CHAPTER-II

GROWTH AND EVOLUTION OF DEVELOPMENT BANKS
IN INDIA

2.1 INTRODUCTION

India is perhaps the only country in the world which has a galaxy of Financial Institutions (FIs) specially created to meet the gap between the demand for and supply of funds in the capital market. These institutions are specifically created both at the national and state level to accelerate the process of industrial development in the country by mobilizing the savings and allocating it in the desired sectors. They have served the economy for a period of more than 50 years. The liberalisation and globalisation process initiated in the economy since 1991 has no doubt brought about a significant qualitative change in the operation of these Institutions. However the economy is still dependent on them to support the various developmental activities. These institutions have changed their functioning style and their types of assistance in line with the changes taking place in the economy. As a result they have not made themselves redundant. They continued to be of immense use to the various types of entrepreneurs both in the small, medium and large sector.

The present chapter endeavours to discuss the history and growth of development banks in India in general and highlights the genesis, growth and functioning of ICICI as a development bank.

In order to facilitate the discussion on the above points, the present chapter is divided into two sections. While the first section deals with the growth and evolution of development banks in India, the second section
specifically deals with the Industrial Credit and Investment Corporation of India (ICICI) Limited. The second section makes a brief mention about the genesis, objectives, functions, ownership and management and the resource base of ICICI.

2.2 GROWTH AND EVOLUTION OF DEVELOPMENT BANKS IN INDIA

2.2.1 Phase I: Institutionalisation Era (1948-55)

The development banking took its birth in India in the year 1948 with the setting up of Industrial Finance Corporation of India (IFCI). The first development bank, was set up to provide medium and long term credit to industrial units in the public and cooperative sectors, particularly when normal banking accommodation was not available or recourse to capital issue method was impractical. The equity capital of IFCI, set up as a statutory corporation, was provided by the Central Government, the Reserve Bank of India, commercial banks and other financial institutions.

Soon after, the need for regional DFIs was felt and the Government passed the State Financial Corporation (SFCs) Act, 1951, Today, 18 SFCs, including the Tamil Nadu Industrial Investment Corporation, set up in 1949, are engaged in financing and promotion of small and medium enterprises in various states of India.

National Small Industries Corporation (NSIC) was set up in 1955, with the development as its main objective. It promotes the interests of the small industries in the country primarily by assisting them in procurement of machineries, various inputs and marketing of their output. Besides, it trains technical personnel and offers consultancy services to other developing countries.
The creation of the Industrial Credit and Investment Corporation of India (ICICI) Limited in 1955, constitutes a major landmark in the history of development banking in India. Its main thrust was on financing of private sector through provision of foreign currency loans, equity participation and underwriting of public issues.

Unlike IFCI, ICICI was set up as a public limited company without any direct equity participation from the Government or the RBI. The World Bank (IBRD) played an active role in its formation and 30% of its initial equity capital was subscribed by foreign investors in the UK (20%) and the U.S.A (10%).

2.2.2 Phase II: Expansion (1955-64):

The expansion of operations by the existing DFIs and fresh additions to the institutional infrastructure comprise the main developments of the second phase. Following the implementation of the first two five-year plans (1951-56 and 1956-61), the demand for institutional assistance increased and the DFIs responded by expanding the scope and coverage of their activities. For instance IFCI extended its assistance to hotels, introduced underwriting facility and provided guarantees for deferred payments and foreign currency loans. Similarly, with the foreign exchange crisis in 1957-58, foreign currency loans provided by ICICI became the main source of payment for imported equipment.

Consequent upon the nationalisation of the life insurance business, the Life Insurance Corporation of India (LIC) was set up in 1956. Although LIC is not a DFI, it was assigned, as a part of its business, the role of providing industrial finance through underwriting and direct purchase of industrial shares, bonds and debentures.
In 1958, another institution, the Refinance Corporation for Industry Ltd. (RCI) was established by RBI, LIC and commercial banks. Its primary objective was to provide refinance to commercial banks (and later to SFCs) in respect of term loans to industrial units in the private sector. However, in 1964, it was merged with IDBI.

At the state level, State Small Industries Development Corporations (SSIDCs) were set up in 1971 to cater to the primary developmental needs of the small, tiny and village industries. Functionally, these are fairly similar to NSIC. Besides SSIDCs, the State Industrial Development Corporations (SIDCs) were set up to act as catalyst for industrial development in their respective states. They undertake financial, promotional and developmental activities, viz., provision of term loans and underwriting/direct subscription of share/debentures, conducting feasibility studies and entrepreneurship development programmes, developing industrial estates, and setting up of medium and large projects in the joint/assisted sector or as wholly-owned subsidiaries. Out of 28 SIDCs in the country, 11 function as SIDCs-cum-SFCs.

2.2.3 Phase-III: Consolidation and Innovation (1964-76)

By the early 1960s, the country had established an elaborate network of financial institutions which served with fair degree of success, the growing needs of industrial development. However, the need was felt for new institutional machinery (a) to garner the savings from the household sector (b) to effectively coordinate and integrate the functioning of the diverse institutions in the field, and (c) to finance the gigantic projects of national importance, envisaged in the third and the fourth five year plans (1961-74)\(^1\), which the existing institutions were either unwilling or unable to finance.
Thus, the Unit Trust of India (UTI) was set up, in February 1964, to mobilise and channelise the community savings into corporate shares and debentures. To tackle the remaining two problems, IDBI was established in July 1964, as the apex DFI of the country. Although IDBI was setup as a wholly-owned subsidiary of RBI, from February 16, 1976, its ownership was transferred to the Government of India and it was vested with the responsibilities which RBI earlier had vis-a-vis industrial financing institutions in the country.

In 1971, the Industrial Reconstruction Corporation of India (IRCI) was set up by IDBI, LIC and banks, for reconstruction and rehabilitation of sick and closed industrial units. Another notable development was participation of the General Insurance Corporation of India (GIC) and its four subsidiaries in consortium financing arrangements with other all-India financial institutions, after their nationalisation in 1973.

At the operational level, major innovative steps taken by the DFIs comprised of (a) introduction of consortium financing approach with common loan application form and common project appraisal, (b) rediscounting of machinery bills to give fillip to the nascent domestic capital goods industry, (c) industrial potential surveys in backward areas, (d) concessional finance for notified backward areas, (e) creation of Technical Consultancy Organisations (TCOs) and the Management Development Institute (MDI), (f) introduction of loan convertibility clause and appointment of nominee directors in assisted units,2 (g) financing of public/joint sector units (h) introduction of merchant banking services by ICICI, etc.
2.2.4 Phase IV: Stability and Growth (1976-84):

The fourth phase of development banking can be regarded as the phase of stability and substantial growth. This phase among other things is marked by the prominent development on the financial market. This relates to the autonomy provided to IDBI. This individual factor relates to a significant expansion in the volume operation of IDBI.

The trust of most of the financial institutions in this phase was on the quality of their operations, viz., simplification of procedures to expedite sanctions and disbursements, liberalisation of lending policies for modernisation and technological upgradation, increased flow of assistance to projects located in backward areas and provision of bridge loans against public issues. In order to promote entrepreneurship, the network of TCOs was further extended and a national institute—the Entrepreneurship Development Institute of India (EDII)—was set up at Ahmedabad in 1983, besides, various subsidy schemes and venture funds/seed capital schemes were introduced for them. Due to the above measures sanctions and disbursements of the major DFIs (IFCI, ICICI, IDBI, IRCI, SFCs and SIDCs) during this 8 year period substantially increased. The cumulative sanction increased from Rs.16704.67 crore in 1975-76 to Rs.21,076.23 crore in 1983-84. Similarly the total disbursement increased from Rs.2305.7 crore to Rs.19636.4 crore during the same period.3

2.2.5 Phase V: Diversification and Change (1984-92):

The major developments in the fifth phase include creation of new institutions, change in operational policies and growth and diversification in the operation of financial institutions.
To strengthen the existing institutional infrastructure for provision of industrial finance, six new institutions namely Industrial Investment Bank of India Ltd (IIBI), North-Eastern Finance Corporation (NEDFC), ICICI Venture, Tourism Finance Corporation of India Ltd. (TFCI), Infrastructure Development Finance Company Ltd. (IDFC) and Small Industries Development Bank of India (SIDBI) were set up during 1984-92. Thus by 1992, the country was being served by a well integrated network of 59 development finance institutions: 6 all-India DFIs, 4 specialised financial institutions, 3 investment institutions, 18 SFCs and 28 SIDCs (See Annexure-2.2). However, the three All-India Industrial Development Banks (AIIDBs), namely, IFCI, ICICI and IDBI comprise the core of industrial financing system, their share being nearly three-fifths of total finance disbursed by the aforementioned institutions.

Besides substantial growth, diversification was probably the most spectacular aspect of their operations in this period. The AIIDBs introduced new financial products/services and expanded the scope of their activities. The emphasis got shifted from project finance to provision of fund and fee based financial services, viz, leasing, instalment credit, equipment finance, bridge loans, buyers/suppliers’ credit, guarantees, underwriting merchant banking and allied services, etc. Further to fulfil the need of the diverse sectors of the economy, the AIIDBs decided to finance service sector like informatics, health care, storage and distribution of energy, hire purchase and leasing firms, etc.

In the promotional sphere, the efforts for financing and promotion of new technologies/entrepreneurs were further intensified with the establishment of Risk Capital and Technological Finance Corporation Ltd.
(RCTC) in 1992 and Technology Development and Information Company of India Ltd. (TDICI) in 1993. Another notable aspect is the emphasis on the development of capital market. Accordingly, two credit rating agencies CRISIL and ICRA$^4$ and a new stock exchange OTCEI$^5$ for small and medium size companies were set up.

On the policy front, many significant changes took place in this period. In 1984, the government issued first guidelines for the appointment of nominee directors in the assisted concerns. Simultaneously substantial relaxations were announced in the policy regarding conversion of loans into equity. The practice was abandoned in 1992. Similarly, the Project Finance Participation Certificate (PFPC) scheme, extended in 1984 to all projects irrespective of their cost, was gradually liberalised and finally abolished in 1992. Other important policy developments of the period include deregulation of interest rates and withdrawal of concessional finance scheme for backward areas.$^6$

2.2.6 Phase VI : Reorientation (1992-98)

In 1991, the Government started the process of economic reforms to correct the macro-economic imbalances and effect structural adjustments with the objective of making the real sector of the economy more competitive and efficient. In the following year, it initiated a parallel reform process ' in the financial sector (the Narasimham Committee). This has necessitated reorientation on the part of the Indian DFIs to meet the challenges of the emerging competitive environment.

While the government withdrew tax benefits to IDBI and changed the character of IFCI from a statutory corporation to a company, the
DFIs on their part responded by introducing a variety of new products/services and enlarging the scope of existing ones. Further, with decline in the traditional sources of low cost funds, the DFIs were forced to go to the capital market to augment their financial resources. Another notable response is reorientation of their institution building activities as reflected in the endeavour of the AIIDB to set up commercial banks, investment banks and, mutual funds and other subsidiaries.

This phase witnessed a significant increase in the activities of the capital market. New financial regulatory institutions, viz., SEBI, rating agencies etc. were created to regulate the activities of various players in the capital market. FIIs, dedicated debt funds, many other institutional players were allowed to operate both in the primary and secondary capital market. The process of financial disintermediation which crept into the Indian capital market since 1992 was widely visible during this period. The amount of capital raised by the Indian corporate sector from the capital market both in the form of equity and debt recorded many fold increase. From a sum of Rs.10,739 crore during 1989-90, the Indian corporate sector raised more than Rs.34,755.00 crore from the capital market during 1997-98.\(^7\) There was also increasing liberalisation in the external field to the Indian corporate sector, many Indian companies went out of the country to mobilise relatively cheap fund from various external financial market. The amount of foreign exchange mobilised mostly through the issue of ECB, GDR etc., recorded huge increase during the period. Due to all these development, there were more or less stagnancy or a very low growth rate in the financial assistance as provided by the DFIs in the country. However, due to the regular scams in the financial market at periodical intervals, high volatility in the forex market and due to the existence of undeveloped debt market, the DFIs continue to be a significant source of fund for the corporate sector.
2.2.7 Phase-VII: Universal Banking (1998 Onwards)

The reforms in the financial sector have ushered in significant changes in the operating environment of banks and financial institutions. The deregulation of interest rates, emergence of disintermediation process arising out of a liberalised capital market and increasing participation by banks in project finance significantly altered the operating environment of banks. With DFIs, in turn, making forays into the realm of working capital financing, the traditional operating division between banks and DFIs became increasingly blurred. In the light of these developments, a number of committees/groups have pronounced their views on the likely future scenario of DFIs in the country. The most recent of these is the discussion paper on "Harmonising the role of DFIs and Banks", issued by the RBI. Earlier, there were the Khan Committee Report and the classic proposals of the Narasimham Committee (II).

The RBI appointed a working Group (Chairman: Shri S.H. Khan) in December 1997 to examine and suggest policy measure for harmonising the role and operations of DFIs and banks. With regard to the regulatory and supervisory framework, the group recommended, among others, (a) the development of a function specific regulatory framework, that is institution neutral with regard to the regulatory treatment of identical services rendered by any participant in the financial systems, (b) a system of consolidated supervision of financial entities, (c) a focus on off-site supervision based on periodic reporting by banks/DFIs, (d) the establishment of a super-regulator to supervise and co-ordinate the activities of the multiple regulator, and (e) speedy legal reforms in the debt recovery areas of banks and financial institutions. In the light of these recommendations, the Reserve Bank of India prepared a discussion paper in January 1999 to address the
various issues concerning the Universalisation of banking and elimination of the specific functional role of specialized financial institutions. One of the major issues addressed in the discussion paper relates to the conversion of DFIs either into commercial banks or a NBFC "The issue of transformation of a DFI into a bank should be considered after a reasonable period of time has elapsed. In the interim DFIs could tailor their needs to become either a bank or a NBFC, depending on institution-specific considerations and their comparative advantages. If the DFIs chooses to become a bank or NBFC, than it should be prepared to fully conform to the entire amount of prudential, regulatory and supervisory norms applicable to banks/NBFCs".

The Universal banking concept has caught the fancy of the policy makers and some of the bankers, more prominently after the publication of the Khan Committee Report. However serious differences still persists among the bankers with regard to giving permission to the DFIs to enter the banking business by accepting short term deposit and providing different means of payment facilities. There is no doubt about the fact that increasing competition and globalisation of the financial services sector would force the players to innovate different operational strategies so as to reduce their opportunity cost, expand their business volume and improve their profitability. The capital market in India inspite of significant improvement, has not witnessed increasing volume of trading in the debt market. In the light of the under-development of the debt market which is mostly confined to the Govt. security market, the corporate sector continue to depend heavily on loan facilities provided by the DFIs. Hence the DFIs would continue to stay in the market in the near future but their functions will undergo a significant diversification. The universal banking concept is going to be reality in the Indian financial market in the coming years, ICICI is the first DFI which has
made a formal application to RBI to get the permission for converting it into a full fledge universal bank. It has already initiated various measures in this regard. Due to some procedural hurdles and absence of clear cut policy guidelines, it may take little more time for the regulator to accord permission.11

2.3 ICICI-A BRIEF PROFILE
2.3.1 Genesis:

The idea to establish the Industrial Credit and Investment Corporation of India (ICICI) Limited was an outcome of the discussions that had taken place in 1953-54 in this country between the representatives of the Government of India, the Foreign Operations Administration of the United States and the World Bank. In February 1954, Mr. George B. Woods, chairman of the first Boston Corporation and Mr. Robert H. Craft, Executive Vice-President of the American Securities Corporation, accompanied by senior officer of the World bank had visited India. During the visit these persons held discussions with the industrial magnates of the country as also with the Government of India. The possibility of setting up a wholly privately owned development bank was discussed in the above meetings. These tasks continued throughout 1954 and as a result a steering committee consisting of Dr. A. Ramaswami Mudaliar, Shri A.D. Shroff, Shri G.D. Birla, Shri Kasturbhai Lalbhai and Shri Biren Mukherjee was formed.12 Two members of the committee toured U.S.A. and U.K. in order to win the support of the World Bank and the investors abroad. The steering committee acted in consultation with the World Bank, the Commonwealth Development Finance Company (CDFC) and others. The agreement entered into between the World Bank, investors abroad (in U.K. and U.S.A.) and the Government of India was eventually approved by the steering committee and ICICI was, thus incorporated as a public limited company on the 5th January 1955.13
2.3.2 Objectives and Scope:

The Central objective of ICICI is to encourage and assist industrial investment in the private sector. This is accomplished by providing long-term and medium-term loans in rupee and foreign currencies, by equity participation, by underwriting new issues of securities and by guaranteeing loans from other private investment sources. Provision of foreign exchange loans and a greater emphasis on underwriting are perhaps the characteristics that distinguish this corporation from other term-lending institutions. According to the object clause of the Memorandum of Association of the Corporation, the object of the corporation is to carry on the business of assisting industrial enterprises within the private sector industry in India by "assisting in the creation, expansion and modernisation of such enterprises". It has been stated in the memorandum itself that, ICICI would induce the participation of foreign private capital as well in such enterprises besides the domestic private capital. A notable feature of the corporation is that it secures technical know-how for various concerns to help them in their managerial and technical activities.

The scope of operations of ICICI is very wide. The chapter does not place any inhibitions on the corporations. The scope is best explained in these words, "An applicant may be Indian or foreign, his plans may provide for investment in any part of India, he may require assistance in any form. He must, however, be prepared to make a substantial contribution to the resources required for his proposal". It is thus, clear that ICICI provides financial assistance irrespective of the nationality of origin of the applicant, place or form of investment etc. The only pre-requisite is substantial entrepreneurial contribution to the project cost.
2.3.3 Functions:

In order to achieve the aims of fostering the rate of investment in Indian industries, over the years ICICI has evolved into a diversified financial institution. Its principal business functions include medium-term and long-term project financing for the infrastructure and manufacturing sectors, corporate finance to meet the treasury requirements of Indian companies, lease finance as well as a comprehensive range of financial and advisory services. The liberalisation of the Indian economy in the 1990's offered ICICI an opportunity to provide a variety range of financial services.

The main functions of the company are contained in the Memo randem of Association and inter alia include:

i. assisting in the creation, expansion and modernisation of enterprises.

ii. encouraging and promoting the participation of private capital, both internal and external, in the enterprise.

iii. encouraging and promoting private ownership of industrial investments and the expansion of the investment markets and in particular by:

a. providing finance in the form of long or medium-term loans or equity participation.

b. sponsoring and underwriting new issues of shares and securities

c. guaranteeing loans from other private investment sources.

d. making funds available for reinvestment by revolving investments as rapidly as prudent.

e. providing or assisting in obtaining directly or indirectly, advice or services in various fields including management, finance, investment, technology, administration, quality control and processing.

f. performing and undertaking activities pertaining to leasing, giving on hire or hire purchase, warehousing, bill marketing, factoring and related fields.
2.3.4 Promotion of Institutional Infrastructure

The ICICI group is a virtual Universal Bank. For regulatory and strategic reasons, it has set up specialised subsidiaries in the areas of commercial banking, investment banking, non-banking finance, investor services, broking, venture capital financing and state level infrastructure financing. The different subsidiaries of ICICI and their principal activities are outlined below:

1. "ICICI Banking Corporation Limited" Set up in January 1954, provides both retail and wholesale banking products.

2. "ICICI Securities and Finance Company Limited" incorporated during 1993 as an investment bank, offers a wide range of fee based services.

3. "ICICI Brokerage Services Limited" started its operation in March 1995 and provides broking services.

4. "ICICI Capital Services Limited" set up in September, 12, 1994 provide a retail distribution channel for resource raising.

5. "ICICI Personal Financial Services Limited" commenced its operation in March 27, 1997. It distributes the ICICI groups' retail asset products.

6. "ICICI Infotech Services Limited (formerly ICICI investor's services limited)" as a wholly owned subsidiary of ICICI, offers quality investor services, transaction processing and other related services.


8. "ICICI KINFRA Limited", a joint venture company of ICICI with Kerala Industrial Infrastructure Development Corporation was incorporated in January, 1996. It has been formed with a view to developing infrastructure projects in the state of Kerala.
9. "ICICI-West Bengal Infrastructure Development Corporations Limited" (ICICI-WINFRA) a joint venture company of ICICI with West Bengal Industrial Development corporations was incorporated in December, 1995. The main objective of ICICI-WINFRA is to develop, structure and eventually fund infrastructure projects in the state of West Bengal.


11. "ICICI Home Finance Company Limited" has been incorporated on May 28,1999 as 100% subsidiary of ICICI Personal Financial Service Limited. The company was set up with the objective of providing long term housing loans to individuals and corporates.

12. "ICICI Trusteeship Services Limited" has been started its business as a wholly owned subsidiary of ICICI on July, 9,1999. The main functionaries of the company is to act as trustees for mutual funds, offshore funds, pension funds etc. and devising schemes for raising and deploying funds.

13. "ICICI Knowledge Park" was incorporated on July 24, 1998. It has been established with the object of providing modern technical infrastructure and other facilities and services such as consulting, technology transfer and financial advisory to the domestic and overseas corporates.

Apart from these, ICICI has also promoted the following companies and institutions in recent years.19
a. Credit Rating Information Services of India Ltd (CRISIL) was set up by ICICI in association with Unit Trust of India (UTI) to provide credit rating services to the corporate sector.

b. Technology Development and Information Company of India Ltd. (TDIC), has been promoted by ICICI, to finance the transfer and upgradation of technology and provide technology information.

c. Programme for the Advancement of Commercial Technology (PACT), was set up with a grant of US$ 10 million provided by USAID to assist market-oriented R&D activity, jointly undertaken by Indian and U.S. companies, ICICI has been entrusted with the administrations and management of PACT.

With the objective of increasing its productivity, ICICI took several steps to increase its business. In the year 1996, it took steps for the amalgamation of its Rs.541 crore subsidiary SCICI Ltd. This was done keeping in view the aspect of whole sale banking. Moreover to fund infrastructure projects, a large capital base is required. And the amalgamation helped ICICI in increasing its size to nearly $10 billion.

By acquiring the Rs. 196.21 crore ITC classic in the year 1997, ICICI got access to many retail markets since the former had 10 branches and 12 franchise outlets, of which 15 offices were in centres where ICICI did not have a presence. ITC classic investor base was more than seven lakhs. ICICI also got tax benefits since ITC classic was a loss making company. Moreover, ITC classic hire purchase business was strong.
Through the acquisition of the Rs.983 crore asset-based Anagram Finance (in the year 1997), ICICI developed its business of leasing. Anagram had 33 branches spread across Gujarat, Maharastra and Rajastan. Its depositor base was more than 250,000. ICICI had entered the leasing business in 1980 and within 10 years it has one of the largest network in the country. Anagram was promoted by the Lalbhai family, which pumped in Rs.125 crore convertible into nominal equity.20

2.3.5 Ownership and Management:

ICICI Limited, incorporated as "The Industrial Credit and Investment Corporation of India Limited" on January 5, 1955 as a public limited company under the Indian Companies Act, 1913 was subsequently renamed as "ICICI Limited" with effect from September, 11, 1998. It is the only institution of its kind which specialises in securing assistance for Indian industries from foreign countries. It has relatively large foreign exchange resources and still larger foreign connections. Its association with the world bank, foreign commercial banks and investment banks has been enabling it to get more funds from abroad. The corporation started with a paid up share capital of Rs.5 crore, contributed by Indian, British and U.S. shareholders, an interest-free loan of Rs.7.5 crore from the Government of India repayable in 15 equal annual instalments commencing after the expiry of 15 years and a line of credit equivalent to $ 10 million (Rs. 5 crore) granted by the International Bank.21 In 1959 the corporation secured a second loan of Rs.10 crore from the Government of India out of funds accumulated from the sale of surplus U.S. agricultural commodities in India which augmented its resources considerably. As on August 28, 1999, its major shareholders are financial institutions, such as the Life Insurance Corporation of India (LIC), General Insurance Corporations of India (GIC) and their subsidiaries, Unit
Trust of India (UTI) and other financial institutions. This sector as a total hold approximately 34.22 percent of its share capital as on August 28, 1999.

As on August 28, 1999 international investors held 18.60 percent of the share holding by way of Global Depository Receipts (GDRs), 16.30 percent was held by NRIs, FIIs, OCBs and foreign banks, 3.62 percent was held by public sector banks and government companies, 8.76 percent by bodies corporates, 0.54 percent was held by the mutual funds, 0.29 percent by other banks and the balance 17.67 percent was held by the Indian public.

The Board of Directors of ICICI has the ultimate responsibility for the management of its business. There are at present (1999-2000) 15 members on its Board of Directors. ICICI's Articles of Association provide for not less than five and not more than 17 Directors, excluding the Government Director and Debenture Director if any, ICICI may, subject to the provisions of the Articles of Association and the Companies Act, alter the minimum or maximum number of directors by special resolution passed at a general meeting of its shareholders.

The Articles of Association provide that the Government of India may appoint one person as Government Director in connection with any loans or guarantees provided for. Any such Government Director is not subject to retirement by rotation and may only be removed from office by the President of India.

The Articles of Association also provide that ICICI may execute trust deeds securing its debentures under which the trustee or trustees may appoint a Director, known as "Debenture Directors". Any such Debenture
Director is not subject to retirement by rotation and may only be removed as provided in the relevant trust deed. There is currently (1999-2000) no debenture director.23

Not less than two-thirds of the total number of Directors are liable for retirement by rotation. One-third of such Directors who are subject to retirement must retire from office at the Annual General Meeting of the Corporation. A retiring Director is eligible for re-election.

2.3.6 Resources of ICICI:

ICICI mobilizes resources from both domestic and international markets. In the past, ICICI, along with other FIs had access to low cost, long maturity funding. But after liberalisation, resources are raised from provident funds, port trusts, pension funds, PSUs, corporates, banks, various financial organisations and multilateral institutions. The tenure of resources raised from these investors varies across the full maturity spectrum. During the last decade, ICICI has made extensive efforts to enhance its retail resource raising capabilities. It has stepped up public offerings of bonds with a strategy aimed at "near" continuous presence in the market. ICICI mobilise its resources from the following sources:

a. Issuing shares both in domestic & International capital market though
   * Equity shares
   * Preference shares
   * GDRs
   * ADRs

b. Loans & Advances from Government of India & Reserve Bank of India

c. Loans from other financial institutions
d. Through rupee bonds and debentures

e. Foreign currency Loans from Foreign Multilateral Institutions & agencies

f. Through foreign currency bonds and notes
g. Deposits.
h. Income from operation

i. Sale of Investments

j. Repayment by borrowers etc.

2.3.7 Products and Services:

ICICI has been assisting industry through a wide range of financial products. In the present economic environment it provides the following products and services to cater to the demand of various sections of Indian industries.

Fund based products:

* Term loans: Rupee and Foreign currency
* Working capital finance
* Underwriting/Direct Subscription to equity and debt instruments
* Equipment leasing/Hire purchase
* Deferred credit
* Retail financing: Auto loans, home loans, consumer durable loans and personal loans

Fee and commission based services:

* Guarantees
* Merchant Banking: Issue management, loan syndication, project counselling, project appraisal, capital restructuring, amalgamation and mergers.
* Forex services: spot and forward purchase of currencies for letter of credit and debt servicing. Placement of deposits abroad, swaps: forward exchange rate agreements and other derivatives.24

* Custodial services: Appointed as custodian for the GDR/ADR issues from Indian companies whose shares got listed on US and other outside stock exchanges.25

* Corporate Risk Management Service: Provides risk management products and services to its clients. Its risk management products are foreign currency forwards and interest rate swaps for a limited number of clients.

* Debenture trusteeship: It acts as trustee for the holders of convertible and non-convertible debentures issued in the public and private markets.

* Other services: In addition to the above stated services, it also provides services like, credit card issue, demat service, Internet banking service, insurance service, software solutions and IT related services etc.26

2.4 SUMMARY

The present chapter highlights the growth of development banks in India on seven phases. The institutionalisation stage envisaged review on the creation of national level as well as state level development banks. While the expansion stage visualized a battery of such institutions coming into operations in both national and state level. In the national level Industrial Finance Corporations of India was first established in 1948, which is followed by Industrial Credit and Investment Corporation of India in 1955, Industrial Development Bank of India in 1964, Industrial Reconstruction Corporation of India in 1971, and Small Industries Development Bank of India in 1990. In the
state level, State Financial Corporations were established in the sixties while State Industrial Development Corporations come into existence in the seventies.

Since the inception of liberalisation, in 1992, the DFIs are feeling themselves to be redundant. Because, after the liberalisation in the economy, the commercial banks have entered into the areas of operations of the development banks. This blurring of boundaries between development banks and commercial banks has given birth to a new concept of universal banking, which is on the threshold of implementation. After liberalisation, the DFIs in India have attempted to reorient their operations and change their strategies from pure development banking to universal banking, which include both the provision of long-term, short-term and, various other financial services.

The establishment of ICICI, constitutes a turning point in the history of development banking in India. Its main object is financing private sector industries through provision of forex loans, equity participation and underwriting of shares & debentures. The organisation has taken a lead role to change its style of functioning in line with the changes taking place in the economy.
REFERENCES & NOTES

1. Due to Indo-China war in 1962 followed by Indo-Pakistan war in 1965 during the Third Five-year Plan (1961-66), the Fourth Five-Year Plan (1969-74) was delayed by three years, instead, India had three annual plans 1966-67, 1967-68 and 1968-69.

2. Convertibility clause was withdrawn in July 1991.


4. Credit Rating and Information Services of India Limited (CRISIL) has been set up by ICICI and the Investment Information and Credit Rating Agency (IICRA) by IFCI.

5. Over the Counter Exchange of India.


11. The Economic Times, 3rd March, 1999


## ANNEXURE-2.1

**Growth of Sanctions and Disbursements of Development Banks**

(Rs. in Crore)

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**Note:** IRCI converted to IRBI in August 1984 and again converted to IIBI in March 1997.

* In 1996–97, SCICI merged with ICICI, so the sanction & disbursement of ICICI including SCICI

ANNEXURE-2.2

Network of Development Financial Institutions in India

All-India Development Financial Institutions:

01. Industrial Development Bank of India (IDBI)
02. Industrial Finance Corporation of India (IFCI)
03. Industrial Credit and Investment Corporation of India Ltd (ICICI Ltd.)
04. Small Industries Development Bank of India (SIDBI)
05. Industrial Investment Bank of India Ltd. (IIBI)
06. National Small Industries Corporation Ltd (NSIC)

Specialised Financial Institutions:

07. Tourism Finance Corporation of India Ltd. (TFCI)
08. ICICI Venture Funds Management Co. Ltd. (New name TDICI Ltd)
09. Risk Capital and Technology Finance Corporation Ltd. (RCTFC)
10. Infrastructure Development Finance Company Ltd. (IDFC)
11. Export Import Bank of India (EXIM)
12. National Bank for Agriculture and Rural Development (NABARD)
13. North-Eastern Development Finance Corporation Ltd. (NEDFC)
14. State Financial Corporations (SFCs) - 18
15. State Industrial Development Corporations (SIDCs) - 28