CHAPTER - VIII

CONCLUSIONS AND SUGGESTIONS

The main function of IDBI, as its name suggests, is to finance industrial enterprises such as manufacturing, mining, processing, shipping and other transport industries and hotel industry.

The Development Bank grants direct assistance by way of project loans, underwriting of and direct subscription to industrial securities, soft loans, technical refunds loans and equipment finance loans. It subscribes to purchase and underwrites the issue of stocks, shares and bonds of debentures. The loans and advances which IDBI makes to any industrial concern may be converted into equity stocks and shares at a later date by IDBI. The bank is also empowered to guarantee loans raised by industrial concerns in the open market from scheduled banks, the state co-operative banks, IFCI and other ‘notified financial institutions. IDBI can also accept, discount or rediscount bonafide commercial bills or promissory notes of industrial concern. In direct lending the bank resembles IFCI and ICICI.

The Industrial Development Bank of India (IDBI) can assist industrial concerns in an indirect manner also, i.e. through other
institutions. IDBI assistance to other institutions also includes its rediscouning scheme. Firstly, it can refinance term loans to industrial concerns, repayable within 3 to 25 years given by the IFCI, the state Financial Corporations and other Financial Institutions. Secondly, it can refinance term loans repayable between 3 and 10 years given by scheduled banks or state co-operative banks. Thirdly, it can refinance export credit given by the Scheduled banks and State co-operative banks. Thus, IDBI finances those banks and financial institutions which are lending to industrial concerns. Finally, IDBI has subscribed to the stocks, shares, bonds and debentures of I.F.C.I., the State Financial Corporations and other “notified” financial institutions so as to increase their financial resources and enable them to provide larger assistance to industry.

The industrial Development Bank of India Act, 1964, has provided for recreation of a special fund known as the Development Assistance Fund. This fund is used to assist those industrial areas which are not able to secure finances in the normal course because of low rate of return.

IDBI raises foreign funds from international money markets and international funding organizations and makes them available to Indian industrial units.
It is interesting to note that unlike the other existing statutory financial corporations, IDBI has no restrictions imposed regarding the nature and type of security which should accept.

IDBI provides direct loans to industrial concerns, refinance of industrial loans and export credits, rediscounting of bills, underwriting of and direct subscription to shares and debentures of industrial units and direct loans for exports. IDBI became the most important institution assisting industrial units.

With a view to promote industrial development in backward areas, IDBI announced in July 1969 a scheme for assistance to small and medium projects in such areas on softer terms, such as concessional rates of interest, longer grace and repayment periods. IDBI adopted several measures to encourage flow of institutional finance to the small scale sector.

The scheme was revised and liberalized later. Under the liberalized scheme, IDBI in participation with IFCI and ICICI gave concessional rupee assistance up to Rs. 2 crores and underwriting assistance up to Rs. 1 crore. The IDBI’s concessional assistance and refinance of loans for backward areas increased steadily in terms of number of applications and amounts sanctioned and utilized.
IDBI took over the Refinance Corporation of India in November 1964 and was providing refinance facilities to industrial units through member banks. As an apex institution, the IDBI assists State Financial Corporations, the IFCI, Leasing Companies and others working in the field of industrial finance by subscribing to their shares and bonds. IDBI also participates in loans and guarantees to supplement the refinance operations as a measure of risk sharing with other institutions.

IDBI extends assistance to small scale industries and small road transport operators indirectly through State Level Institutions and commercial Banks by way of refinance of industrial loans. IDBI introduced a scheme to cover promissory notes arising out of sales of new trucks and jeeps to road transport operators in the private sector. The IDBI’s assistance to small scale industries and small road transport operators was picking up very fast.

IDBI launched the National Equity Fund Scheme in 1988 for providing support, in the nature of equity to tiny and small scale industrial units engaged in manufacturing cost not exceeding Rs. 5 lakhs. The scheme was administered by IDBI through nationalized banks. IDBI introduced the single window scheme for grant of term loans and working capital assistance to new tiny and small scale units. Finally, IDBI set up a Voluntary Executive Corps.
Cell (VECC) to utilize the services of experience professionals for counseling small units, tiny and cottage units and for providing consultancy support in specific areas.

The Government of India set up the Small Industries Development Bank of India (SIDBI) under SIDBI Act, 1989 as a wholly-owned subsidiary of IDBI. SIDBI started functioning from April 1990 and has taken over the responsibility of administering small industries Fund and National Equity Fund which were formerly administered by IDBI. SIDBI has become the principal financial institution for promotion, financing and development of small scale industries.

Since 1970 IDBI had initiated certain promotional and developmental activities to meet the twin objectives of balanced regional development and accelerated industrial growth. In cooperation with other term-lending institution, IDBI had completed industrial potential surveys in all States and Union Territories.

IDBI introduced in 1976 the soft loan scheme to provide financial assistance to productive units in selected industries, viz., cement, cotton textiles, jute, sugar and certain engineering industries on concessional terms to enable them to overcome the backlog in modernization, replacement and renovation of their plant and equipment so as to achieve higher and more economic levels of
production. The scheme was administered by IDBI with financial participation by IFCI and ICICI. The basic criterion for assistance under the scheme was the weakness of the units on account of obsolescence of machinery. The rate of interest was 7.5 percent and the period of loan was 15 years. The pace of disbursement was very slow as the soft loan scheme was not attractive to the private sector units because of the convertibility clause.

In January 1984, the soft loan scheme was modified, now called Soft Loan Scheme for Modernisation, so as to cover deserving units in all industries. Under the modified scheme, assistance is available to production units for financing modernization primarily aimed at upgradation of process, technology and product, export orientation, import substitution, energy saving, prevention of pollution, recycling of wastes and by-product etc. Other changes and relaxations were also made to make the scheme attractive and popular.

IDBI permitted by SEBI to carry out merchant banking activities which cover professional advice and services to industry for raising capital from the market, acquisition of assets on lease, mergers/take-over of existing units etc. The Merchant Banking Division of IDBI, in the first 2 years of its existence had lead–managed 118
issues and had helped to mobilize Rs. 12,340 crores from the market.

From the very beginning, IDBI demonstrated its usefulness as the apex institution in the country in the sphere of medium and long-term finance. The Finance Ministry of the Government of India, however, felt that IDBI had failed to serve as an effective development bank and had not sufficiently accelerated the proves of industrialization of the country.

The Government of India delinked IDBI from RBI and made it an autonomous corporation from February 1976, IDBI recorded an impressive performance in its operations after it became autonomous.

The IDBI, as the apex institution in the field of industrial finance, was playing a dominant role since its inception and specially since 1976 when it was taken over by the Government. The IDBI’s sanctions and disbursements constituted about 36 percent of the total sanctions and 40 percent of all disbursements, of all term-lending institutions. IDBI was performing two functions: direct financing like other DFIs and indirect financing through the system of refinance. This was the basic difference between IDBI and other DFIs.
A major recommendation of the Narasimham Committee was that there should be competitive efficiency among banks and DFIs. For instance, all the term lending institutions like IFCI, ICICI, IDBI, etc. should compete (a) for funds from the market and (b) in providing lending facilities to the corporate borrowers. A precondition for bringing about such competitive efficiency was the restoration of ‘a level playing field’ between different DFIs. To facilitate this process, the Narasimham Committee proposed that IDBI should give up its direct financing function and perform only apex promotional and refinancing role in respect of other institutions like IFCI, SFCs, SIDBI, etc. The direct lending function should be entrusted to a separate finance company, specially set up for this purpose.

The Government of India rejected Narasimham Committee’s recommendation. The Government, however, amended IDBI Act, 1964 with a view to restructure IDBI’s share capital and empower IDBI to raise equity from the capital market.

IDBI’s loan sanctions had increased from Rs. 28,308 crores in 2000-01 to Rs. 82,212 crores in 2007-08; and during the same period disbursements had increased from Rs. 21,741 crores to Rs. 57,055 crores, also reflecting the rapid industrial and business growth of the country on the one side and the corresponding increase in the mobilization of resources by the development
financial institutions on the other. In this, IDBI had a leading role as it was the apex financial institution of the country.

IDBI, like other public development financial institutions, managed by the Finance Ministry of the Union Government, has almost collapsed. The Government merged it with IDBI Bank in October 2004.

**CONCLUSIONS AND SUGGESTIONS**

Over the past four decades the IDBI has developed into a mature and focused institution with a clearer idea of its role in the industrial development. The IDBI monitors the quality of projects, and is very conscious of the need to improve its operational efficiency.

Cumulatively IDBI has sanctioned Rs. 5,82,105 crore and disbursed Rs. 3,76,107 crore upto end March, 2008 which is 66% of sanctioned. IDBI claimed the largest share of 33.4 percent among AFIs.

The process of liberalization has brought in systematic changes in the operations of IDBI. In tandem with the emerging needs of industry in the new competitive financial environment, IDBI has re-oriented its policies with much sharper customer focus.

As it has entered the next millennium, the IDBI looks at its mission in the decades ahead as one of maximizing its development
impact healthy growth of development finance institutions and rapid strides in industrial development.

The major sector seeking assistance from the institutions would continue to be the infrastructure sector. Besides, IDBI’s strategy would also be to increase its assistance to high growth-oriented segments like information technology, pharmaceuticals and food-processing industries. The launch of the Technology Upgradation Fund Scheme for textile industry would generate new investment demand from different segments of the textile sector for modernization and upgradation aimed at achieving global standards.

Fund based business would continue to be the core activity of IDBI in the coming years. While project financing would remain the key segment in fund based business, the Bank would also target well-rated corporates for assistance under non-project finance schemes and in the form of structured products instead of plain loans products. Assistance in the form of tradable instruments may offer an easy exit route as debt market develops and gets deeper. To augment overall profitability, IDBI would increasingly focus on fee based activities like corporate advisory services, credit syndication, debenture-trusteeship, forex services, etc.

With a view to performing their channelising function effectively, the IDBI formulated suitable strategies and operational
policies in regard to sanction of assistance and its utilization, forms of assistance and its purpose as also with respect to sectoral, regional and industrial distribution of the assistance. The Bank has been found adhering to the norms and sanctioned assistance only to those fulfilling these norms.

Following its assistance policies the IDBI pumped in burgeoning amount of funds to meet growing industry demand. It is interesting to observe that the Bank has introduced a slew of innovative products and services to cater to the varied needs of up and coming enterprises of plan priority. However, loans constitute the predominant form of assistance of the IDBI. This can be explained, inter alia, by minimum risk, high core competence and scope for better earnings.

It is intriguing to note that quite a large proportion of the sanctioned assistance has remained unutilised for various reasons including time consuming and complex lending procedures. It is, therefore, suggested that disbursement procedures should be re-examined thoroughly and as far as possible the same be simplified.

What is most striking to note that the Bank has yet not accorded serious attention to underwriting business and has failed to
develop equity culture in its operations primarily because of its obsession with avoidance of risk.

Nevertheless the IDBI has devoted its resources for financing up and coming industrial projects, the thrust of the Bank in recent years has been on infrastructural and core sectors.

Further, a few industrially advanced states of the country continue to receive greater attention of the IDBI. One of the major factors responsible for this tendency has been the absence of any explicit policy guidelines being provided by the Government regarding assistance to relatively underdeveloped states. As a result, the IDBI has followed the line of least assistance and extended assistance where it could do that most conveniently.

In its endeavour to meet the competitive challenges and to provide wide variety of products and services to customers under one umbrella and to economise on cost of operations the IDBI is presently seized with the task of transforming itself to an universal bank and for that matter, it has already started holding discussions with the RBI on the possible regulatory regime once it converts itself into a full-fledged bank. The Bank is also negotiating with foreign management consultants to hire one of them who could help it in formulating the universal banking strategy.
However, to be highly competitive and more useful existing role of the Bank will have to be rationalized. It will have to focus on lending business with market orientation, how its risk identification and project management skills and strengthen its infrastructural network.

The IDBI should undertake the underwriting business on a large scale with a view to nursing new and nascent industrial units. This will certainly solve the financing problems of industrial enterprises and also bolster up the new issue activity which has been sagging in recent years.

In the opinion of the researcher, IDBI in its new universal Banking form can go a long way in solving the problem of industrial finance in India in a big way. The suggestions given by the researcher require attention of the authorities concerned with the operations of IDBI.