CHAPTER - VII

A CRITICAL REVIEW OF THE OPERATIONAL POLICIES AND OTHER POLICIES OF IDBI

After looking into the functions of the IDBI & its role as an Apex Development Bank, we shall make a critical estimate of the Operational and Procurement Policies of this Institution and see how far this Apex Institution has been successful in delivering the goods.

The IDBI, as a matter of fact has been the most important financial institution meeting the different needs of industries through its operations which have grown manifold since its inception in 1964. What is more, the seeds sown for development of a new culture in the Bank—the culture of service are already showing signs of having taken from roots. Also, there is now greater acceptance of the value of innovation, so vital for meeting the challenges that development finance institutions face today, with problems continually getting increasingly complex in the rapidly changing economic, social and political environments. Both sanctions and disbursements of assistance by IDBI registered a phenomenal rise over the years. Total sanctions of assistance rose from Rs. 28,308 crores in
2000-01 to Rs. 82,212 crores in 2007-08. While disbursements increased from Rs. 21,741 crores to Rs. 57,055 crores during the same period. See the table 7.1 given here under.

The various schemes of assistance of IDBI are designed to promote industrial development in the country. The institutional policies and procedures are now constantly reviewed and streamlined with a view to speeding up and improving the effectiveness of the Bank’s services. Also, new approach is now adopted and endeavours made to devise new credit instruments to meet new situations and new requirements. The quality of the schemes of assistance has changed significantly to meet the varying requirements of different regions and industries and also of diverse types of entrepreneurs. Some of its schemes of assistance under differential interest rates help the industries located in backward areas, sick units and small scale sector. Besides, IDBI has also evolved measures to help units which are lacking adequately management expertise and entrepreneurship.
Table 7.1
Thus the objective of IDBI has been to propel the wheels of industrial sector to achieve maximum growth. We shall see in the following paragraphs how far the IDBI has been successful in achieving its objectives.

The overall activities of IDBI are direct assistance to project loans, direct subscription and under writing. Direct discounting of bills, Equipment leasing and Guarantees and indirect assistance to Financial Institutions by way of Refinance of industrial loans, Bills rediscounting and subscribing to their shares and bonds and promotional activities for bringing about viable industrial development especially in the less developed areas. IDBI also plays an important role in undertaking export guarantee which constitute a major support for achieving contracts abroad.

Significant advance has been made towards fulfilling the Bank’s role as the Principal development finance institution of coordinating the activities of the other institutions engaged in financing and developing industry. Among the All India Financial Institutions, project appraisal by one is now normally accepted by the others, unless there be prime facie, any particular aspects warranting a fresh look. A common loan agreement form has been devised, to facilitate execution of documents while the letter of intent form is being standardised to ensure uniformity in the terms of
sanctions. Further, the concept of ‘Lead Institution’ has been enlarged to cover also follow up and monitoring of sanctioned projects. And to enable such enlarged role to be performed, the lead institution has been given appropriately wider discretionary powers, with the result that the ‘Lead Institution’ can now, of its own, clear on behalf of the institutions most of the routine issues that arise from time to time with respect to disbursements and follow up of sanctioned assistance.

These steps would certainly lead to a better coordination among the various development banks and make the procedure of sanction of loans more convenient to the borrowers as compared to the position prevailing till very recently when every institution had its own separate application form procedure and appraisal method. But there are still certain snags. Although the application has now to be made in the common loan application form technically to only one institution which is designated as the Lead Institution in the particular case but copies of the same have to be sent to the other participating institutions as well. Moreover, appraisal by the Lead Institution is not accepted by all of them in its totality. The borrower has to approach others also to complete their assessment. The procedure, thus still continue to be long drawn which delays the sanctions of assistance. Similarly, the formalities involved in
disbursements of assistance take long time. To cut short this part of the delay, IDBI and other banks have invented the device of ‘budging loans’ which is granted before the regular loan disbursement starts. Such loans carry a higher rate of interest and borrower has, thus, to subsidise the delay on the part of the financial institutions.

The inordinate delays in sanctions and disbursements of assistance lengthen the gestation period of the projects with all its serious implications. It is rather puzzling that each development bank insists in practical on separate project appraisal particularly in view of the fact that all of them are owned by the Government and are under the over all charges of the IDBI.

**ASSISTANCE SANCTIONED AND DISBURSED**

From the operations of the IDBI it can be seen from Table 7.1 that there is a big difference between the amount of sanctions and disbursements to different concerns under the various schemes of direct finance, which is generally granted only for acquisition of fixed assets for setting up new units, as well as, for expansion, modernization or renovation of existing machines, by the IDBI. It is clear from the fact that sanctions of assistance under direct finance (comprising Project Loans, Direct Subscription and Underwriting Direct Discounting Bills, Equipment Leasing and Guarantees)
showed a remarkable increase from Rs. 21,428 crores in 2000-01 to Rs. 68,359 crores in 2007-08. The disbursement under the scheme also increases from Rs. 16,466 crore in 2000-01 to Rs. 46,765 crores in 2007-08. This shows that the utilization of IDBI assistance under direct finance scheme works out 76 percent during 2000-01 and 68 percent in 2007-08, which is discouraging.

The aggregate sanctions of assistance under project financing scheme in 2000-01, Rs. 16,588 crores amounted to Rs. 50,149 crores in 2007-08. The disbursals being of the order of Rs. 12,938 crore and Rs. 34,101 crores respectively. The sanctions of assistance for underwriting and direct subscription to shares and debentures of industrial concerns formed 12 percent in 2000-01 and 17 percent in 2007-08 of the direct subscription sanctioned which comes to about Rs. 11,674 in 2007-08 crores. But the aggregate fund utilized for direct discounting bills was Rs. 2,643 crores which was only 3.8 percent of the direct sanctioned.

IDBI extends loans at a concessional rate to units in cement, sugar, jute, cotton textiles and certain engineering industries to induce and encourage these industries to overcome the back-log in modernization, replacement and innovation of plant and equipment so as to achieve higher and more economic levels of production and simultaneously improve their competitiveness in the markets.
Technical Development Scheme was introduced to promote further utilization of capacity, technological upgradation and export development. Assistance granted for equipment leasing amounted to only Rs. 368 crores in 2000-01 and Rs. 2,877 crores in 2007-08. As against this the disbursement was Rs. 250 crores in 2000-01 and Rs. 1,985 crores in 2007-08.

Under the refinance scheme of the IDBI assistance is sanctioned at a concessional rate of interest for loans to small scale units covered under the credit Guarantee Scheme and Technical Entrepreneur Scheme and Single Road Transport Operators covered by credit units in specified backward areas. So far refinance assistance has gone to small industries sector. The refinance accrued to the small sector was Rs. 226 crores in 2000-01 and Rs. 411 crores in 2007-08. There was a spurt in demand recently for this fund, largely due to introduction of the Automatic Refinance Scheme. The refinance scheme should be extended to wider areas in the Rural Sector so that small scale units may make use of this and industrial development in rural areas may be speeding up.

Under the Bills Rediscounting Scheme, IDBI rediscounts bills and promissory notes arising out of sales of machinery on deferred payment basis to promote indigenous industry. Under this scheme Rs. 255 crores were sanctioned by the Bank during 2000-01 and
Rs. 493 crores in 2007-08 and utilization of funds has been Rs. 170 crores in 2000-01 and Rs. 350 crores in 2007-08 which is indicating the large demand. Inclusive of the share of small sector in Bills Rediscounting total assistance sanctioned to the small, tiny and other decentralized sectors, but this service has not been made use of by exporters on a large scale.

In the field of International finance too, IDBI has recorded significant progress during these years. Apart from the lines of credit offered to various countries such as Kenya, South Korea, Zambia and Vietnam for export of capital goods from India. IDBI has for the first time taken resort to Development Assistance Fund for financing ventures abroad which though not strictly speaking commercial in character were nevertheless important from the point of view of concerned countries and our relationship with them. Furthermore, with the introduction of the overseas Investment Finance Scheme, a lacuna has been plugged in the promotion and financing of joint ventures abroad. Also, with the extension of the direct export participation scheme to pre-shipment finance, the weakness in the present arrangements for export credit, where such pre-shipment credit is required for periods in excess of six months, has been removed such as in the case of manufacture of heavy shipment wherein the productive cycle is more than six months.
IDBI was vested with responsibility of strengthening the resources position of SFCs and other financial institutions like IFCI, ICICI, IRCI etc. to enable them to diversify and expand their activities. IDBI should earmark larger amount for the purpose so that financial institutions can do their work more efficiently and contribute to the faster industrial development of the country.

The other area of vital concern to IDBI to which IDBI continued to pay special attention has been entrepreneurial promotion and entrepreneurial dispersal. The seed capital scheme which IDBI operated through SIDCs for entrepreneurial development in the medium scale industrial sector was revised, aimed at making it more accessible to deserving new entrepreneurs having entrepreneurial potential. A similar revision is in progress of the seed capital scheme that is operated, for entrepreneurs in the small sector, by SFCs out of their special capital. Greater attention should be given to entrepreneurs willing to set up industries in rural areas.

From the above review of the operations of the IDBI, we find that some of the schemes of IDBI are instrumental in eliminating or reducing the locational dis-advantages of the industrial units in notified backward areas and also promotion of projects which could generate large employment.
Out of the total assistance disbursed by the IDBI since its inception in 2007-08 was 39 percent accounted for by basic industries such as fertilizers, chemicals, electricity generation etc. The share of Food Products, Textiles, Refineries and Cement was 24.18 percent while 16.54 percent was accounted for by intermediate goods industries like paper and paper products, Rubber and Rubber Products, Metal Industries etc. Transport Equipment, Electrical Equipments and Machinery formed 9.25 percent of the assistance sanctioned and 11.03 percent has gone to services and other industries such as hotel, road transport and others.

On a sector wise basis, Corporate sector accounted for 78.9 percent of the total assistance sanctioned in 2000-01 and 72 percent of the assistance sanctioned in 2007-08 which reflects heavy dependence of Corporate sector on IDBI finance. The shares of public sector and Banks were of the order of 15.4 percent in 2000-01 and 9.4 percent in 2007-08 of the assistance sanctioned.

In its promotional role the IDBI has been playing a very fine role by giving necessary assistance and counsel to any entrepreneur to launch a project. IDBI in association with other term-financing institutions, commercial banks and concerned state governments has set up Technical Consultancy Organisation which helps in the
field of preparation of project reports, financial and economic aspects of projects and management guidance.

It must be noted that IDBI operates on very thin margins, the net return on funds employed. This is because of the various incentives provided in furtherance of the socio-economic cum developmental role, in the interest rates levied to units in the small scale and other decentralized sectors and to units set up in backward districts, and on export assistance. Also during this period a special refinance facility was introduced, aimed at rehabilitating entrepreneurs who suffer damage from natural calamities, disasters, assistance in provided at a special low rate for loans at the nominal service charge.

The magnitude of IDBI operations are impressive in terms of quantum of assistance sanctioned. But utilization of assistance showed fluctuations over the years in percentage terms. Besides, this loan advancing pattern of the IDBI and other financial institutions has not been conductive to the growth of backward areas. Not only backward areas have been neglected but large business houses have been given the massive assistance and the small scale industry has been ignored. The impact of concessional finance on decentralization of industries and removing regional imbalance has
been negligible. Specified backward areas, in all the states taken together received only 20 to 25% of the total assistance.

As regards the procurement policy of the IDBI, it can be seen from the resources position of the IDBI that main heads under which it procures its funds are:

1) Paid up capital;
2) Borrowings from Government of India;
3) Borrowings from RBI, NIC, LTO Funds and against lodgement of Usance Bills
4) Borrowings by way of Bonds
5) Deposits from companies in lieu of surcharge
6) Sale of Investment
7) Repayment assistance
8) Others–mainly receipt of interest commission etc.

It can be gathered from a study of the resources position of the IDBI that paid up capital rose gradually from Rs. 652 crores in 2004-05 to Rs. 725 crores in 2007-08. This massive increase in the paid up share capital hints to the rapidly growing operations of the IDBI.

Borrowings from the Government of India also decreased tremendously during 2001-08 and stand at Rs. 1.00 crore in 2007-08.
from Rs. 7.00 crores in 2000-01. This shows greater involvement of
the bank in the industrial development of the country.

Borrowings from outside India also decreased during 2001-08
and stand at Rs. 5,141 crores in 2007-08 from Rs. 5,887 crores in
2004-05.

When IDBI could not procure the required amount from lending
institutions it issued bonds and borrowed openly from the market.
The total amount of borrowings by way of bonds Rs. 6,732 crores in
2007-08 from Rs. 7,549 crores in 2004-05. A sum of Rs. 25,761
crores borrowings from others in 2007-08. This method of increasing
resources should be resorted to move increasingly in future.

Repayment assistance has been the largest source of funds
for the IDBI.

Inspite of working on a very thin margins and charging low
rates of interest and commission the IDBI earned from interest Rs.
8,020 crores in 2007-08, which is 83% of total income. The earnings
of the Bank rose sharply since its delinking with the Reserve Bank.

It was possible to substantially augment the balances in the
under noted special funds set up during the years.

The Reserve Fund too stands improved. It is clear that the
resources position of the bank is quite sound. It can procure greater
amounts by getting loans from the public and issuing bonds. The
bank should widen its activities to rural areas and finance rural
industries on a large scale to bring about a rapid industrial
development in the country. As regards Deposits on mainly fixed
deposits from the public may be accepted as is done by
Development Banks in some other countries. The IDBI has mainly
borrowed from the Government and the Reserve Bank and didn’t
make use of borrowing from the public. It can augment its resources
to a large extent by public borrowing and accepting long term
deposits.