persons, acquainted well with the problems of this sector, was constituted. A new department at the corporate level under the charge of an Executive Director was created and separate cells were formed in branch and regional offices of IDBI to deal exclusively with the SIDF operations.

(d) Schemes Liberalized

Measures aimed at liberalization of the terms of assistance and simplification of procedures and extension of assistance for specific purposes, which could not be taken care of by the existing schemes, were initiated. The loan limit under the Composite loan Scheme was raised from Rs. 25000 to Rs. 50000 and schemes for SC/ST and the
physically handicapped were launched. The facility under the scheme was made available to units in villages and towns with a population of five lakhs as against 50000 earlier. The rehabilitation refinance scheme confined to the State Financial Corporations was extended to banks and the interest spread to the primary lending institutions was also increased from one per cent to 2.5 per cent under the scheme. The extent of refinance was enhanced from 60 to 75 per cent for schemes relating to this sector. The limit under the automatic refinance scheme was raised from Rs. 5 lakhs to Rs. 7.5 lakhs. The limit for Special Capital Assistance was also increased from Rs. 2 lakhs to Rs. 4 lakhs after the setting up of the SIDF.

The liberalization has had the desired impact. The assistance for the small sector at Rs. 1474 crores to over a lakh units during 1986-87 (July-June) showed an increase of 25 per cent in terms of amount and 18 per cent in terms of the number of units assisted over that of the previous year and constituted 30.2 per cent of the total assistance of Rs. 4890 crores sanctioned by IDBI during the year.

(E) Support to State Corporations

A scheme of resource support on Concessional terms to the State Small Industries Development Corporations (SSIDCs) was introduced under the Fund. Based on a study of the State Corporations and an assessment of their fund requirements, assistance aggregating Rs. 23.65 crores was sanctioned to 19 Corporations during 1986-87. The Corporations with the IDBI assistance extended support to about 10000 small units under their raw material supply and marketing schemes. Assistance of Rs. 10 crores was sanctioned to the National Small Industries Corporation (NSIC) for its hire purchase
and equipment leasing schemes, bringing the total assistance to Rs. 40 crores sanctioned to it so far.

(F) Export Assistance

If exports of the sector are to cross the seventh plan target of Rs. 4000 crores, quality consciousness will have to be built into the production system. A special scheme for in house quality testing facilities was introduced under the SIDF, providing for refinance assistance up to Rs. 7.5 lakhs at the concessional rate of interest of 11.5 per cent without any promoter's contribution.

The IDBI has agreed to assist common testing facilities at certain centres for a select cluster of small and tiny units. Assistance has been sanctioned for such centers at Coimbatore, Cochin, Dhanbad and Bhubaneswar.

A special scheme of assistance for identification, training, constancy and escort services along with term loan facilities for women entrepreneurs has been introduced. Besides, term loans on concessional rate of interest and reduced promoter's contribution, subsidy at the rate of Rs. 10000 per beneficiary is made available to any accredited organization competent to extend package support. Over 1000 women have been trained and a number of them are in the process of setting up units.

A special scheme has been formulated in concert with the Directorate of Resettlement, Ministry of Defence, under which assistance by way of consultancy, training and equity support for ex-servicemen(including their widows) and disabled service personnel is made available and the scheme is operated through the State Financial Corporations. An initial fund of Rs. 1 crore have been set apart for meeting the equity gap of up to Rs. 1.80 lakhs per beneficiary for setting up projects with the capital cost not exceeding Rs.
12 lakhs. A minimum contribution of 10 per cent of the project cost is expected from the promoter. Since the introduction of the scheme in April 1987, three batches of 75 beneficiaries have been trained.

(G) Seed Capital Scheme of IDBI

This scheme aims at assisting new entrepreneurs who do not have adequate resources of their own to set up industrial projects in the small sector to bring about a wider dispersal of ownership and control of industrial undertakings, thereby resulting in quicker industrialization. The scheme is operated through SFCs. Seed capital is made available up to Rs. 15 lakhs in the form of interest-free soft loans to proprietary and partnership firms, subscription to 1% cumulative redeemable preference shares in the case of private limited companies and subscription to equity shares or 1% cumulative redeemable preference shares or both in the case of public limited companies, with a proviso for suitably enhancing the rate of interest/dividend depending upon the financial position and profitability of the company. Soft loan assistance is normally repayable over a period of 10 years with a moratorium of 5 years. Relaxation of the debt-equity norm of 2:1 will be considered in the case of SSI units seeking seed capital assistance.

(H) National Equity Fund

A National Equity Fund has been recently set up in IDBI in participation with the Government of India to provide equity type of support to small entrepreneurs for establishing new projects in the tiny and small scale sector and for rehabilitation of sick but potentially viable units in the SSI sector. Equity type of assistance by way of soft loan (to meet the gap in equity) up to a maximum of 15% of project cost within a ceiling of Rs. 75000 per project is made available through public sector banks as well as
through specified SFCs/SIDCs on a nominal service charge of only 1% p.a. Project
cost, including margin money for working capital, should not exceed Rs. 5 lakhs in the
case of rehabilitation projects. A minimum promoters contribution of 10% debt equity
ratio up to 3:1, repayment period of 7 years including initial moratorium of 3 years,
provision of total fund-equity, term loan and working capital – through a single window
are other important features of the scheme.

(I) To assist ex-servicemen (including widows of ex-servicemen) and disabled
service personnel to set up SSI projects for self-employment, IDBI jointly with the
Director General of Resettlement [DG(R)], Government of India, has formulated a
special scheme of assistance to ex-servicemen. Under the scheme, entrepreneurs will
be provided equity type of support to the maximum of Rs. 180000 per project Rs.[
90000 each from IDBI and DG(R)] for starting SSI including transport and other service
industries, besides the normal term loans granted for the project. The projects costing
up to Rs. 12 Lakhs will be eligible for assistance under the scheme. The minimum
promoters’ contribution would be 3:1. Equity assistance will be repayable over a period
of 10 years including the grace period of 3 years. Ex-servicemen will be provided with
EDP training facilities if that is considered necessary by the Screening Committee
charged with that is considered necessary by the screening Committee charged with the
responsibility of selecting ex-servicemen for assistance, the training expenses being
borne by IDBI and DG(R).

IDBI has set up a Voluntary Executive Corps (VEC) to utilize the services of
professionals who agrees to counsel SSI units free of charge on improving productivity
and profitability. The actual travelling, stay and out-of -pocket expenses of the
volunteers would be met by the unit seeking assistance. A panel of over 100 volunteers has already been drawn up.

Apart from supporting Entrepreneurship Development Programs (EDPs), IDBI, along with other financial institutions, has started an Entrepreneurial Development Institute of India in Ahmedabad for training and conducting research in this area and sponsored entrepreneurship development institutions in less developed states like, Bihar, U.P. and Orissa. A total of over 850 programs to prepare about 20,000 entrepreneurs from different social groups has been supported.

The small-scale sector appears to have become more vulnerable to business pressures on account of management inadequacy. IDBI has been supporting short courses on resource management, accountancy, material handling, marketing techniques, productivity improvement and worker motivation, which should be helpful in raising the management standards.

Rehabilitation

IDBI has special programs of assistance for modernisation and rehabilitation of SSI units under which, besides providing funds at a Concessional rate of interest of 11 percent, support is given to consultancy organizations for preparation of modernisation schemes or rehabilitation package. It has completed modernisation studies of industries like diesel engine, refractoriness, rice milling, paints, crockery, brassware and leather. A cluster of units of a specified industry location is planned to be taken up for rehabilitation in association with banks and other financial institutions. SFCs have been asked to set targets for rehabilitation of potentially viable units and take up the programs in a time bound frame and this will be monitored by IDBI.
Over and above the marketing assistance to the State Small industries Corporations, the SIDF is in the process of providing selective marketing support to the Khadi and Village Industries Commission and other commodity organizations dealing in the products of the decentralized sector. A list of 35 thrust areas in the area of exports has been drawn up for assistance under SIDF. The hand tool industry in Jalandhar, bicycle parts units in Ludhiana, leather products units in Madras, electronics units in SEEPZ and diesel engine industry in Rajkot would receive the attention of the Fund, to start with.

Recognising the role of accredited voluntary agencies in poverty alleviation programs, IDBI has assisted 50 such agencies working for the physically and the socially handicapped groups. The assistance aggregating Rs. 3.22 crores has mainly been for setting up training-cum-production centers to prepare the specific target groups for self-employment. Professional groups are also being engaged to promote rural industries.

### 4.1.2 Operational Policies and Schemes of IFCI

A special feature of the IFCI’s policies has been that they are tailored to the growing needs of the country and are integrated with the objectives of the country’s Five-Year Plans and the national policies, more particularly in the field of industry, enunciated by the government from time to time. Therefore the IFCI, in its operations, has been guided by the industrial policy statements and priorities laid down by the Central Government. As the government reviews these priorities from time to time, it helps the IFCI, as also other participating financial institutions, to make use of their services and scarce
resources in those vital sectors of industry where they are needed most. The Corporation is supposed to act on business principles. At the same time, however, it has to keep in view the interests of industry, commerce and the general public. Furthermore, it pays due attention to the need for the dispersal of industry; the industrial development of relatively less developed areas of the country, and the growth of industries in the co-operative sector.

The Corporation has laid down the following policies with respect to the sanction, disbursement and recovery of assistance rendered by it.

**Policy on Magnitude of Assistance**

The Corporation's policy is to cater to the needs of medium and large. Like the IDBI, the ICICI, the UTI, the LIC and the GIC. Where the assistance required is in the nature of rupee loans only, the IFCI ordinarily entertains applications from those eligible industrial concerns whose project cost is more than Rs.2 crores. Projects costing over Rs.2 crores may be considered by the IFCI independently, for these do not require, on the basis of the. Existing practice, a prior references to an inter-institutional forum. In case it feels that the financial participation of some other institution in a project costing Rs, 2 crores to Rs. 3 crores will be desirable, the IFCI arranges such participation itself by contacting the other institutions. As for the projects costing over Rs. 3 crores, the IFCI has been financing them under the system of consortium financing, with due participation of any other financial institution acting as the lead institution. The endeavor of all-India financial institutions, including the IFCI is to ensure that, as far as possible, an applicant concern should deal with only one institution for the appraisal of its project,
the disbursement of funds and post-sanction follow-up. With this end in view, a new scheme, known as the Participation Certificates Scheme, covering projects costing not more than Rs. 10 crores, has been formulated, under which the applicant concerned approaches only one all-India financial institution, which acts on behalf of all the all-all India financial institutions which purchase participation certificates from it against the disbursement of the loans made by it. The IFCI, together with other institutions, is actively considering ways and means of making the scheme applicable to all proposals for assistance by removing the ceiling of Rs. 10 crores.

In November, 1985 consortium financing approach was adopted so as to ensure dispensation of financial assistance to bigger projects without loss of time. Under this approach, all projects with a capital cost up to Rs. 5 crores could be financed by IFCI either on its own or in participation with other national and state-level financial institutions and banks, as may be found feasible, without making any reference to any of the inter-institutional forums. In case of additional assistance required or expansion/diversification/modernisation/rehabilitation programmes of existing industrial concerns, the same could also be financed directly by IFCI, ICICI, IDBI and RBI, depending upon the respective lead responsibility either on its owner and association with any other financial institutions. Only the cases involving over run assistance or those projects/schemes whose project cost was above Rs. 5 crores were required under the new arrangements to be discussed at the inter-institutional forum of senior executives meeting.

In 1992 the public financial institutions liberalised the consortium lending arrangement by permitting individual institutions to fund projects up to a maximum cost of Rs. 50 crore.
Policy regarding Purpose for which Assistance is Available

IFCI has made it a policy to render financial support for setting up new projects, expansion and diversification of existing projects, modernisation programmes, and for meeting part of overrun in the project costs and for balancing equipment, rehabilitation, etc. During (1978-88), the Corporation took bold and quick policy decisions to diversify its business as also the business mix. A number of new schemes in the realm of industrial financing were added, one by one, almost every year. Mention in this regard may be made of the Equipment Finance Scheme, Modernization Assistance Scheme, creation of specific funds for development and modernisation of sugar, textile and jute industries, confessional Finance Scheme for manufacturer and use of alternate and renewable energy sources, incentive schemes for 100% and other export-oriented units based on their export performance, scheme of financing the industrial estates in the Corporate and Co-operative Sectors Scheme of Financing Corporate Hospitals and Multi-Disciplinary Health Centers, Scheme of Financing Leasing and Hire-purchase Concerns, Scheme of Non-Revolving Line of credit to machinery/equipment manufacturing concerns for sale of their equipment to actual-user concerns, scheme of Equipment Leasing and providing of Merchant Banking and Advisory Services.

The Corporation does not ordinarily grant assistance for the purpose of working capital, for it is a normal function of commercial banks to provide such capital. The IFCI does not allow its funds to be utilized for meeting the existing liabilities of industrial concerns, save in exceptional circumstances for the acquisition of capital goods for commercial or trading purposes. Likewise, sub-loans in foreign currencies are granted only for the
import of capital goods and not for financing the import of raw materials or spares or for the payment of royalties, dividends, etc.

Towards the end of 1994 IFCI decided to enter for the first time in short-term financing activity by deploying a certain portion of its funds for financing working capital needs of corporate. The Corporation will also render other forms of short-term financing facilities including bridge loans and project finance.

Policy on Nature of Industrial Projects to be assisted

The Corporation was set-up to provide financial support to non-financial and non-trading concerns organized in the private, public, joint and co-operative sectors. It has been its policy to assist both traditional and non-traditional industrial projects. It attaches considerable importance, Inter alia, to those projects which are either import-substitutive or export-oriented or are aimed at conserving energy and other critical resource.

Pursuant to the announcement of the new industrial policy in July, 1991, a major deregulation of a domestic industrial sector was introduced. Consequently, the Central Government withdrew the guidelines to financial institutions including IFCI giving priority to various industries for granting loans.

The Central Government has, inter alia, given certain pointers to the financial institutions including IFCI as to the manner in which the latter can support the country's exports more strongly, viz.: adopting of company specific focus, supporting technology upgradation, ensuring global competitiveness, providing short-term export finance, etc.
Policy on Duration of Assistance

The maximum period for which assistance may be provided by the Corporation has been fixed under the IFCI Act. According to this Act, the Corporation is authorized to grant loans repayable within a period not exceeding 25 years, and underwrite the issue of stock, bonds or debentures by industrial concerns, subject to their disposal by the Corporation within a period of seven years. Within this framework, it decides the period of assistance and draws up a repayment schedule, keeping in view the gestation period and the estimated cash flows. Its policy is to extend loans for a period of 12 to 15 years. Only, in exceptional cases does it decide to lend out money for 20 years. The normal repayment policy of the Corporation is to allow an initial moratorium of two to three years to an assisted concern before the first repayment of the principal amount of the loan commences. The repayment period and the period of moratorium are determined on the basis of the profitability and the cash-flow of the applicant concern, taking into consideration the norms of debt service coverage. However, in no case is the repayment period stipulated to be less than 6 or 7 years, having regard to the debt service coverage of better than 2:1; the amount of earlier installment may be larger while those in later periods may be smaller.

The Corporation seems to be conservative in as much it lends money for much shorter periods; than is provided for under the IFCI Act.
Policy on Bridging Loans

The IFCI, together with the IDBI and the ICICI, has been operating a scheme bridging loans to such borrowers as have been sanctioned 552 loans but are not in a position to create a substantive security immediately for the loans urgently required by them. Under the scheme, loans ranging between 75 per cent and 90 per cent of the sanctioned loans are granted against the execution of:

(a) Regular loan agreements/bridging loan agreements;
(b) Personal guarantees of promoters/directors;
(c) Hypothecation of machinery and other moveable assets;
(d) Negative lien on fixed assets in favour of the Corporation; and
(e) A demand promissory note.

In the case of co-operatives, instead of a personal guarantee, a 100 per cent State/Central Government guarantee is acceptable. Where an institution or a bank is already holding a charge on the borrower's fixed assets. A letter of consent, allowing the creation of an exclusive first charge, is also required to be obtained.

During 1982-83 a new scheme of granting bridging loans against the public issue of shares was introduced. These loans carry a concessional rate of interest of 10 per cent per annum. The amount raised later through public issues is utilized for the repayment of the bridging loans taken from the financial institutions.
Policy on Security and Margin

The Corporation secured the assistance sanctioned by it, other than under the soft loan scheme by a regular legal mortgage of fixed assets, both present and future. It accepted an equitable mortgage in case where:

(I) The existing facility had already been secured by a regular legal mortgage; and

(ii) One of the institutions, in case of joint financing, had taken or was taking a legal mortgage;

The IFCI together with all the other all-India institutions, has now decided to accept an equitable mortgage as a regular security for loans as well as for such facilities as guarantees for deferred payments/guarantees for foreign loans.

Bridging loans are provided against:

(a) The personal guarantees of promoters/directors controlling the company;

(b) A letter of consent from bank(s) holding charge on the company's fixed assets to allow the creation of an exclusive first charge or pari passu charge, as the case may be, in favour of the institution and-a floating charge- over an the movable assets;

(c) The hypothecation of machinery and other movable assets;

(d) A negative lien on fixed assets in favour of the institutions; and

(e) A demand promissory note of the borrower in favour of the Corporation.

Regarding the margin requirements, the Corporation has adopted a uniform margin of 50 per cent. Though it relaxes this margin in some cases. It also requires that the mortgaged properties should be fully insured against fire riot and civil commotion risks.
Interest Rate Policy

The Corporation follows a subsidized interest rate policy. Under which it charges a lower interest rate to its borrowers. The normal rate of interest charged by the Corporation is 14 per cent per annum. This is in contrast with the market rate of interest, which is between 15 and 18 per cent. The underlying idea behind this policy is to assist relatively weaker business entrepreneurs who are not in a position to secure funds from existing normal channels.

Another feature of the interest rate policy of the Corporation is that it is a mixture of both uniform and differential rates. The interest rate is uniform because it is the same for all categories of borrowers, irrespective of their credit standing and the risks involved in the grant of loans. The Corporation had earlier adopted the policy of charging a gross interest rate. With a provision of rebate of half per cent for prompt payment of installments. In 1977, it dispensed with this practice and made a provision for the payment of interest at the net rate. Subject to the condition that the defaulted installments of principal and interest would carry a further interest of 2 per cent per annum by way of liquidated damages. The interest on the defaulted installments is charged as compound interest and is required to be covered under the security created.

At the same time, the Corporation has pursued a differential interest rate policy, in that it charges different interest rates for rupee and foreign currency loans. It charges a relatively lower interest rate for loans to entrepreneurs in backward areas and for loans extended under the Soft Loan Scheme. In the year 1980, the Corporation, together with the ICICI and the IDBI, decided to charge 1 per cent per annum interest over and above
the lending rates in respect of assistance sanctioned to private limited companies and closely held companies, whose shares were not listed on any stock exchange.

In 1990 IFCI and other term lending institutions introduced a two-tier interest rate structure for loans to industrial projects. The first tier is applicable during the initial two years or the implementation period of the projects, whichever is earlier from the date of signing the loan agreement and the second tier to the remaining period of the loan. For the first tier the normal interest remained unchanged at the present level of 14 per cent per annum. For the second tier, the normal interest rate has been fixed at 15 percent p.a. The review interest rate structure came into effect from August, 1990. The existing differential interest rate, vis-a-vis the normal rates for special categories of projects such as those located in backward areas, for energy conservation, technology upgradation was maintained.

Towards the end of 1993 all-India financial institutions including IFCI adopted floating interest rate policy. According to this policy, variable interest rate will be charged on the basis of certain percentage over the corporation advance rate. The advance rate will be determined with reference to an anchor rate derived from a combination of the cut-off yield of the 364-days treasury bill, the minimum lending rate for institutions and cost of borrowing through 364-days certificate of deposits and rated bonds.

The rate of interest will be determined every quarter by the Board of Directors. To begin with the Corporation's advance rate will be 15.5 per cent. The Corporation will charge a spread over this rate, depending on the credit risk of the borrower. The maximum rate to be charged will be 18.5 per cent.
Policy Regarding Convertibility

Following the Government guidelines issued in 1971, the IFCI reserved the right of conversion of a part of the rupee loans extended by it into the equity capital of the assisted concerns in cases where the aggregate financial assistance exceeded Rs. 25 lakhs. The stipulation was discretionary on the part of the institution when assistance was Rs. 25 lakhs 10 Rs. 50 lakhs, but was mandatory when such assistance exceeded Rs. 50 lakhs. Wherever the convertibility clause was utilized, the terms and conditions relating to the conversion of the loan into equity were negotiated and settled with the assisted concerns in advance.

With the Government’s decision to modify the policy guidelines, the convertibility clause will apply to financial assistance exceeding Rs. 1 crore instead of Rs. 50 lakhs prescribed thereto. It has also been decided that the institutions will exercise the conversion option in such a way that they do not acquire more than 40% of the share capital of an existing concern. However, in case of persistent default in payment of loans or mismanagement of an assisted "concern or continuous closure for over three months of an industrial unit of a company producing goods and services essential to the community, the financial institutions may, with the concurrence of Government, exercise their conversion option in such a way that their shareholdings could go upto 51% or above.

However, the convertibility clause will not apply in the following cases:

(1) Loans sanctioned in foreign currencies.

(2) Rupee loans sanctioned to units in the co-operative sector.
(3) Rupee loans granted under the Soft Loan Scheme or for modernisation assistance, rehabilitation of sick units or for financing small overruns in respect of projects already financed by institutions.

(4) Rupee loans irrespective of the amount sanctioned to all those undertakings which are either in the public sector or which attract the provisions of Section 619B of the Companies Act, 1956.

In 1988, the financial institutions, in consultation with the Government, made the following changes:

(i) Diversification/expansion schemes of existing units set-up in No-Industry/special region areas will not attract convertibility clause, except in the event of default.

(ii) Corporate hospitals/multi-disciplinary health centres and 100% export oriented units will be exempted from the convertibility clause, except in the event of default and/or the export-oriented units seeking debonding.

(iii) Foreign currency loans to continue to remain exempt from the applicability of convertibility clause, except in the event of default. The mandatory convertibility clause on institutional loans has been abolished in 1993.

Policy Relating to Modernisation of Industries

For the modernisation and rehabilitation of five prominent industries, viz., cement, sugar, engineering, jute and cotton textiles, a soft loan scheme was introduced in 1976-77. Under the scheme, the IFCI has been given the lead responsibility for the sugar and jute industries.
The loans under the Soft Loan Scheme are extended on confessional terms not only in regard to the rate of interest, but also in regard to the promoter contribution, debt-equity ratio, initial moratorium and repayment period.

For providing assistance for the development of sugar industry and modernization of textile mills, the Central Government created Textile Modernisation Fund Scheme in August, 1986 and Jute Modernisation Fund. Scheme in November, 1986. The Textile Modernisation Fund Scheme is operated by IDBI. Apart from considering requests for the modernisation of textile units, it envisages the provisions of special loan to be given for meeting the requirement of promoter's contribution in the case of weak units, i.e., those units which have a negative net-worth or whose accumulated losses have eroded 50% or more of their peak net-worth during the immediately preceding five accounting years.

The Sugar Development Fund, operated by IFCI, envisaged provision of assistance for modernisation/rehabilitation of plant and machinery of sugar mills. The assistance would be deemed as 'promoter's contribution' by the Financial Institutions for the purpose of considering need-based modernization/rehabilitation proposals.

The loan carries interest @ 6% p.a. with a moratorium of 6 years and is subject to conversion at par unlike in the case of modernisation loans, which have no conversion option.

Policy Relating to Entrepreneurs and Technologists

The Corporation has formulated a specific policy of encouraging new entrepreneurs to set-up industries so as to fill in the gaps in the institutional infrastructure for the
promotion and growth of industries, or to provide guidance and training to new entrepreneurs, particularly those who are entering in the field of tiny, small-scale, medium or medium large-scale industry for the first time.

The IFCI has introduced several schemes to help the entrepreneurs. We shall now discuss these schemes:

(a) **Technical Consultancy Organisations (TCOs):** The all-India financial institutions, including the IFCI, have sponsored the TCOs in association with the State level institutions and banks to provide the necessary impetus, in particular, to the rapid industrialization of less developed regions. The basic idea underlying the creation of the TCOs is to provide guidance and advice to new entrepreneurs during the various phases of the project cycles, namely, project identification, project formulation, project implementation and project operation, so that the project undertaken is brought to a state of fruition. These TCOs are now reasonably well equipped with information/data and expertise in different disciplines. Applicants are advised to avail themselves of the services of the TCOs in all matters relating to project planning, including the marketing aspects. From time to time the TCOs have also organized entrepreneurial development programmes for the benefit of small entrepreneurs.

(b) **Risk Capital Scheme:** In 1975, the Corporation decided to sponsor the Risk Capital Foundation (RCF) with a view to providing special assistance to new entrepreneurs, particularly technologists and professionals for the promotion of medium-sized industrial projects. The assistance is provided to entrepreneurs by way of interest-free personal loans on soft terms to enable them to meet a part of the promoters contribution to the equity capital of the projects promoted by them and for which financial assistance has
been sanctioned by one of the all-India term lending institutions, viz., the IFCI, IDBI, or the ICICI, singly or jointly. The personal loan granted by the RCF is normally limited to 50 per cent of promoter's contribution to the equity of the project, subject to an upper limit for a single project of Rs. 10 lakhs where there is only one promoter and of Rs. 15 lakhs where there are two or more promoters, provided that the loan is secured by the pledge of his/their shareholdings to the RCF. The RCF also requires a mortgage redemption insurance policy to be taken out by the assisted promoter on his life for the full amount of the loan. During the year 1982-83, the RCF liberalized Risk Capital Scheme so as to widen the definition of the entrepreneur, increase the limits of assistance, grant a part of the assistance by way of subscription to the equity shares of the promoted company in the RCF's own name with suitable buy-back arrangements with the promoters, and consider assistance in selective cases when the promoted concern is the recipient of assistance only from state level institutions and banks.

(c) Promotional Schemes: So as to give impetus to industries in the rural, cottage, tiny and small-scale sectors including the much needed guidance in modernisation, market research, marketing assistance, control of pollution, etc., catalyzing the promotion of technological research and development in the industries and above all, improving the productivity of material and human resources, ensuring at the same time, a better deal to women entrepreneurs and entrepreneurs belonging to weaker sections of the society, IFCI has introduced several promotional schemes. These schemes, listed below, have come into operation from time to time (the year of their introduction given in the bracket against each of them).
Consultancy Fee Subsidy Schemes

The following schemes can be categorized under this group:

(i) Scheme of subsidy to New Entrepreneurs for meeting cost of Market Research/Surveys (1977).

(ii) Scheme of Subsidy to Small Entrepreneurs in the Rural, Cottage, Tiny and Small-Scale Sectors for meeting Cost of Feasibility Studies, etc. (1978).

(iii) Scheme of subsidy for promotion of Ancillary and Small-Scale Industries (1978).

(iv) Scheme of Subsidy for Revival of Sick Units in the Tiny and Small- Scale Sectors (1982).

(v) Scheme of Subsidy for implementing the Modernization program, of Tiny, Small- Scale and Ancillary Units (1985).

(vi) Scheme of Subsidy for Control of Pollution in the Small and Medium-Scale Industrial Units (1985).

Interest Subsidy Schemes

The following schemes can be included under this category:

(i) Scheme of Interest Subsidy for encouraging the Adoption of Indigenous Technology (1977).

(ii) Scheme of Interest Subsidy for Self-Development and Self- Employment of Unemployed young persons (1982).

(iii) Scheme of Interest Subsidy for Women Entrepreneurs (1985).

(iv) Scheme of Interest Subsidy for encouraging Quality Control Measures in Small- Scale Sector (1986).
Assistance Scheme


The consultancy Fee Subsidy Schemes are aimed at providing subsidized constancy services to industrial units in identified areas to tiny and small-scale and ancillary units through TCOs. These schemes are intended to provide encouragement to unemployed youths, women entrepreneurs, adoption, harnessing the indigenous available technology, etc., and are being operated through the SFCs.

In January 1988, RCF was converted into 'Risk Capital & Technology Finance Corporation Ltd.' (RCTC). The RCTC has been authorised to continue with all business and activities being carried out by RCF hitherto.

Policy Relating to Backward Area Development

In line with the government's policy of reducing regional imbalances, the IFCI has followed a policy of fostering industrial growth in less developed States/areas. As part of its policy, the Corporation offered in July 1970 a package of concessions to new projects in such areas. In January 1972, similar concessions were extended for the expansion of projects. The main features of the scheme are concession in the rate of interest (125 percent as against the basic lending rate of 14 per cent), longer initial grace period (5 years against the Corporation's normal practice of 3 years), extended amortization period (15 to 20 years as against the normal period of 10 to 12 years), reduced margin of security (reduced margin of 30 to 35 per cent as against the
Corporation's general policy of a margin of 50 per cent), lower contribution by the promoters to the cost of the project (17.5 per cent as against the normal requirements of 20 per cent), larger participation by the Corporation in the equity and preference capital of assisted projects, and a 50 per cent reduction in its normal service charges in respect of commitment charge, underwriting commission, non-refundable examination fee for processing the loan applications, and legal charges.

The overall ceiling on the loans from the Corporation has been fixed at Rs. 1 crore. It will be extended to 2 crores rupee loan by the all-India financial institutions all taken together. Underwriting assistance from term financial institutions, including the Corporation, is made available on concessional terms up to a ceiling of Rs. 1 crore in the aggregate, irrespective of the cost of the project.

Realizing the limitations of the financial and fiscal incentives in promoting industrial development in industrially less developed areas, the IFCI, together with the IDBI and the ICICI, felt that a number of other factors should be taken into account for developing a strategy whereby the establishment of new industrial projects in industrially developed areas would be facilitated and accelerated. In view of this, in 1974, the Corporation decided to undertake a number of promotional activities, both individually and jointly with the IDBI and the ICICI with a view to fostering the industrial development of the less developed areas. A critical evaluation of the promotional role of the IFCI, as well as of the IDBI and the ICICI has been made separately.
Investment and Underwriting Policies

In the matter of investments, the IFCI's policy is to play the role of a catalyst. Basically, the investment operations of the Corporation relate to the acquisition of shares pursuant to underwriting operations, direct subscription to equity of small, medium-sized projects, and exercise of convertibility options. As a matter of general policy, the IFCI continued to look upon underwriting activity only as a method of project financing. Direct subscriptions to the equity of small and medium-sized projects are made on a selective basis. A redeeming feature of the underwriting policy of the Corporation is that it places considerable emphasis on the long-term viability of the enterprise and not on the immediate salability of the issue.

Regarding the sale of securities, it is the policy of the Corporation to dispose of the shares in small lots in the open market through recognized stockbrokers or to sell them to investment institutions at agreed price. In deciding whether to dispose of the shares or not, the Corporation takes into account the following factors:

(a) The IFCI's existing holdings with reference to the dates of acquisition;

(b) The financial performance of the company;

(c) Expected Bonus/Rights Issue;

(d) Past dividend records and likely prospects of maintenance of dividend;

(e) The present market quotations and future trend;

(i) The effect on the stock market and management of the company; and

(g) The average return to the IFCI with reference to the price at which, and the period for which, the shares have been held.
Policy Regarding Diversification of Business

The central management in their endeavor to meet challenges both from domestic as well as foreign institutions following the Government policy of economic liberalization have, of late, decided to diversify into the area of financial services. Thus, the corporation has engaged itself both in fund-based and non-fund based activities such as merchant banking, and leasing. It has set up a separate department 'Merchant Banking of Allied Services Department' for the purpose. This Department has taken up project counseling; loan syndication and debenture trusteeship assignments. In 1990 the Corporation decided to participate in the Call Money Market to lend call loan for a period upto 14 days.

In the year 1993 IFCI decided to set up a mutual fund and diversify its operations to over the Counter Exchange of India. Further, IFCI has entered into a strategic alliance with ABN-AMRO Bank of Netherlands to facilitate providing a wider spectrum of financial services in a collaborative arrangement. The Corporation is also planning to set up a joint venture company with an international financing organization to undertake fully integrated investment banking operations of international standards.

4.1.3 Operational Policies of ICICI

Within the framework of the above strategy the Corporation laid down operational policies from time to time. Main highlights of these policies are given below:

(a) Policy Regarding Project Appraisal

While evaluating credit worthiness of a project the Corporation is essentially guided by the development considerations. Although the ICICI does not seem to have adopted
any scheme of priorities, its underhand policy is to assist sound but financially weak enterprises and to those entering in non-traditional industries, viz., engineering, petrochemicals and machine making. It lays considerable emphasis on regional balanced growth of the country and provides assistance to entrepreneurs setting up enterprises in backward regions of the country on a priority basis. Further, the Corporation studies merits of a project from technical, financial, economic and managerial points of view. Taking cognizance of enormous risks involved in project lending the Corporation has always been endeavoring to formulate appropriate policies to minimize the risk and maintain a high level of profitability. The appraisal techniques have constantly been improved taking into account the lessons from previous failures.

The Corporation lays greater focus on monitoring and supervision of the projects so as to ensure greater control over projects.

Apart from the assessment of a project's viability on project-specific factors, some of the key factors now systematically taken into account are the project’s ability to withstand reduction in import duty on final products, economies of scale, comparison of capitalization costs with other similar projects and upgradation of technology through research and development. In the changed context of market-related cost of funds, ICICI is also encouraging companies to opt for a stronger equity in the financial structure.

Of late, the Corporation has decided to have a two-stage project appraisal under which loans will be disbursed as "demand loans" during project implementation and will be converted to commercial loans only at the time of production. It will introduce a new loan
clause giving if the right to increase the rate of interest whenever the REI hikes the base-lending rate.

(b) Policy and Nature or Industrial Projects to be assisted

In choosing projects for assistance, the Corporation's policy has been to foster the growth of such projects as would help in the creation of new capacities for consumption goods, durable and capital goods, as well as in the creation of new capacities for industrial materials such as steel, cement, paper, and basic chemicals. Besides, it assists in the expansion of the capacity and production or consumer products.

As for the ownership of the projects to be assisted, it is the policy of the Corporation to cater to the financial needs of the enterprises, which are organized in the joint, public and co-operative sectors. This is partly the result of rapid changes in the pattern of share holding and management of industrial enterprises. For a long time, it provided financial support only to limited companies. Since 1969, the Corporation has decided to provide foreign currency loans to partnership and proprietary concerns in co-operation with the banks and the SFCs.

(c) Policy on Size of Assistance

Reflecting its strategy of limiting its exposure in very large projects the corporation has made it a policy to assist primarily medium-sized projects. It has also laid down prudential exposure limits for individual companies and companies under the same
management groups. The Corporation has decided to set its exposure limit in any individual company and business group below the ceiling stipulated by REI of 25 per cent and 50 per cent, respectively, ICICI also ensures that its exposure in specific industries is restricted to 15 per cent of the credit risk.

(d) Policy in Forms of Assistance

Right from its inception the Corporation adopted the policy of offering range of products and services which are in great demand. Earlier, it decided to provide foreign currency loans and underwriting facilities to private sector enterprises because of non-availability of these facilities. Subsequently, it diversified its business into rupee loans to cater to the growing demands from the industry sector. After sometime, the Corporation decided to render financial services including leasing and merchant banking.

A noteworthy feature of underwriting policy of the Corporation is that it places great emphasis on the long-term viability of the enterprise rather than on the immediate salability of its issues. Projects which are potentially risky or low profits yielding, or which involve long gestation periods but are of strategic importance to the national economy have received special attention. The service motive rather than the profit motive in considering a project for underwriting purposes govern the Corporation.

Recently, the Corporation followed a policy of direct subscription to shares instead of underwriting in cases where the issues were of less than Rs. 25 lakhs.

Further, it has been the policy of the Corporation to build up its investment portfolio through direct subscription, underwriting and exercise of conversion option.
In order to improve the exportability of Indian products ICICI has made it a policy to provide assistance to new as well as existing concerns for technology upgradation, modernization and balancing equipment.

In 1992-93 the Corporation added two new schemes to its activities. These include *Agricultural Commercialization and Enterprise (ACE)* project and *Trade in Environmental Services and Technologies (TEST)* program. The ACE program has been formulated to specifically address the critical areas of deficiency in the horticulture sector by providing financial as well as technical assistance for projects relating to post-form activities. The TEST program has been launched to bridge technology gaps in the areas of environmental protection.

Sensing burgeoning demand of corporate advisory services, mergers and acquisitions arising out of tremendous growth and development in the secondary market and liberalization measures of the Government, ICICI has now decided to offer a comprehensive package of fund-based and non-fund-based services to clients through a separate investment banking company. The company, modelled along the lines of an international investment bank, has been christened 'ICICI Securities and Finance Company Limited' (I-SEC). I-SEC is a joint venture between ICICI and JP Morgan and Company Incorporated.

The Corporation has also decided to engage in mutual fund business so as to widen the scope of its operations by focusing on investment as a thrust area and to make available its experience and skills in appraising, investing and managing its assets to wide cross-section of the investing public. The affairs of the mutual fund will be managed by an *Asset Management Company (AMC)* set up by ICICI, which will also...
operate, the schemes of the fund. The operations of AMC will be research driven in devising innovations schemes as well as managing its investment. The Corporation has already, in principle, the approval of SEBI to sponsor a mutual fund.

In addition to the above, to complete the linkages in providing the entire spectrum of financial products and financial services, ICICI also proposes to set up a commercial bank. The commercial bank along with providing ICICI a competitive edge will enable the Corporation to extend comprehensive funding and non-funding facilities to its corporate clients and strengthen relationship with them. RBI has already permitted ICICI to set up commercial bank.

(e) Interest Rate Policy

ICICI has, of late, adopted variable interest rate policy offering its select customer a variable rate of interest. The variable interest rate is charged in the basis of a certain percentage over the Corporation's advance rate. The ICICI's advance rate is determined with reference to an anchor rate derived from a combination of the let-off yield of the 364-days Treasury bill, the minimum lending rate for institutions and cost of borrowing through 364-days certificate of deposits and rated bonds. The variable rate is determined every quarter by the Board of ICICI. To begin with the Corporation's advance rate is 15.5 per cent. The Corporation charges a spread over this rate, depending on the credit risk of the borrower. The maximum rate that a borrower is required to pay is 18.5 per cent. Thus, the Corporation's rate will vary between 15.5 per cent and 18.5 per cent.
(f) Policy on Maturity Period

The Corporation has adopted the policy of lending to its borrowers for seven to eight years' maturity while it used to borrow funds with 15 to 20 years' maturity, thus maintaining a favorable maturity match between its assets and liability structure. Since 1985, ICICI has raised funds from the market on medium-term maturities thus lowering the maturity of incremental debt.

(g) Policy on Security and Margin

Like the IFCI the ICICI grants loans with or without security. The Corporation insists upon a legal mortgage of all the fixed assets. It also accepts a charge on the movables, subject to hypothecation in favour of the loanee company's banks for securing cash credit and overdraft facilities for working capital. Regarding the margin requirements, the ICICI generally seeks a margin of 50 per cent, which may be relaxed for capital-intensive projects, like those in fertilizer and aluminum industries.

(h) Policy Regarding Merchant Banking Activity

The Corporation has decided to strengthen its merchant banking activity to exploit the vast emerging investment opportunities arising out of liberalization in pricing of issues of capital by existing companies, entry of private sector mutual funds and opening of the Indian capital markets for foreign portfolio investors. For this purpose, the Corporation has planned a comprehensive exercise in this regard.
4.1.4 Operational Policies and Schemes of SFCs

The SFCs Act lays down general rules for the operations of the Corporations. The respective State Governments in their own way for their corporations have adopted them. The broad features of the operational policies of the SFCs in India have been discussed here:

(a) Policy on Size or Assistance

The maximum loan, which can be granted by a SFC to a company or co-operative society, is Rs. 60 lakhs.

(b) Policy on Forms or Assistance

The SFCs are empowered to provide financial assistance by way of granting and guaranteeing loans directly subscribing to securities, underwriting issues and by discounting of bills of exchange. However, it is the underhand Policy of most of the SFCs to concentrate on lending business and do a little amount of underwriting. This is so because of the greater risk involved in underwriting issues of smaller enterprises whose securities have a limited market, Infact, some of the SFCs have yet to undertake this activity.
(c) Policy on Duration or Assistance

The SFCs are authorized to lend up to a period of 20 years and underwrite shares and debentures, subject to their disposal in the market within 7 years. However, they have made it a policy to provide loans for periods up to 12 years with suitable initial grace periods.

(d) Policy on Nature or industrial Projects to be assisted

The SFCs provide assistance mainly to small-scale units, which are mostly organized as partnership or proprietary concerns. The projects organized as private and public limited companies and registered. Co-operative societies are also provided assistance. However, their assistance is not available for Joint Hindu family concerns.

Another striking feature of the SFCs operational policy is its greater emphasis on agro-based industrial units, chemicals and machine-making units.

(e) Policy on Security and Margin

The SFCs generally provide secured loan, which are normally secured by way of legal mortgage of fixed assets. A mortgage executed in favour of the corporation includes plant and machinery installed over and above the assets already acquired as on the date of the execution of the deed. Forty per cent margin is generally maintained on the
loans. The SFCs show considerable flexibility in operating this norm. For example, the margin requirement for small units is reduced to around 25 per cent. To technician-owned enterprises, however, the SFCs may lend without any margin. Relaxation are also made for projects coming up in less developed regions.

(i) Interest Rate Policy

The lending rates of the SFCs are normally linked to the bank rate and the IDBI's refinance rates to the SFCs. Presently, the general lending rate of the SFCs varies between 12.0 and 15.0 per cent per annum. With a multiple refinance rate structure, the IDBI ensures that the profitability position of the SFCs does not suffer on account of the lower rates of interest at which they lend to socially desirable projects in the small-scale sector in less developed regions, and to technician-owned enterprises. The normal spread available to the SFCs on the refinance obtained from the IDBI is 3.5 per cent.

The SFCs charge a concessional rate of interest for loans granted to units in less developed regions and to small-scale units. It is 11.0 per cent per annum for small-scale units and 9.5 per cent for small-scale units set-up in backward districts. For other units (with refinance), the lending rate in backward areas is 9.5 per cent against the normal lending rate of 12 per cent. To units without refinance, assistance is offered at 13 per cent interest rate against 10.5 percent for those set-up in backward areas. In sum, the SFCs pursue a differential interest rate policy.
(g) Policy on Assistance to Technician Entrepreneurs

In pursuance of the government policy to encourage self-employment, the SFCs have, from 1970, introduced special schemes in which provision for concessional financing to technician entrepreneurs is made. The assistance under the scheme ranges between Rs.2 lakhs and Rs. 3 lakhs, and is given on very liberal terms in so far as the margin requirements, the rate of interest and the moratorium on repayment are concerned. Generally, graduates or diploma-holders and certified technicians and/or those having adequate experience in the line are eligible for financial assistance under the scheme. SFCs are providing seed capital assistance, from their special share, capital exclusively subscribed by IDBI and the State Government, to the needy small entrepreneurs. The assistance will be by way of equity or soft Loans towards meeting the gap between the normal expected level of promoters' contribution as envisaged by the SFC and the actual amount that the promoter could bring on his own, subject to a ceiling of 20% of the project cost or Rs. 1 lakh, whichever is lower than rate of interest applicable to projects in backward areas and moratorium in payment of interest and installments upto 3 years. All types of industrial concerns--proprietary, partnership and private as also public limited companies are eligible for assistance under the scheme, preference being given to new technician entrepreneurs and projects in backward areas.
4.1.5 Operational Policies and schemes of SIDCs/SIICs

The SIDCs have adopted the policy of assisting medium-sized units, generally accept an application for a loan of more than Rs. 30 lakhs but less than Rs.100 lakhs. At the same time, they provide help to small-scale industrial units in discovering project ideas and implementing their projects.

These Corporations have decided to concentrate in private sector business enterprises, particularly to those belonging to non-traditional industries, such as chemicals, basic metals and alloys, manufacture of machinery, parts and specialty paper.

They have also adopted specific strategies for the purpose of achieving national objectives of the dispersal of industries and widening the entrepreneurial base. Further, these Corporations have decided sponsor projects in participation with private parties. This arrangement speeds up the industrialization process especially in relatively less developed States, where the paucity of entrepreneurial talent is a major bottleneck.

The SIDCs/SIICs have, late decided to provide seed capital to entrepreneurs under the seed capital assistance scheme of the IDBI, which was introduced in early 1917. Under the scheme, assistance by way of equity or soft loan is provided to enable the entrepreneur to meet the gap between the normal expected level of his contribution, as envisaged by the SIDC, and the actual amount that he can bring oil his/own. The larger projects, each costing upped Rs. 1 crore, are eligible for assistance. Assistance under the scheme is interest free and carries only a service charge of 1 percent per annum. Moratorium is given in regard to the repayment of the principal upto 5 years.
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Operational Statistics of IFCI and IDBI of different years
