CHAPTER 6
PROMOTIONAL ACTIVITIES OF IDBI
IDBI is an apex, term lending financial institution in India. Up to 1976, the IDBI functioned as a wholly owned subsidiary of the Reserve Bank of India. However to enable it to play a more dynamic role in promoting the growth of industries, it was de-linked from the RBI.

**Genesis of activities:**

IDBI now has a separate Board of directors, fully professionalised and specialised in three areas

(a) Assessment of Project
(b) Monitoring at the stage of construction.
(c) Ensuring healthy functioning of the unit to serve the overall national interest.

In terms of the Public Financial Institutions Laws (Amendment) Act, 1975, IDBI has been restructured and designated as the principal financial institution of the country for providing credit and other facilities for the development of industry, for coordinating, in conformity with rational priorities for assisting the development of such institutions. The IDBI has been providing direct financial assistance to large and medium-large industrial concerns and also providing help to small and medium industrial concerns through banks and state level financial institutions.

The IDBI (Amendment) Act, 1986 came into effect from August 14, 1986. The Act has enlarged the definition of an industrial concern to cover diverse range of industrial activities including the services of industries like health care storage and
distribution widen the scope of business of IDBI by addition of such activities as consultancy, merchant banking and trusteeship activities.

The range of financing instruments has been further enlarged to include instruments like grant of lines of credit and issue of letters of credit. The amendment enables IDBI to grant loans and advances to individuals for investment in industrial concerns.

**Resources:**

In March 1994, the IDBI Act was amended to empower the Bank to issue its equity capital to persons other than the Central Government provided the government holding does not fall below 51%. Consequently, the bank made its first public issue of equity in July 1995, which was the largest equity offering in the Indian stock market so far. The majority of its shares are still held by the Central Government, though the percentage holding of Government has declined.

The **authorised capital** of IDBI was raised to Rs. 2000 crore as per the IDBI (Amendment) Act, 1994 divided into 150 crore equity shares of Rs. 10 each and 50 crore Redeemable Preference Shares of Rs. 10 each. The Government of India thereafter converted 25.30 crore equity shares of Rs. 10 out of the issued capital in 16% Redeemable Preference Shares of Rs. 10 each. The sources of funds are;

1. **Paid-up capital**, which stood at Rs. 818 crore as on 31st March, 1996.
   (The Bank still has the scope to raise further equity capital to the extent of Rs. 1200 crore)
2. **Reserves**
3. The industrial credit(Long term operations)**fund** of the Reserve Bank of India
4. **Market borrowings**
5. Temporary borrowing from the Reserve Bank of India and
6. **World Bank Credit.**

The Central Government has been granting loans to the Bank. The Bank is also entitled to receive from the Reserve Bank;
(1) Normal banking accommodation up to 90 days against trustee securities

(2) Medium term accommodation up to 5 years against bonfide commercial papers bearing two or more good signatures and

(3) Long-term accommodation from the profits of the Reserve Bank of India. The Bank is also authorised to borrow from the market on its bonds and debentures. In addition, the Bank can borrow from any other authority or institution or borrow foreign currency on such terms and conditions as may be approved by the Central Government. It can accept deposits from the public for 12 months as also any gifts and donations.

The Bank has created a Development Assistance Fund to which all grants, donations and loans are credited. This fund is utilized for granting assistance to essential industrial enterprises that cannot secure funds to meet their needs from other sources. The Reserve Bank also has established National Industrial Credit Fund and the Bank is entitled to receive loans from this Fund for meeting its long-term needs.

**Schemes, & Policies since 1990**

**Other Activities Undertaken by IDBI:**

During recent years IDBI has diversified its activities. It now undertakes non-project finance and also non-fund based activities. These are discussed below:

(1) **Merchant Banking:** The merchant banking division of IDBI undertakes new issues management, loan syndication and advisory services. The Bank is the largest underwriter in the Indian capital market.

(2) **Debenture Trusteeship:** The Bank accepts trusteeship assignments whereby it act as a Trustee on behalf of the secured Debenture-holders to undertake the documents relating to creation of charge on the assets of the borrower –company.

(3) **Venture Capital:** IDBI has created a Venture Capital Fund within itself, out of which venture finance is provided to those projects which employ untried high technology and where high risk is involved. This type of finance takes the form of equity, conventional loans and conditional loans. IDBI also plays a leading role in the development of venture capital industry, by participating in such funds jointly with other institutions.
(4) **Equipment Finance Scheme:** Under this scheme foreign currency loans are available to industrial concerns for import of capital goods and equipments not related to any specific project.

**Forms of Assistance:**

Pursuing a variety of activities, IDBI (i) provides direct assistance to industrial concerns in the form of loans, underwriting of and subscriptions to shares and debentures, and guarantees; (ii) provides soft loans for modernization, replacement and renovation: (iii) refinances industrial loans granted by banks and other financial institutions; (iv) rediscounts bills arising out of sales of indigenous machinery on deferred payment basis; (v) finances exports in the form of direct loans and guarantees to exporters in participation with commercial banks and overseas creditors; (vi) assists other financial institutions by way of subscription to their shares and bonds and (vii) engages in promotional activities for bringing about industrial development, particularly in less developed regions.

**Units Assisted:**

Though IDBI can finance all types of industrial concerns, it normally concentrates, as far as direct financing is concerned, on projects which are large and complicated and which involve huge capital outlay or sophisticated technologies, on projects located in undeveloped areas, and on projects promoted by technocrats. IDBI seeks to supplement the activities of other financial institutions and hence normally prefers not to assist assists whose needs could be met by other institutions.

Direct Assistance constitutes thus the major portion of the Bank's total assistance. Out of the same, project finance accounts for the major share. Direct finance is sanctioned both in Indian rupees and foreign currencies, the former accounting for the major share. Project finance is given both for new projects and for capacity creation by the existing industrial units.
Promoter's Contribution:

While sanctioning finance for a new project, the financial institutions insist that the promoters of the company provide a part of the project cost from their own funds, so that their stake and interest in the project is maintained. Such portion of the project cost is called promoters contribution. IDBI raised the minimum level of promoters’ contribution to 25% of the project cost. In respect of large projects and projects promoted by first generation entrepreneurs, this percentage was relaxed.

The debt-equity ratio of the borrowing company was also revised to 1.5:1 except for large projects where this ratio could be higher up to 2:1.

Rate of Interest:

As the IDBI depends largely on the borrowed funds, its lending rates depend upon the cost of its funds. However, the existence of large liquidity or otherwise and the state of inflation in the economy also affect the interest rates.

The interest rate structure of financial institutions was administered till August 1991. It was then liberalised subject to the prescription of a minimum interest rate, which was fixed at 15% on Aug. 16, 1991. The institutions can charge interest rate in accordance with their perception of the risk and credit worthiness of the borrower.

This step followed the abatement of inflation in the economy. The actual rate of interest was charged within the band of 17-19%. During the first half of 1994-95 the minimum rate was reduced to 14% but since the second half of the same year, upward revision in the minimum-lending rate commenced due to a tightening of the money market. The minimum lending rate has hiked to 15.5% in two parts. Subsequently on November 20, 1995 the floor rate for term loans was revised upwards to 16%.

With effect from July 1, 1996 the minimum lending rate was raised by one percentage point to 17% (exclusive of Interest Tax). The Bank attributed this hike to increase in the cost of its funds as it had raised funds from the retail market at over 16.5% per annum.
Immediately after the announcement of Credit Policy by the Reserve Bank of India in Oct. 1996 the four All India Financial Institutions announced a 0.5 percentage point cut in their prime lending rate. 

With effect from December 15, 1993, IDBI has introduced a Variable Interest Rate System for lending. It is an alternative to the existing fixed interest rate system as outlined above and is optional to the borrowers.

**Soft Loan for Modernization of Selected Industries:**

The soft loan scheme of all-India financial institutions, for which the overall responsibility rests with IDBI, seeks to provide financial assistance on soft terms to units in selected industries. The purpose of this scheme is to encourage units to undertake modernization, replacement and renovation of plant and equipment to achieve higher productive capacity and improve competitiveness.

Under this scheme, assistance is provided to industrial concerns in cement, sugar, cotton textiles, jute and certain engineering industries. Industrial concerns registered as public or private limited companies or cooperatives are eligible for assistance under this scheme.

The principal criterion for assistance under this scheme is lack of viability of the unit due to obsolescence of its plant and equipment. It should be clearly established that modernization would lead to viability within a reasonably short period. Under this scheme, industrial concerns, which are unable to bear the normal lending rate, get the entire loan on concessional terms. Other units receive assistance on concessional terms up to 66 percent of the loan (75 percent in the case of jute industry).

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# Source- A book for UGC (NET) on commerce paper –II & III (A) core group BRILLLIANT TUTORIALS (p) LTD. December 2001
While IDBI has overall responsibility for the scheme, the task of processing and sanction of assistance is shared by the three all-India financial institutions (IDBI, IFCI and ICICI)- units in cement and cotton textiles industry may apply to IDBI, units in sugar and jute industry may apply to IFCI and unit in engineering industry may apply to ICICI.

**Concessional Assistance to Projects in Backward Areas;**

IDBI provides direct financial assistance on concessional terms to projects set up in backward areas/districts specified by the Planning Commission. IDBI, in participation with IFCI, and ICICI, provides rupee loans up to Rs. 2 crore and underwriting assistance up to Rs. 1 crore on concessional terms for new projects or to existing units. Assistance in excess of the above ceiling is generally provided on normal terms.

The salient features of the concessional assistance to projects in backward areas are: lower interest rate, longer initial grace period, extended repayment period, reduced commitment fee, greater participation in equity and preference capital, reduced underwriting commissions, and lower promoters contribution to the project.

**Refinance Scheme**

IDBI has a scheme for refinancing loans sanctioned by Commercial Banks, state Financial Corporations and State Industries Development Corporations. This scheme covers loans made to small and medium units spread all over the country, particularly those promoted by weaker sections of society and small entrepreneurs. Units which are in priority sector and/or located in less developed areas are accorded special preference.

**Bill Rediscounting Scheme:**

IDBI has a bill-rediscounting scheme to enable industrial units to buy capital equipment on a deferred payment basis.

- The prospective buyer suggests to the manufacturer/seller of capital equipment, that instead of making full payment in cash he would like to avail of the facility of deferred payments under the bill-rediscounting scheme of IDBI.
The manufacturer/seller, if he agrees to the proposal of the buyer, divides the cost of equipment excluding advance payment, into half yearly or yearly instalments and prepares a separate bill/promissory note for each installment. The bills/promissory notes are accepted/guaranteed by, or on behalf of the buyer, on delivery of the equipment. The banker of the manufacturer/seller rediscounts the bills with IDBI, under the bill rediscounting scheme, thus obtaining the amount paid to the manufacturer / seller. The banker of the manufacturer/seller buys back the bills from IDBI three days (working days) in advance of their due dates and gets payments from the acceptor/guarantor of the bills on maturity dates.

**Inter Institutional coordination;**

IDBI, as the apex financial institution, holds monthly institutional meetings (II Ms) of the senior executives of the all-India financial institutions. These meetings have proved very useful for developing a common approach with respect to policies and priorities in the area of industrial financing and assistance, and for evaluating proposals for assistance on a consortium basis.

**Promotional Activities: -**

IDBI's promotional activities, wide-ranging in nature, consist of (i) making available information on specific products/processes and relevant economic data to entrepreneurs soliciting them; (ii) guiding in selection of consultants; (iii) preparing project profiles to guide entrepreneurs; (iv) assisting state level institutions in formulating and implementing training programmes for entrepreneurs; (v) constituting Inter Institutional Groups of the state level financial and development corporations and lead banks, which serve as a forum for coordinating the promotional activities of different institutions; (vi) setting up technical consultancy organisations at state level in participation with other term financing institutions, lead banks and concerned state governments and (vii) conducting industrial potential surveys, commission, feasibility reports and identifying prospects that can be quickly implemented.
Genesis of activities

Developments

IDBI, is entering into the housing finance business by establishing wholly owned subsidiary, ‘IDBI Housing Finance’ along with acquiring entire stake of Rs. 49.98 crore of Tata Finance Ltd in Tata Home finance Ltd. It is also entering into non-life/reinsurance broking business

The Bank will shortly infuse Rs. 150 crore into IFCI as part, of the Rs. 1,000- crore, assistance. On March 16, 2002, the bank announced that it has plans to form a consortium with banks and institutions for extending film financing. It has plans to offload at least 20% equity stake in IDBI Bank by September this year.

IDBI is planning to divert its entire stake in IDBI-Principal Asset Management Company. Bank is not considering a merger with IFCI. IDBI along with ICICI Bank Ltd., SBI as major sponsors, have jointly promoted the Asset Reconstruction Company (India) Ltd. (ARCIL).

Future Plans

IDBI would continue to focus on the infrastructure sector & target increased assistance to the new economy segments like information technology, pharmaceuticals, biotechnology, communication and entertainment. The core service would be fund based, dovetailed by client – driven business deals and a structured product-matrix, in line with the continuing strategic accent on providing integrated financial services to the client.

Further, in order to increase its business and overall profitability, IDBI would intensify its efforts in the area of equity participation and fee-based activities. The Bank would aim at pursuing growth in the volume of business and endeavor to maintain asset quality. IDBI is seeking to sustain its level of disbursals through growth in structured finance products, infrastructure finance products and non-project products.

ICRA expects the infrastructure segment to grow substantially in the medium to long term, and IDBI is well positioned to capitalise on this growth on the strength of the expertise it has developed in this sector ICRA notes that IDBI continues to maintain significant exposures in commodity sectors, and some of the exposures have been under
Developmental Activities of IDBI

1. Promotional activities

In fulfillment of its developmental role, the Bank continues to perform a wide range of promotional activities relating to developmental programs for new entrepreneurs, consultancy services for small and medium enterprises and programs designed for accredited voluntary agencies for the economic upliftment of the underprivileged. These include entrepreneurship development, self-employment and wage employment in the industrial sector for the weaker sections of society through voluntary agencies, support to Science and Technology Entrepreneurs' Parks, Energy Conservation, Common Quality Testing Centers for small industries.

2.) Technical Consultancy Organizations

With a view to making available at a reasonable cost, consultancy and advisory services to entrepreneurs, particularly to new and small entrepreneurs, IDBI, in collaboration with other All-India Financial Institutions, has set up a network of Technical Consultancy Organizations (TCOs) covering the entire country. TCOs offer diversified services to small and medium enterprises in the
selection, formulation and appraisal of projects, their implementation and review.

3.) **Entrepreneurship Development Institute**

Realizing that entrepreneurship development is the key to industrial development, IDBI played a prime role in setting up of the Entrepreneurship Development Institute of India for fostering entrepreneurship in the country. It has also established similar institutes in Bihar, Orissa, Madhya Pradesh and Uttar Pradesh. IDBI also extends financial support to various organizations in conducting studies or surveys of relevance to industrial development.

REPORT ON DEVELOPMENT BANKING IN INDIA, 1996-97
FI SANCTIONS AGGREGATE Rs. 55,737 CRORE
DISBURSEMENTS UP BY 8.8% TO Rs.42,067 CRORE

The Industrial Development Bank of India (IDBI) has published its Report on Development Banking in India for the year
1996-97. The Report covers the operations of all financial institutions (FIs) in the country, both at the national and state level during the year ended March 1997. The FIs comprise five all-India development banks viz. Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India Ltd. (IFCI), Industrial Credit and Investment Corporation of India Ltd. (ICICI), Small Industries Development Bank of India (SIDBI) and Industrial Investment Bank of India Ltd. (IIBI).

Three specialised financial institutions viz. Risk Capital and Technology Finance Corporation of India Ltd. (RCTC), TDICI Ltd., and Tourism Finance Corporation of India Ltd. (TFCI); three investment institutions viz. Life Insurance Corporation of India (LIC), Unit Trust of India (UTI) and General Insurance Corporation of India (GIC); 18 State Financial Corporations (SFCs) and 28 State Industrial Development Corporations (SIDCs).

The Report also reviews the operations of National Bank for Agriculture & Rural Development (NABARD), Exim Bank of India and North Eastern Development Finance Corporation Ltd. (NEDFi). The operations of Technical Consultancy Organisations (TCOs), commercial banks and various other institutions having a
bearing on industrial growth in the country are also discussed in the Report.

Aggregate assistance sanctioned by all financial institutions in the country during 1996-97 amounted to Rs.55,737 crore and disbursements to Rs.42,067 crore. The sanctions represent a decline of 14.9%, while disbursements indicate a growth of 8.8% over the amounts sanctioned/disbursed by these institutions during the previous year. The decline in sanctions and deceleration in disbursements during the year are mainly on account of subdued industrial growth and sluggishness in the capital market for the second successive year reflecting a weakening of intended investment by corporates.

Cumulatively up to end-March 1997, sanctions and disbursements by financial institutions aggregated Rs.3,69,277 crore and Rs.2,52,933 crore respectively.

The all-India Development banks (AIDBs) sanctioned assistance aggregating Rs.45,877 crore in 1996-97 registering a decline of 16.1% over the previous year. Sanctions by the specialised financial institutions (SFIs) and investment institutions
during 1996-97 recorded growth of 0.5% and 9.1% to Rs.362 crore and Rs.7489 crore respectively.

The state level institutions (SFCs and SIDCs) suffered deceleration in their operations during the year. SFCs sanctions and disbursements fell by 21.1% and 9.5% respectively. While the sanctions of SIDCs declined by 12.5%, disbursements grew by 5.7% during the year.

During 1996-97, the AIDBs (including resource support to other FIs by IDBI and SIDBI) accounted for 82.3% of the total assistance sanctioned by FIs while investment institutions (including resource support to other FIs by LIC and UTI) constituted 13.4%, SFCs 5.9%, SIDCs 3.1% and SFIs 0.6%. Sanctions by IDBI and SIDBI together accounted for 51.3% and 42.2% of total sanctions of AIDBs and FIs respectively during the year.

Of the cumulative sanctions, up to end-March 1997 (Rs.3,69,277 crore), AIDBs (including IDBI/SIDBI's resource support to other FIs) constituted 78.4%, investment institutions (including LIC/UTI's resource support to other FIs) 19.2%, SFCs 7.1%, SIDCs 3.6% and SFIs had a share of 0.5%.
The industries accounting for bulk of FI sanctions during 1996-97 were chemicals & chemical products (14.1%), electricity generation (10.6%), basic metals (10.5%), textiles (7.5%) and services (14.5%).

During 1996-97, sanctions by IDBI, IFCI, ICICI, SIDBI, IIBI, SFCs and SIDCs to units in backward areas declined by 29.9% to Rs.13,869 crore and constituted 29.4% of total. Disbursements to backward areas increased by 17.4% to Rs.11,205 crore accounting for 32.5% of total.

Bulk of the FI sanctions in 1996-97 was claimed by private sector (Rs.44,372 crore) and constituted 81.9% of the total.

In the context of the fast changing business scenario, DFIs continued the efforts to re-orient their business strategies to meet the challenges posed by the new competitive and deregulated environment. During the year, IDBI further diversified its range of activities and entered into new areas of short-term and working capital financing.
Based on an organisational study by Booz-Allen and Hamilton, changes in the organisational and credit delivery process have been introduced to improve the operational efficiency of the bank. With effect from April 1, 1996 SCICI Ltd. was merged with ICICI in order to have a strong capital base and optimise operational efficiency.

ICICI has formed a wholly-owned subsidiary called ICICI Credit Corporation Ltd. (I-CREDIT) as a non-banking finance company to create a retail network to enter new areas like financing automobiles, consumer durables, vendor leasing and factoring services. In order to provide operational flexibility and functional autonomy, IRBI was transformed into a full-fledged development finance institution and incorporated as Industrial Investment Bank of India Ltd. During the year, SIDBI introduced a direct assistance scheme for SSI vendors viz. Vendor Development Scheme and a scheme for extending grant to SSIs to cover a part of the cost of acquiring credit rating.

To catalyse private capital flows for infrastructure finance on a commercially viable basis in the five key areas viz.
power, telecommunications, ports, roads and urban finance, Infrastructure Development Finance Company (IDFC) was set up by Government of India and RBI with SBI, IDBI, IFCI, ICICI, UTI and HDFC as co-promoters besides certain foreign financing institutions.

IDFC became operational during the year and is expected to give a boost to financing of infrastructure projects.

Data available for the first nine months of current financial year (April-December 1997) indicate an upturn in the operations of All-India Financial Institutions (AIFIs). AIFIs sanctions and disbursements have gone up appreciably by 58.4% and 20.6% to Rs.52,466 crore and Rs.32,664 crore respectively over the corresponding period of the previous year hinting at revival of corporate investment intentions.