CHAPTER 9

CONCLUSIONS AND SUGGESTIONS
Conclusion

To sum up, the existing institutional framework lacked an effective mechanism to co-ordinate and integrate the functioning of the diverse institutional in the field. Thus, IDBI was set up as a coordinating machinery which could establish working relationship with other financial institutions, and thus meet the changing needs of the corporate sector. IDBI provides financial assistance to all types of industries directly or indirectly, irrespective of the form of organisation or size of unit. IDBI also provides technical and administrative assistance to industries for their promotion, management or expansion.

First, IDBI was controlled by the Central Board of Directors of RBI. But afterwards it is managed by its own Board of Directors. The Board has constituted an Executive Committee consisting of 10 Directors including Chairman and the Managing Director. The organisational structure of IDBI is consisting of three layers namely, Head Office, Zonal Offices and Branch Offices. Head
Office is at Bombay and five zonal offices are at Calcutta, madras, New Delhi, Bombay and Guwahati. There are 38 branch offices.

The resources of IDBI may consist of share capital, borrowings, sale proceeds of bonds and debentures etc. Among the sources of finance of IDBI, internal generation found to be the highest. IDBI's market borrowings by way of bonds found to be the major source of finance and accounted for 9.58 per cent of the IDBI's total funds as on end of March 1992.

**Resources**

During 2002-03, the Bank raised total resources of Rs. 11,108 crore, comprising Rs. 10,605 crore of Rupee resources and Rs. 503 crore of Foreign Currency resources. The overall cost of incremental borrowing stood at 8.10% with an average maturity of 2.96 years. Rupee resources were raised at an average cost of 8.36% with an average maturity of 2.87 years. The incremental cost of Foreign currency resources was 2.78% while average maturity was 4.81 years.

The Bank took advantage of the declining interest rate regime during the year by borrowing relatively short-term loans. It may be mentioned that an amount of Rs. 1864 crore out of this year's borrowings was repaid during the year itself. The net Rupee borrowings, therefore, stood at Rs. 8741 crore. The main sources of funds in the retail segment continued to be IDBI Suvidha Fixed Deposits and IDBI Flexi bonds. From wholesale segment, the leading sources of funds include Omini Bonds, IDBI Corporate Deposit Scheme and Commercial Paper. The principal investors in IDBI
instruments were individuals, PSUs, PFs/GFs, Mutual Funds etc. While Rs. 4023 crore were raised from retail sources Flexi bonds : Rs. 21.83 crore and Suvidha Fixed Deposits : Rs. 1840 crore), Rs. 6582 crore were raised from the wholesale segment. During this year, a major thrust was given to raise more resources from the retail segment.

The broad conclusions and some valuable suggestions to infuse greater validity and dynamism into the functioning of IDBI have also been highlighted in the following text.

India is one of the most civilised nations with rich natural resources. It is the tenth industrialised country in the world. As the seventh largest country in the world, India is well marked off from the rest of Asiatic nations by mountains and seas, which impart to the country a distinct geographical entity. The main land comprises of four regions based upon its geographical locations. They are Eastern, Northern, Western and Southern Regions.

In view of the socio-economic profile, the Eastern Region undoubtedly emerges as the most backward region of the country. Development banks not only provide financial assistance but also perform various promotional functions for industrial development inorder to reduce the regional disparities.

It is observed that no study has been made to focus on the comparative regional performance evaluation of IDBI. The 'Eastern Region' of the country has its own significance. It is the region of the highest number of backward states. It is the region of abundant
wealth as most of its states are well endowed with rich natural resources.

In order to cater to the financial and development deficiencies of the private sector industries, there are five development banks such as IFCI, ICICI, IDBI, IRBI, and SIDBI, functioning in the country now. Among them, IDBI is the apex bank which provides dynamic leadership to promote a widely diffused and diversified process of industrialisation. It provides assistance under various schemes and undertakes a variety of promotional activities to achieve the socio-economic objective.

A comprehensive study was conducted relating to the operation, policies and performance of IDBI. The overall performance of IDBI comprised of quantitative and qualitative financial and operational performances.

The data and information for the study mostly have been collected from secondary sources like Annual Reports and Operational Statistics of IDBI, Report on Development Banking in India, published by IDBI. The data collected have been analysed by the use of different statistical tools like percentages and simple and compound growth rates etc.

Suggestions

After presenting an overall view of the preceding chapters in an attempt has been made here to list out a few suggestions
relating to the working of Development Banks in general and the IDBI in particular.

- Re-organisation of development banks is necessary to bridge the gaps in the capital market and to make increasing resources available for both up and coming enterprises. It is necessary to remodel the entire institutional structure of the capital market to bring about financial specialisation with each financial institution specialising in each field such as underwriting, term-lending, and guaranteeing, and direct investment.

- Organization of the central project evaluation body is essential to ensure proper evaluation of viability of industrial projects. It would, be useful if a central project evaluation cell is set up under the direct supervision of IDBI.

- The predominant portion of funds of IDBI has gone to the industrially developed states, contributing to regional disparities in the level of industrial development. It is high time that the Planning Commission and concerned Ministries of the Government provided clear cut guidelines in regard to the type of industries, their area of operation, the purpose of assistance to them, the regional distribution of assistance and so on.

- In the area of resource mobilisation, the thrust should be for recovery of loans and over dues by development banks. IDBI, should create a culture amongst the clientele for honoring their commitments in time
• Steps are required to be taken to develop industrial culture in the least backward states like Arunachal pradesh, sikkim, tripura, and mizoram.

• It is observed that a great bulk of the assistance disbursed by IDBI is directed towards private sector, which probably may be mainly due to entrepreneurial enthusiasm dominant in private sector. If this trend will continue, it may lead to subsequent problems like concentration of economic power in private hands. Hence, IDBI should simultaneously encourage the joint and public sectors to have balanced economic distribution.

• IDBI should increase their counseling and guidance services by establishing advisory cells to put forward project ideas and profiles for all the up-coming industrial project.

• There is still scope of greater diversification of assistance to different industries in view of the fact that the indigenous-resource-based industries are yet to catch the attention of IDBI. Priority should be given to export-oriented industries using local raw-materials and know-how, labour intensive and consumer goods industries, industries having assured local markets and industries promoted by technical entrepreneurs.

• The capital adequacy norms of Commercial Banks must be applied to IDBI also. As a result they would lend more and
more for the purpose of economic development as the credit
given by them is not free from risk.

- The progress reports of assisted units should be recast
timely to avoid industrial sickness. In this regard, the frequency
and quality of follow-up visits should be improved to get an
overall and better idea of the progress of the assisted units.

- IDBI should adopt a strategy of improving the skills,
talents and specializations for Human Resource Development,
which is essential for the development of any nation.

- IDBI should make an in-depth study and take measures
to reduce the gap between sanctions and disbursements by
simplifying the formalities and procedures to be complied with.

- It is suggested that the IDBI should increase its
underwriting activity to a large extent in order to encourage the
new and infant units that are in the cradle.

- In view of the globalisation and liberalisation of Indian
economy, it is suggested that IDBI should reorient and intensify
its schemes of assistance for modernising the existing units.
This paved the way for an increase in productivity and good
quality in the products.

- It is observed that majority of IDBI's assistance goes to
the new projects. It should be noted that if the units coming up
fade away, then a strong industrial base can never be achieved.
Therefore, the IDBI should pay greater attention to expansion, diversification and modernisation of existing units.

- It is observed that the IDBI concentrates more on developed areas like the Western, the Southern and the Northern Regions. It is suggested that the IDBI should conduct studies in the Eastern Region to evaluate the impact of assistance to voluntary agencies.

- It is necessary to develop the hilly areas as tourist centers which will add to the national income of the country rather than striving for industrial development in those areas. Hence the IDBI should concentrate its assistance for tourism development purposes.

- In order to formulate better policies and programmes for industrial growth, planners of various states academicians and skilled persons in different fields are required to be nominated to the Board of Management of the IDBI.

- It is suggested that the IDBI should pay special attention to achieve balanced regional development in the light of social and economic justice. The IDBI should also conduct specific studies and develop its own criteria in identifying backward areas for a more vigorous effort in favour of backward area development.

- The IDBI should analyse the reasons and provide more incentives for directing the flow of assistance to really backward
states. It may also consider enhancing its re-financing facility to State Finance corporation's located in the backward states.

- IDBI should increase the utilisation ratio of sanctions in case of backward areas and should follow a different set of norms for disbursements in backward areas than those in the developed areas.

- IDBI should give greater emphasis on quality lending. Although it has developed sophisticated credit analysis and loan monitoring system, still it requires a well formulated conservative accounting policy regarding income recognition and provisioning.

- IDBI is required to adopt containment of non performing assets. Although it has initiated several measures for containment of NPAs, but still a well equipped close monitoring cell is required to constantly monitor the performance of assisted companies to improve recovery and initiate timely remedial action.

- IDBI can appoint reputed consultants as lenders, engineers for monitoring the implementation of the project and also financial and technical parameters during the operation of the projects.

- Uttar pradesh has vast potential for industrial development. It has witnessed a fair degree of industrialization over the years. However the industrial development has been
widely uneven with a large chunk of industrial units and investment having been concentrated in a few districts. Govt. of U.P. in concisous of the need for speedier overall and strategic planning, the state is capable of emerging as one of the most prosperous states of the country with well dispersed industrial growth.

- Finally, it may be said that the future performance of IDBI will depend to a large extent on its ability to mobilise additional funds, augment its financial returns, exercise control over defaults and overdues, and above all, strike a balance between its financing and developmental functions. Undoubtedly the suggestions enlisted here are not exhaustive.

Strengthening of the financial sector and improving the functioning of the financial markets have been the core objective of the financial sector reforms in India. The banking system is, by far the most dominant segment of the financial sector accounting for over 80% of the funds flowing through the financial sector. Despite the fact that the bulk of the banks were and are likely to remain in the public sector, and therefore with virtually zero risk of failure, the health and financial credibility of the banking sector was an issue of paramount importance to the committees.

The most recent step taken by RBI has been to reduce the repo-rate by half a percentage point to 4.5% with effect from Aug 25-2003. The Central Bank was prompted to lower the repo-rate on account of a fall in the level of inflation and the good monsoon as well as to reduce the flatness or the yield
curve. This move would give a boost to Economic growth through cheaper credit.

The committees proposed reforms in the financial sector to bring about operational flexibility and functional autonomy for overall efficiency, productivity and profitability. In the Banking sector, in particular, the measures have been taken aimed at restoring viability of the Banking system, bringing about our internationally accepted level of according and disclosure standards and introducing capital adequacy norms is a phased manner.

If the financial sector reforms were viewed in broad perspective, it would be evident to target the three inter-related issues

(1) Strengthening the foundations of the Banking system.
(2) Strengthening procedures, upgrading technology and human resource development and
(3) Structural changes in the system.

The reform process cannot be entirely painless. While there are achievements, there are pitfalls as well. What is important is to stress on the Qualitative aspects like transparency in work, better service to customers and to strike a balance between the ex cathedra overzeal for intervention and a complacent belief in the ability of the banking system to self rectify its deficiencies. The banks have diverted their attention from class Banking to Mass Banking but interregional in-
equality in operations, mounting over dues, willful default increased political interference, deterioration of customer services red-tapism, neglect of supervision, declining efficiency, have been some of the prevalent problems.