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CHAPTER-III

AN OVERVIEW OF DEVELOPMENT FINANCIAL INSTITUTIONS IN INDIA

3.1. Introduction

The previous chapter discussed various dimensions of concepts and framework of financial sector reforms in India that was initiated in 1991s for the process of liberalization for globalization of Indian economy. The present chapter confers a route to the overview of development banks in India, evolution, working and responsibilities, growth, gradual changes, and different aspects with special reference to IDBI,

The emerging economies in postcolonial era faced the difficulty of choosing an appropriate mechanism for channelizing resources into the development effort. Many of them had inherited capital-starved primitive financial systems. Such system could not be relied upon to allocate resources among competing demands in the economy. The task of institution building was too important to be left at the mercy of the market forces at the nascent stage of development. In such a situation several governments in European and East Asian economies decided to take matters into their hands and established institutions specifically to cater to the requirements of financial resources for developmental effort. Such institutions were called Development Financial Institutions.

Development financing is a risky business. It involves financing of industrial and infrastructure projects that usually have long gestation period. The long tenor of such loans has associated with it uncertainty as to performance of the loan asset. The repayment of the long-term project loans is dependent on the performance of the project and cash flows arising from it rather than the realisability of the collaterals. The project could go wrong for a variety of reasons, such as, technological obsolescence, market competition, change of Government
policies, natural calamities, poor management skills, poor infrastructure. The markets and banking institutions were highly averse to such uncertain outcome, besides not possessing enough information and skills to predict with any certainty the outcome. There was also the cost considerations associated with such risky ventures. The long-term loan comes with a higher price tag due to the term premium loaded into the pricing. In such a situation the long term financing would be scarce as well as costly so as to render the project financially unviable. DFIs were established with the Government support for underwriting their losses as also the commitment for making available low cost resources for lending at a lower rate of interest than that demanded by the market for risky projects. This arrangement worked well in the initial years of development. As the infrastructure building and industrialization got underway the financial system moved higher on the learning curve and acquired information and skills necessary for appraisal of long-term projects. It also developed appetite for risk associated with such projects.

The intermediaries like banks and bond markets became sophisticated in risk management techniques and wanted a piece of the pie in the long term project financing. These intermediaries also had certain distinct advantages over the traditional Development Finance Institutions (hereafter, DFIs), such as, low cost of funds and benefit of diversification of loan portfolios. The Government support to DFIs, in the meanwhile, was also waning either for fiscal reasons or in favour of building market efficiency. Therefore, towards the end of twentieth century the heydays of DFIs were over and they started moving into oblivion. In several economies, having attained their developmental goals, the DFIs were both restructured and repositioned or they just faded away from scene. The Indian experience has also more or less traversed the same path. Although India cannot say to have achieved the developmental goals yet, the Government's fiscal imperatives and market dynamics has forced a reappraisal of the policies and strategy with regard to the role of DFIs in the system.
The concept of development banking arose only after Second World War that succeeded the Great Depression of 1930s. The demand for reconstruction funds and mission for rehabilitation of the war-affected people paved the way for the establishment of IBRD in 1945 as a worldwide institution for development and reconstruction. Typical structure of financial system in any economy consists of financial institutions, financial markets, financial instruments and financial services. The functional, geographic and sectoral scope of activity or the types of ownership are some of the criteria which are often used to classify the large number and variety of financial institutions which exist in the economy. In its broadest sense the term ‘financial institution’ would include banking institutions and non-banking financial institutions. The banking institutions may have quite a few things in common with the non-banking ones. However, Sayers has highlighted the distinction between the two, by characterizing the former as ‘creators’ of credit, and the latter as mere ‘purveyors’ of credit. This distinction arises from the fact that banks, which are part of payment system, can create deposits and credit but the non-banking institutions, which are not part of payment system, can lend only out of the resources put at their disposal by the savers.

3.2. Development Finance Institutions (DFIs)

An efficient and robust financial system can be a powerful engine of economic development by mobilizing resources and allocating the same to their productive uses. It reduces the transaction cost of the economy through provision of an efficient payment mechanism and helps in pooling of risks and making available long-term capital through maturity transformation. By making funds available for entrepreneurial activity and through its impact on economic efficiency and growth, a well functioning financial sector also helps in eliminating poverty both directly and indirectly. In a developing country, however, financial sectors are usually incomplete in as much as they lack a full range of markets and institutions that meet all the financing needs of the economy. For example, there is generally a lack of availability of long-term finance for infrastructure and
industry, finance for agriculture and Small and Medium Enterprises (SME) development and financial products for certain sections of the people. The role of development finance is to identify the gaps in institutions and markets in a country’s financial sector and act as a ‘gap-filler’. The principal motivation for developmental finance is, therefore, to make up for the failure of financial markets and institutions to provide certain kinds of finance to certain kinds of economic agents. The failure may arise because the expected return to the provider of finance is lower than the market-related return (notwithstanding the higher social return) or the credit risk involved cannot be covered by high risk premium as economic activity to be financed becomes unavailable at such risk-based price. Development finance is, thus, targeted at economic activities or agents, which are rationed out of market. The vehicle for extending development finance is called Development Financial Institution (DFI) or Development Bank.

A DFI is defined as "an institution promoted or assisted by Government mainly to provide development finance to one or more sectors or sub-sectors of the economy. The institution distinguishes itself by a judicious balance as between commercial norms of operation, as adopted by any private financial institution, and developmental obligations; it emphasizes the "project approach" - meaning the viability of the project to be financed – against the "collateral approach"; apart from provision of long-term loans, equity capital, guarantees and underwriting functions, a development bank normally is also expected to upgrade the managerial and the other operational pre-requisites of the assisted projects. Its insurance against default is the integrity, competence and resourcefulness of the management, the commercial and technical viability of the project and above all the speed of implementation and efficiency of operations of the assisted projects. Its relationship with its clients is of a continuing nature and of being a "partner" in the project than that of a mere "financier". Thus, the basic emphasis of a DFI is on long-term finance and on assistance for activities or sectors of the economy where the risks may be higher than that the ordinary financial system is willing to
bear. DFIs may also play a large role in stimulating equity and debt markets by (i) selling their own stocks and bonds; (ii) helping the assisted enterprises float or place their securities and (iii) selling from their own portfolio of investments.

Developing countries set up DFIs to resolve market failures, especially in regard to financing of long-term investments. The DFIs played a very significant role in rapid industrialization of the Continental Europe. Many of the DFIs were sponsored by national governments and international agencies. The first government sponsored DFI was created in Netherlands in 1822. In France, significant developments in long-term financing took place after establishment of DFIs, such as, Credit Financier and Credit Mobiliser, over the period 1848-1852. In Asia, establishment of Japan Development Bank and other term-lending institution fostered rapid industrialization of Japan. The success of these institutions provided strong impetus for creation of DFIs in India after independence, in the context of the felt need for raising the investment rate. RBI was entrusted with the task of developing an appropriate financial architecture through institution building so as to mobilize and direct resources to preferred sectors as per the plan priorities. While the reach of the banking system was expanded to mobilize resources and extend working capital finance on an ever-increasing scale, to different sectors of the economy, the DFIs were established mainly to cater to the demand for long-term finance by the industrial sector. India’s first DFI was set up in 1948 and it established State Financial Corporations (SFCs) at the State level after passing of the SFCs Act, 1951, followed by the formation of Industrial Finance Corporation of India (IFCI).

The financial institutions and banking in India experienced strong governmental regulation and control in their initial stages. The roots of the national system were in the State Bank of India Act of 1955, which nationalized the former Imperial Bank of India and its seven associate banks. In the early days, this national system operated along side of a large private banking system. Banks were suffering from limited operational flexibility as the government wanted to
maintain employment in the banking system and were often drawn into troublesome loans in order to further the government's social goals.

The financial institutions in India were set up under the strong control of both Central and State Governments. The Government utilized these institutions for the achievements in planning and development of the nation as a whole. The all India financial institutions can be classified under the following heads according to their economic importance:

1. All-India Development Banks
2. Specialized Financial Institutions
3. Investment Institutions
4. State-level institutions
5. Other institutions

3.3. All-India Development Banks (AIDBs)

Banks engaged in participating in developmental activities of the country by themselves or in association with the state and central governments through project finance and capitalizing the ideas of industrial ventures can be termed as Development Banks. India's first development bank was set up in 1948 under the Industrial Finance Corporation Act as a statutory corporation to pioneer institutional large number of banks around the world, coordinating the developmental activities of different nations with different objectives among the world. The course of development of financial institutions and markets during the post-Independence period was largely guided by the process of planned development pursued in India with emphasis on mobilization of savings and channelizing investment to meet Plan priorities. At the time of Independence in 1947, India had a fairly well developed banking system. The adoption of bank-dominated financial development strategy was aimed at meeting the sectoral credit needs, particularly of agriculture and industry. Towards this end, the Reserve Bank concentrated on regulating and developing mechanisms for institution building. The commercial banking network was expanded to cater to the
requirements of general banking and for meeting the short-term working capital requirements of industry and agriculture. Specialized development financial institutions (DFIs), such as, Industrial Development Bank of India (IDBI), National Bank for Agriculture and Rural Development (NABARD), National Housing Board (henceforth NHB) and Small Industry Development Bank of India (SIDBI), with majority ownership of the Reserve Bank were set up to meet the long-term financing requirements of industry and agriculture. A mechanism providing concessional finance to these institutions was also put in place by the Reserve Bank in order to facilitate the growth of these institutions.

India had a relatively under-developed capital market at the time of independence in 1947. Although there was significant demand for new capital, there was a dearth of providers. Merchant bankers and underwriting firms were almost non-existent. And commercial banks were not equipped to provide long-term industrial finance in any significant manner. The development banks in India set up under the different acts of the parliament are:

1. Industrial Finance Corporation of India (IFCI Ltd), 1948
2. Industrial Credit And Investment Corporation Of India (ICICI), 1956
3. Industrial Development Bank of India (IDBI) 1964
4. Industrial Investment Bank of India Ltd (1971 and 1997)
5. Small Industries Development Bank Of India SIDBI (1990)
6. Technology Development Financial Corporation Of India

3.3.1 Industrial Finance Corporation of India (IFCI Ltd), 1948

The situation of ‘increased demand for new capital and dearth of providers’ was the actual backdrop for the establishment of the Industrial Finance Corporation of India (IFCI) on July 1, 1948. It was aimed at catering to the long-term finance needs of the industrial sector: The newly-established DFI was provided access to low-cost funds through the central bank's Statutory Liquidity...
Ratio (SLR) which in turn enabled it to provide loans and advances to corporate borrowers at concessional rates.

IFCI's activities mainly include project finance, financial services and corporate advisory services. IFCI has, as part of its original mandate as a DFI, been providing long-term financial support to all the segments of the Indian industry. Over the years, IFCI contributed to modernization of the Indian industry, export promotion, import substitution, entrepreneurship development, and pollution control, energy conservation as also generation of both direct and indirect employment. Through its subsidiaries and associated companies, IFCI provides custodial and investor services, rating and venture capital services. The Expert Committee set up to draw a medium to long-term strategic plan for IFCI had recommended changes in IFCI's structural and operational areas, such as, future business strategies, re-capitalization, reduction of NPAs, improvement in recoveries and revamp of HR policies.

This arrangement continued until the early 1990s when there was a realization of the need for greater flexibility to respond to the changing financial system. It was also felt that IFCI should directly access the capital markets for its funds needs. It is with this objective that the constitution of IFCI was changed in 1993 from a statutory corporation to a company under the Indian Companies Act, 1956. Subsequently, the company saw its name being changed to "IFCI Limited" effectively from October 1999.

IFCI has fulfilled its original mandate as a DFI by providing long-term financial support to all segments of Indian Industry. It has also been chiefly instrumental in IFCI's contribution to the Government exchequer by way of taxes paid is estimate. IFCI has played a key role in the development of cooperatives in the sugar and textile sectors, besides acting as a nodal agency in both sectors. ICFI has been assisting 371 cooperative societies in these sectors, and it has promoted Technical Consultancy Organizations (TCOs), primarily in less developed states to provide necessary services to the promoters of small- and medium-sized
industries in collaboration with other banks and institutions. IFCI has also provided assistance to self-employed youth and women entrepreneurs under its Benevolent Reserve Fund (BRF) and the Interest Differential Fund (IDF). IFCI has founded and developed prominent institutions like, Management Development Institute (MDI) for management training and development, ICRA for credit assessment rating, Tourism Finance Corporation of India (TFCI) for promotion of the hotel and tourism industry, Institute of Labor Development (ILD) for rehabilitation and training of displaced and retrenched labor force Rashtriya Gramin Vikas Nidhi (RGVN) for promoting, supporting and developing voluntary agencies engaged in uplifting rural and urban poor in east and northeast India. IFCI, along with other institutions, has also promoted, Stock Holding Corporation of India Ltd. (SHCIL), Discount and Finance House of India Ltd. (DFHI), National Stock Exchange (NSE), OTCEI Securities Trading Corporation of India (STCI), LIC Housing Finance Ltd, GIC GrihVitta Ltd., and, Bio-tech Consortium Ltd. (BCL). IFCI has also set up Chairs in reputed educational/management institutions and universities. A major contribution of IFCI has been in the early assistance provided by it to some of today's leading national entrepreneurs who may not have been able to start their enterprises or expand without the initial support from IFCI. Until the establishment of ICICI in 1956 and IDBI in 1964, IFCI remained solely responsible for implementation of the government's industrial policy initiatives. Its contribution to the modernization of Indian industry, export promotion, import substitution, entrepreneurship development, pollution control, energy conservation and generation of both direct and indirect employment is noteworthy. Some sectors that have directly benefited from IFCI's disbursals include:

- Consumer goods industry (textiles, paper, sugar);
- Service industries (hotels, hospitals);
- Basic industries (iron & steel, fertilizers, basic chemicals, cement);
• Capital & intermediate goods industries (electronics, synthetic fibers, synthetic plastics, miscellaneous chemicals); and
• Infrastructure (power generation, telecom services).

3.3.2 Industrial Credit and Investment Corporation of India (ICICI LTD.), 1956

Established in 1955, ICICI Ltd facilitated industrial development in line with the economic objectives of the time. It evolved several new products to meet the changing needs of the corporate sector. ICICI provided a range of wholesale banking products and services, including project finance, corporate finance, hybrid financial structures, syndication services, treasury-based financial solutions, cash flow based financial products, lease financing, equity financing, risk management tools as well as advisory services. It also played a facilitating role in consolidation in various sectors of the Indian industry, by funding mergers and acquisitions.

ICICI was formed at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium-term and long-term project financing to Indian businesses. In the 1990s, ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services group offering a wide variety of products and services, both directly and through a number of subsidiaries and affiliates like ICICI Bank. In 1999, ICICI was listed on the NYSE becoming the first Indian company and the first bank or financial institution from non-Japan Asia to achieve that feat.

The ICICI now enjoys a large capital base and scale of operations, seamless access to strong corporate relationships built up over five decades, entry into new business segments, higher market share in various business segments, particularly fee-based services, and access to the vast talent pool of ICICI and its subsidiaries. In the context of the emerging competitive scenario in the financial sector, the
Board of Directors of ICICI Ltd. and ICICI Bank Ltd., in October 2001, approved the merger of ICICI Ltd. and two of its wholly-owned retail finance subsidiaries with ICICI Bank Ltd. Consequent upon the merger, the ICICI Group's financing and banking operations, both wholesale and retail, have been integrated into a single full-service banking company in May 2002.

After the approval of the Boards of Directors of ICICI and ICICI Bank for the merger of ICICI and two of its wholly owned retail finance subsidiaries, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, with ICICI Bank. Shareholders of ICICI and ICICI Bank approved the merger in January 2002, by the High Court of Gujarat at Ahmadabad in March 2002, and by the High Court of Judicature at Mumbai and the Reserve Bank of India in April 2002. Consequent to the merger, the ICICI group's financing and banking operations, both wholesale and retail, have been integrated in a single entity.

After becoming pure commercial bank, the ICICI Bank is now India's second-largest bank with total assets of about Rs. 2,513.89 billion (US$ 56.3 bn) at March 31, 2006 and profit after tax of Rs. 25.40 bn (US$ 569 mn) for the year ended March 31, 2006 (Rs. 20.05 bn (US$ 449 mn) for the year ended March 31, 2005). ICICI Bank has a network of about 614 branches and extension.

ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly owned subsidiary. ICICI's shareholding in ICICI Bank was reduced to 46 percent through a public offering of shares in India in fiscal 1998, an equity offering in the form of ADRs listed on the NYSE in fiscal 2000, ICICI Bank's acquisition of Bank of Madura Limited in an all-stock amalgamation in fiscal 2001, and secondary market sales by ICICI to institutional investors in fiscal 2001 and fiscal 2002.

After considering various corporate structuring alternatives in the context of the emerging competitive scenario in the Indian banking industry, and the move towards universal banking, the managements of ICICI and ICICI Bank formed the view that the merger of ICICI with ICICI Bank would be the optimal strategic
alternative for both entities, and would create the optimal legal structure for the ICICI group's universal banking strategy. The merger would enhance value for ICICI shareholders through the merged entity's access to low-cost deposits, greater opportunities for earning fee-based income and the ability to participate in the payments system and provide transaction-banking services.

The ICICI group has built sound growth platforms for capitalizing on the opportunities arising out of the sustained growth of the Indian economy. It has been identified retail finance as the key growth opportunity at the beginning of the decade and built a scalable platform for capitalizing on this opportunity.

The bank has used technology as a key enabler and differentiator for all the growth platforms which allowed achieving efficient intermediation by enabling rapid scale up and at the same time offering the best class service to the customers. A critical factor in the long-term sustainability of social development and economic prosperity in India is bringing the benefits of economic growth to rural India. It is only by delivering financial services to people in rural areas that they can be brought within the ambit of mainstream economic activity and the full potential of the country’s physical and human resources can be realized.

The ICICI bank is now India’s largest provider of retail credit\textsuperscript{15}. In 2006, it maintained and enhanced the market leadership in every segment of the retail credit business, including home loans, car loans, personal loans and credit cards. The total retail disbursements in fiscal 2006 were approximately Rs. 626.00 billion, compared to approximately Rs. 433.00 billion in fiscal 2005. The total retail portfolio increased from Rs. 561.33 billion at March 31, 2005 to Rs. 921.98 billion at March 31, 2006, constituting 63 percent of the total loans. It has continued its focus on retail deposits to create a stable funding base and it has also set up the following subsidiaries within the last ten years:

**ICICI Prudential Life Insurance Company:** - ICICI Prudential Life is the joint venture arrangement with prudential life of UK to safeguard the life insurance market which continued to maintain its market leadership among private
sector life insurance companies with a retail market share of 30 percent in the private sector. Life insurance companies worldwide make losses in the initial years, in view of business set-up and customer acquisition costs in the initial years as well as reserving for actuarial liability.

**ICICI Lombard General Insurance Company:** (ICICI Lombard) is the joint venture arrangement with Lombard of Canada to safeguard the general insurance market which enhanced its leadership position among private sector general insurance companies with a market share of 29 percent in the private sector.

**Prudential ICICI Asset Management Company:** (Prudential ICICI AMC) was set up by the ICICI with joint venture arrangement with Prudential asset management company of UK is the largest mutual fund in India at May 31, 2006 with assets under management of over Rs. 320.00 billion.

**ICICI Securities Limited:** ICICI Securities was set up by ICICI bank for the investment in fixed income securities continued to enhance its position in the investment banking and equity broking businesses while capitalizing on opportunities in the fixed income

**ICICI Venture Funds Management Company Limited:** ICICI Venture Funds Management Company Limited (ICICI Venture) was set up by ICICI to promote venture capital financing, private equity, and angel investment in India as policy matter of central government which raised number of funds and strengthened its leadership position in private equity in India, with funds under management of over Rs. 63.00 billion.

India’s first DFI was set up in 1948 and it established State Financial Corporations (SFCs) at the State level after passing of the SFCs Act, 1951, followed by the formation of Industrial Finance Corporation of India (IFCI). The all India financial institutions can be classified under four heads according to their economic importance, such as, all-India Development Banks, Specialized Financial Institutions, Investment Institutions, State-level institutions, Other
institutions. Development banks are those banks that are engaged in participating in developmental activities of the country along with the state and central governments participation and through project finance and venture capital. The major development banks in India are; Industrial Finance Corporation of India (IFCI Ltd), 1948, Industrial Development Bank of India’ (IDBI) 1964, Industrial Credit And Investment Corporation Of India (ICICI), 1956, Industrial Investment Bank of India Ltd 1971, Small Industries Development Bank Of India SIDBI 1989 and Infrastructure Development Finance Company Ltd. (IDFC) 1997,

The present study gives more emphasis on both the development banks i.e. IDBI and ICICI, which have prime importance in the history of development banking in India. Both were the apex financial institutions in India and currently converted into full-fledged commercial banks. They have started neglecting the project financing that was the prime important area of development banks. The major changes in share holding pattern of these institutions, shows a sudden divide and points out the real face of financial sector reforms in India and how far the reforms have affected these DFIs.

3.3.3 Industrial Development Bank of India

The Industrial Development Bank of India (IDBI) was established on July 1, 1964 under a Parliament Act as a wholly owned subsidiary of the Reserve Bank of India. In February 1976, the ownership of IDBI was transferred to the Government of India and it was made the principal financial institution for coordinating the activities of institutions engaged in financing, promoting and developing industry in the country. Although Government shareholding in the Bank came down below 100 percent following IDBI's public issue in July 1995, the former continues to be the major shareholder. During the four decades of its existence, IDBI has been instrumental in establishing a well developed, diversified and efficient industrial and institutional structure as well as in adding a qualitative dimension to the process of industrial development in the country.

3.3.4 Industrial Investment Bank of India (IIBI), 1971
The Industrial Investment Bank of India is one of oldest banks in India. The Industrial Reconstruction Corporation of India Ltd., set up in 1971 for rehabilitation of sick industrial companies, was reconstituted as Industrial Reconstruction Bank of India in 1985 under the IRBI Act, 1984. With a view to convert the institution into a full-fledged development financial institution, IRBI was incorporated under the Companies Act, 1956, as Industrial Investment Bank of India Ltd. (IIBI) in March 1997. IIBI offers a wide range of products and services, including term loan assistance for project finance, short duration non-project asset-backed financing, working capital/other short-term loans to companies, equity subscription, asset credit, equipment finance as also investments in capital market and money market instruments.

On July 25, 2003, the IIBI submitted a financial restructuring proposal to the Government of India in view of certain structural and financial problems that were adversely impacting its long-term viability. IIBI has since received certain directives from the Government of India, which, inter alia, include restricting fresh lending to existing clients approved cases rated corporates, restrictions on fresh borrowings, an action plan to reduce the overhead expenditure, disposal of fixed assets and a time-bound plan for asset recovery/reconstruction. The Government has also approved a proposal for merging the IIBI with IDBI and the latter has already started the due diligence process.

3.3.5 Infrastructure Development Finance Company Ltd. (IDFC)

The Infrastructure Development Finance Company Ltd. (IDFC) was set up in 1997 as a specialized institution to facilitate the flow of private finance to commercially viable infrastructure projects through innovative products and processes. Telecom, power, roads, ports, railways, urban infrastructure and environment-friendly infrastructure together with food and agriculture related infrastructure constitute the current areas of operation for IDFC. Besides, it assists the development of urban water and sanitation sectors. IDFC has also taken new
initiatives in the areas of tourism, healthcare and education. IDFC provides assistance by way of debt and equity support, mezzanine structures and advisory services. It encourages banks to participate in infrastructure projects through 'take-out' financing for a specific term and at a preferred risk profile, with IDFC taking out the obligation after a specific period. Besides, IDFC, through its guarantee structure, helps promoters raise resources from international markets. IDFC is actively involved in the process of policy formulation of Government of India, relating to infrastructure sector development, which has worked on various strategic advisory assignments including conducting a National Strategy Study for evolving a clean development mechanism in India. IDFC actively helps both the Central and State Governments and their in developing contractual framework, structure for Public-Private Partnership (PPP) for projects in specific areas of interest.

IDFC has established the 3i Network comprising a university network including Indian Institute of Technology, Kanpur and Indian Institute of Management, Ahmedabad. The Network has been established to incorporate the best academic expertise in furthering the objectives of developing India's infrastructure framework. Work currently underway in these institutions is being harnessed through project preparations and sharing to focus attention on immediate policy and implementation issues related to infrastructure development. The Network will also produce an annual Infrastructure Development Report that will assess progress in all infrastructure activities in India as well as provide thematic content in terms of broad frameworks conducive for infrastructure development (the regulatory framework, public utility pricing and emerging industry structures). The Network can be accessed through its website in future and the Network will be expanded to include other institutions that have been working in areas relevant to infrastructure.
3.3.6 Small Industries Development Bank of India (SIDBI) 1989

The Small Industries Development Bank of India (SIDBI) was set up in 1990 under an Act of Parliament (SIDBI Act, 1989) as a wholly owned subsidiary of IDBI. It is the principal financial institution for promoting and financing development of industry in the small-scale sector as also for coordinating the functions of institutions engaged in similar activities. SIDBI commenced its operations in April 1990 by taking over the outstanding portfolio and activities of IDBI pertaining to the small-scale sector. In pursuance of the SIDBI (Amendment) Act, 2000, 79.46 percent of equity shares of SIDBI subscribed and held by IDBI, have since been sold or transferred to select public sector banks, LIC, GIC and other institutions owned or controlled by the Central Government. Consequently, IDBI currently holds only 20.54 percent of equity shares of SIDBI.

Since its inception, SIDBI’s assistance has encompassed the entire definitional ambit of SSI sector, including the tiny, village and cottage industries through suitable schemes tailored to meet the requirement of setting up of new projects, expansion, diversification, modernization and rehabilitation of existing units therein. SIDBI offers refinance, bills rediscounting, lines of credit and resource support mechanisms to route assistance to SSI sector through a network of banks and State level financial institutions. SIDBI also offers direct finance for meeting specific requirements of SSI sector. The Government also extends line of credit to SIDBI to enable it to extend loans at more affordable rates to its traditional clientele. Moreover, SIDBI initiates wide range of promotional and developmental activities aimed at improving the inherent strengths of SSI units, creating employment opportunities and new avenues for economic development of the rural poor.

The business domain of SIDBI consists of small-scale industrial units, which contribute significantly to the national economy in terms of production, employment and exports. Small-scale industries are the industrial units in which the investment in plant and machinery does not exceed Rs.10 million. About 3.1
million such units, employing 17.2 million persons account for a share of 36 per
cent of India's exports and 40 per cent of manufacturing. In addition, SIDBI's
assistance flows to the transport, health care and tourism sectors and also to the
professional and self-employed persons setting up small-sized professional
ventures.26

As far as the capital structure of SIDBI is concerned, the entire issued
capital of Rs.450 crore has been divided into 45 crore shares of Rs.10 each. Of the
total, the IDBI has subscribed shares worth Rs.450 crore while setting up the
SIDBI. It retained the 19.21 percent and the balance 80.79 percent has been
transferred / divested in favour of banks, institutions, insurance companies owned
and controlled by the Central Government.

3.4. Other All India Financial Institutions

The other all India financial institutions can be classified into three
categories in terms of its importance for Indian economy and its activities. The
works of all India development banks and these all India financial institutions are
particularly different and the development banks are generally doing and engaged
in the long-term and project finance for the promotion of industries in India. On
the other hand all India financial institutions are meant for performing the special
purposes those are mentioned in the corresponding Acts and the guidelines of
establishment. But now the work of both the financial institutions is almost same
and most of the financial institutions are performing the work of investment
institutions in India. The other financial institutions are as follows:

3.4.1. Specialized Financial Institutions:

3.4.1.1. Export-Import Bank of India (EXIM)

The Export-Import Bank of India (Exim-Bank) was established under an
was basically a relocation of IDBI's International Finance Division for the
purpose of financing, facilitating and promoting India's foreign trade. Exim Bank
offers a range of fund and non-fund based support to enhance the export
competitiveness of Indian companies. Its major operations comprise financing projects, products and services exports, building export competitiveness, promotional programmes and financing research and development activities of exporting companies. Exim Bank provides information, advisory and support services to enable exporters to evaluate international risks, exploit export opportunities and improve their competitiveness. It assists Indian companies in identifying technology suppliers, partners and in consummation of domestic and overseas joint ventures. It also provides market driven export-financing solutions for small and medium sized Indian exporters. Exim Bank has finally entered into financing of the entertainment industry as well as the healthcare service sector, both of which have a huge export potential.

3.4.1.2. National Bank for Agriculture and Rural Development (NABARD)

Established in 1982 under an Act of Parliament, the National Bank for Agriculture and Rural Development (NABARD) is the apex development bank for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas. NABARD extends credit support by way of refinance to eligible institutions, such as, State Co-operative Agriculture and Rural Development Banks (SCARDBs), State Co-operative Banks (SCBs), Commercial Banks (CBs), Regional Rural Banks (RRBs) and Scheduled Primary (Urban) Cooperative Banks (PCBs) for farm as well as non-farm sectors (NFS). NABARD provides long-term investment credit to the farm sector for various approved agricultural and allied activities. Medium-term and short-term credit facilities are extended to SCBs and RRBs for approved agricultural purposes and for financing seasonal agricultural operations, respectively. Short-term refinance facilities under NFS are provided for meeting working capital requirements of primary/ apex weavers’ co-operative societies, industrial cooperative societies and rural artisan members of Primary Agricultural Credit Societies (PACS) for pursuing various
production, procurement and marketing activities. NABARD also extends refinancing to banks for financing various Government sponsored programmes and for development of non-conventional energy sources\textsuperscript{28}.

3.4.2. Investment Institutions

3.4.2.1. Life Insurance Corporation of India (LIC)

The establishment of Life Insurance Corporation of India (LIC) as a wholly government-owned corporation in 1956 was in the wake of nationalization of insurance business in the country. The broad objectives of LIC are to serve people through financial security by providing products and services of aspired attributes with competitive returns, and by rendering resources for economic development. With a view to spreading life insurance across the country, particularly in the rural areas and to the socially and economically backward classes, LIC currently offers over 50 plans to cover life at various stages through a network of 2048 branches, all of which are fully computerized. LIC has installed ‘information kiosks’ at select locations for dissemination of information on its products as also for accepting premium payments. It has also installed Interactive Voice Response Systems in 59 urban centres, enabling its customers to get select information about their policies\textsuperscript{29}.

Besides conducting insurance business, LIC, in pursuance of Government guidelines, invests a major portion of its funds in Central and State Government securities and other approved securities, including special deposits with Government of India. In addition, LIC extends assistance to develop infrastructure facilities like housing, rural electrification, water supply and sewerage and provides financial assistance to the corporate sector by way of term loans, underwriting of and direct subscription to shares and debentures. LIC also provides resource support to financial institutions through subscription to their shares/bonds and by way of term loans\textsuperscript{30}.
3.4.2.2. General Insurance Corporation of India (GIC)

The General Insurance Corporation of India (GIC) was formed and registered on January 1, 1973 under the Insurance Act, 1938, in accordance with the provisions of the General Insurance Business (Nationalization) Act, 1972. The Corporation was formed as a holding company, with four subsidiary companies (now de-linked) viz. National Insurance Company Ltd., New India Assurance Company Ltd., Oriental Insurance Company Ltd. and United India Insurance Company Ltd. GIC, along with its erstwhile subsidiaries, was operating a number of need-based insurance schemes to meet the diverse and emerging needs of various segments of society and was providing financial assistance to industrial projects by way of term loans, short-term loans and direct subscription to shares/debentures of new and existing industrial enterprises.

GIC’s supervisory role over its erstwhile subsidiaries was extinguished by an administrative order and it was re-designated as the ‘Indian Re-insurer’ in 2000 by an Act of Parliament to function exclusively as Life and non-Life Re-insurer. Subsequently, in pursuance of the General Insurance Business (Nationalization) Amendment Act, 2002, which became effective from March 2002, GIC ceased to be a holding company of its subsidiaries and their ownership was vested with Government of India. As ‘Indian Re-insurer’, GIC provides reinsurance capacity on a treaty and facultative basis for risks ranging from the simple to the most complex.

The National Insurance Company Ltd. (NIC), set up in 1906, was nationalized in 1973 following the amalgamation of 22 foreign and 11 Indian insurance companies. Other than catering to the average insurance needs of all sections of society, NIC provides customized and innovative financial assistance to the corporate sector by way of term loans, direct subscription to shares, bonds and debentures, commercial papers. It also contributes to national development by lending funds for infrastructure projects of the Government. Apart from
domestic insurance business, NIC also undertakes reinsurance and overseas operations

The New India Assurance Company Ltd. (NIA), incorporated in 1919, was nationalized in 1973. As India’s leading general insurance company for over three decades, NIA has a pioneering presence in the Indian Insurance sector on various fronts, right from insuring India’s first domestic airlines to the entire satellite insurance programme of the country. It also undertakes aviation insurance, handles hull insurance requirements of the Indian shipping fleet and deals with engineering sector related insurance.

The Oriental Insurance Company Ltd. (OIC), established in 1947, was nationalized in 1973. In 2003, the entire shareholding of the company, hitherto held by GIC, was transferred to the Central Government. OIC transacts all kinds of non-life insurance business ranging from insurance covers for very big projects to the smallest insurance needs in rural areas.

United India Insurance Company Ltd. (UII), formed in 1973 following the merger of 22 private insurance companies, currently offers a bouquet of insurance products, which can be customized to meet specific insurance needs, with fire, marine, motor and miscellaneous insurance comprising its core competence areas. UII has undertaken risk cover for several mega projects in the country. Besides, UII provides assistance to the corporate sector by way of term loans and subscription to shares/bonds.

3.4.2.3. Unit Trust of India (UTI)

Unit Trust of India, set up in 1964 by an Act of Parliament, is the largest mutual fund organization in India. It was reorganized effectively from February 1, 2003. The UTI was established to fulfill the objectives of mobilizing retail savings, investing them in the capital market and passing on the benefits accrued from the acquisition, holding, management and disposal of securities to the small investors. Apart from equity, debt and balanced schemes, UTI managed schemes aimed at meeting specific needs like low-cost insurance cover, regular income and
liquidity needs and building up funds to meet the cost of children’s higher education.

3.4.3. State Level Financial Institutions

3.4.3.1. North Eastern Development Finance Corporation Ltd. (NEDFC)

North Eastern Development Finance Corporation Ltd. (NEDFC), promoted by all-India financial institutions and SBI, was incorporated in August 1995 under the Companies Act, 1956. The prime objective of NEDFC is to provide long-term solutions to the industrial financing needs of the North-East Region as also to guide entrepreneurs in identifying viable projects, equip them with requisite skills and technical capabilities. NEDFC focuses on projects in the eight States of North-East Region viz. Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura. NEDFC deals mainly with first-generation entrepreneurs, small-scale industries, new technologies and startup projects. Besides offering financial products like Working Capital Loan, Composite Loans, North East Equity Fund and Micro Finance, NEDFC extends assistance for development of market for products manufactured in the North-East Region as also for preparation of techno-economic feasibility studies. NEDFC also acts as a nodal agency for disbursement of Central capital investment subsidy, transport subsidy and working capital interest subsidy for the North-Eastern States. Besides, NEDFC works on State-specific programmes for all the eight States based on the resources available locally. It identifies thrust areas for the constituent States and conducts industry/sector-specific studies relevant to the Region.

3.4.3.2. State Industrial Development Corporations (SIDCs)

The State Industrial Development Corporations (SIDCs) were established under the Companies Act, 1956 as wholly owned undertakings of the respective State Governments. The SIDCs exclusively aims at promoting and developing medium and large-scale industries in their respective States/Union Territories.
There are 28 SIDCs in the country; of these, those in Andaman & Nicobar, Arunachal Pradesh, Daman & Diu and Dadra & Nagar Haveli, Goa, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Pondicherry and Sikkim also act as State Financial Corporations (SFCs) to provide assistance to small and medium enterprises and act as promotional agencies for this sector. The SIDCs extend financial assistance in the form of rupee loans, underwriting and direct subscription to shares/debentures, guarantees, inter-corporate deposits, structured finance and also open letters of credit on behalf of their borrowers. The SIDCs also undertake a range of promotional activities including preparation of feasibility reports, conducting industrial potential surveys, entrepreneurship development programmes and developing industrial areas/estates. The SIDCs, as nodal agencies of State Governments, also manage and operate State incentive schemes. Further, some SIDCs act as nodal agencies for NRI investment and Foreign Direct Investment (FDI) in their respective States. SIDCs have initiated various measures to expand the scope of their business, including undertaking a variety of fee-based activities, in view of sustaining their relevance and viability in the changing economic environment.

3.4.3.3. State Financial Corporations (SFCs)

The State Financial Corporations (SFCs) are State-level financial institutions, which play a crucial role in the development of small and medium enterprises in their respective States in tandem with national priorities. Of the 18 SFCs in the country, 17 were set up under the SFCs Act, 1951. Tamilnadu Industrial Investment Corporation Ltd., which was originally established as Madras Industrial Investment Corporation in 1949 under the Indian Companies Act, 1913, also functions as a SFC. The SFCs provide financial assistance by way of term loans, direct subscription to equity/debentures, guarantees, discounting of bills of exchange and seed/special capital. Besides, the SFCs operate a number of schemes of refinance and equity-type assistance on behalf of SIDBI, in addition to
special schemes for artisans, and special target groups, such as, SC/ST, women, ex-servicemen and physically handicapped.

The SFCs (Amendment) Act 2000, which became effective from September 2000, *inter alia*, provides greater flexibility to the SFCs to cope with the challenges posed by the deregulated financial system. However, the Committee, constituted by the Government of India for looking into the functioning of SFCs and for making recommendations for their restructuring and revitalization, indicated in its Report that the future business prospects of SFCs are likely to be affected by stiff competition emerging in the financial system.

Further, in a "Report of the Working Group on Development Financial Institutions" brought out by RBI in May 2004, it is stated that, due to combination of several factors, the SFCs' financial position has irretrievably deteriorated. Barring four, the remaining 14 SFCs in different States have significantly negative capital to risk adjusted asset ratio (CRAR) and average non-performing assets (NPAs) of 64 percent. According to the RBI Report, the issue of restructuring of SFCs has been defying any solution, despite recommendations of an Expert Committee advocating infusion of a considerable amount of funds. Also, it is uncertain whether these SFCs would turn around even after such infusion of funds. Concluding the report, the working group advocated for phasing out of SFCs within a definite timeframe, and the credit gap, if any, created by the exit of the SFCs from the market can be filled by banks and also by suitably repositioning SIDBI.

### 3.4.3.4. State Small Industries Development Corporations (SSIDCs)

The State Small Industries Development Corporations (SSIDCs) were established under the Companies Act, 1956 as State Government undertakings. The exclusive aim of SSIDCs is promoting and developing small, tiny and village industries in the States/Union Territories, which, in turn, stimulated self-employment among technocrats. Over the years, the SSIDCs diversified the range
of their activities and services to cater to the emerging needs of SSI units in the changed economic environment. Some of the important functions/activities of SSIDCs include procurement and distribution of raw materials, supply of machinery on hire-purchase basis, assistance to SSI units for marketing their products, establishment of testing laboratories, construction/up gradation of basic infrastructure facilities in industrial estates/sheds, development of Industrial Parks, extending seed capital assistance on behalf of the respective State Governments, organizing training programmes for unemployed youth, providing managerial assistance to production units and management of States' Emporia for providing sales window for handlooms, handicrafts, and SSI items. Some of the SSIDCs also run manufacturing units catering to the requirements of various departments of the State Governments as also the general public.

3.4.3.5. - Technical Consultancy Organizations (TCOs)

Technical Consultancy Organizations (TCOs) were promoted during the seventies and eighties by all-India financial institutions in various states in collaboration with state-level financial or development institutions and commercial banks to cater to the consultancy needs of the small and medium enterprises and new entrepreneurs. In total there are 18 TCOs in various States with some of them operating in more than one state. Of these, the State Government of Karnataka sponsored the Technical Consultancy Services Organization of Karnataka (TECSOK). TCOs provide various types of consultancy services, including preparation of feasibility studies and project reports/profiles, identification of potential entrepreneurs, technical and management assistance to new entrepreneurs, product-specific market research/surveys, project supervision, energy audit and energy conservation assignments, consultancy assignments on turn-key basis, export consultancy for export oriented projects, management consultancy services, especially for diagnostic study of sick units or improvement in the existing units and rehabilitation programmes,
entrepreneurship development programme or skill up gradation programmes and merchant banking services.

3.4.4. Other Institutions

3.4.4.1. Tourism Finance Corporation of India (TFCI) Ltd.

The TFCI was constituted following the recommendations of National Committee on Tourism, set up by Planning Commission, as a specialized financial institution to cater to the needs of the tourism industry so as to ensure requisite priority in funding tourism-related projects sponsored TFCI. TFCI was incorporated as a public limited company in January 1989. In co-operation with All-India Financial/Investment Institutions and Banks, the TFCI provides assistance in the form of rupee loans, underwriting and direct subscription to shares/debentures, equipment leasing and foreign loan guarantee for setting up and/or development of tourism-related facilities, activities and services. Apart from conventional tourism projects in the accommodation and hospitality segments, TFCI also finances non-conventional tourism projects like restaurants, highway facilities, travel agencies, amusement parks, dolphin aria, multiplexes, ropeways, car rental services, ferries for inland water transport, airport facilitation centers, air taxis and training institutes for hotel personnel.

Taking note of the modes and operations of all India financial institutions and development banks as discussed above, the present study makes an analytical case study of IDBI Ltd, the apex development bank of India and the most popular financial institution in the country. It was set up for the fulfillment of rapid industrializing policy and to support five year plans in terms of participation in developmental activities. It also caters the institutionalized development of Indian economy in post independence era. The present study takes the case of IDBI for the total analysis purpose which can be justified by its contribution to developmental activities through individual and inter-institutional assistance.
3.5. **IDBI as the Apex Development Bank of India**

The IDBI was set up for specific purposes as per special Act of the parliament in 1964. IDBI took initiative to establish many institutions for the development of overall economy. The IDBI Bank, a wholly owned subsidiary of IDBI, merged with IDBI as per the recommendations of the Narasimham committee II, and after the merger the IDBI carries out the works of both commercial and development banks in India.

IDBI has a pioneering role in promoting industrial growth through financing of medium and long-term projects, in consonance with national plans and priorities. Over the years, IDBI has enlarged its basket of products and services, covering almost the entire spectrum of industrial activities, including manufacturing and services. IDBI provides financial assistance, both in rupee and foreign currencies, for green-field projects as also for expansion, modernization and diversification purposes. In the wake of financial sector reforms unveiled by the Government since 1992, IDBI evolved an array of fund and fee-based services with a view to providing an integrated solution to meet the entire demand of financial and corporate advisory requirements of its clients. IDBI also provides indirect financial assistance by refinancing loans extended by State-level financial institutions and banks, and by rediscounting bills of exchange arising out of sale of indigenous machinery on deferred payment terms.

IDBI has played a pioneering role, particularly in the pre-reform era (1964-91), in catalyzing broad based industrial development in the country in keeping with its Government-ordained 'development banking' charter. In pursuance of this mandate, IDBI's activities transcended the confines of pure long-term lending to industry and encompassed, among others, balanced industrial growth through development of backward areas, modernization of specific industries, employment generation, entrepreneurship development along with support services for creating a deep and vibrant domestic capital market, including development of apposite institutional framework.
In September 2003, IDBI diversified its business domain further by acquiring the entire shareholding of Tata Finance Limited in Tata Home finance Ltd., signaling IDBI’s foray into the retail finance sector. The fully owned housing finance subsidiary has since been renamed 'IDBI Home finance Limited'. In view of the signal changes in the operating environment, following initiation of reforms since the early nineties, Government of India has decided to transform IDBI into a commercial bank without eschewing its secular development finance obligations. The migration to the new business model of commercial banking, with its gateway to low-cost current, savings bank deposits, would help overcome most of the limitations of the current business model of development finance while simultaneously enabling it to diversify its client/ asset base. Towards this end, the IDBI (Transfer of Undertaking and Repeal) Act 2003 was passed by Parliament in December 2003. The Act provides for repeal of IDBI Act, corporatisation of IDBI (with majority Government holding; current share: 58.47 percent ) and transformation into a commercial bank. The provisions of the Act have come into force from July 2, 2004 in terms of a Government Notification to this effect. The Notification facilitated formation, incorporation and registration of Industrial Development Bank of India Ltd. as a company under the Companies Act, 1956 and a deemed Banking Company under the Banking Regulation Act 1949 and helped in obtaining requisite regulatory and statutory clearances, including those from RBI. IDBI was to commence banking business in accordance with the provisions of the new Act in addition to the business being transacted under IDBI Act, 1964 from October 1, 2004, the "Appointed Date" notified by the Central Government. IDBI has firmed up the infrastructure, technology platform and reorientation of its human capital to achieve a smooth transition.

On July 29, 2004, the Board of Directors of IDBI and IDBI Bank accorded in principle approval to the merger of IDBI Bank with the Industrial Development Bank of India Ltd. to be formed incorporated under the Companies Act, 1956 pursuant to the IDB (Transfer of Undertaking and Repeal) Act, 2003 (53 of 2003),
subject to the approval of shareholders and other regulatory and statutory approvals. A mutually gainful proposition with positive implications for all stakeholders and clients, the merger process is also completed during the financial year ending March 31, 2005.

IDBI would continue to provide the extant products and services as part of its development finance role even after its conversion into a banking company. In addition, the new entity would also provide an array of wholesale and retail banking products, designed to suit the specific needs cash flow requirements of corporates and individuals. In particular, IDBI would leverage the strong corporate relationships built up over the years to offer customized and total financial solutions for all corporate business needs, single-window appraisal for term loans and working capital finance, strategic advisory and "hand-holding" support at the implementation phase of projects, among others.

IDBI's transformation into a commercial bank would provide a gateway to low-cost deposits like Current and Savings Bank Deposits. This would have a positive impact on the Bank's overall cost of funds and facilitate lending at more competitive rates to its clients. The new entity would offer various retail products, leveraging upon its existing relationship with retail investors under its existing Suvidha Flexi-bond schemes. In the emerging scenario, the new IDBI hopes to realize its mission of positioning itself as a one stop super-shop and most preferred brand for providing total financial and banking solutions to corporates and individuals, capitalizing on its intimate knowledge of the Indian industry and client requirements and large retail base on the liability side.

IDBI upholds the highest standards of corporate governance in its operations. The responsibility for maintaining these high standards of governance lies with its Board of Directors. Two Committees of the Board viz. the Executive Committee and the Audit Committee are adequately empowered to monitor implementation of good corporate governance practices and making necessary disclosures within the framework of legal provisions and banking conventions.
The mission of IDBI is to be the trusted partner in progress by leveraging quality human capital and setting global standards of excellence to build the most valued financial conglomerate. In conformity with its mandate, IDBI Ltd. would continue to remain focused on providing development finance for broad based economic growth while simultaneously enhancing its retail reach, through a prudential combination of organic and inorganic growth. IDBI Ltd. is stepping up its branch expansion drive during the all-financial years and has targeted branch strong domestic network by 2008, apart from a respectable presence abroad. IDBI Ltd. is committed to leverage the virtuous combination of a highly skilled and dedicated work force, state-of-the-art technology platform, robust business strategy, innovative products & services and delivery channels for providing world class financial solutions and services to domestic and global customers, thereby optimizing shareholder value on a sustained basis.

IDBI went for Initial Public Offer in July 1995, keeping itself as the major shareholder. During the four decades of its existence, IDBI has been instrumental not only in establishing a well developed, diversified and efficient industrial and institutional edifice but also adding a qualitative dimension to the process of industrial development in the country. IDBI, as a DFI, has also been actively involved in the development of a robust institutional framework for the domestic financial sector, including capital markets. It played a significant role in setting up of institutions like Export- Import Bank of India (Exim Bank); Small Industries Development Bank of India (SIDBI); North Eastern Development Finance Corporation Ltd. (NEDFC); Asset Reconstruction Company (India) Ltd. (ARCIL); National Stock Exchange of India Ltd. (NSE); Stock Holding Corporation of India Ltd. (SHCIL); Credit Analysis & Research Ltd. (CARE); National Securities Depository Ltd. (NSDL) and IDBI Trusteeship Services Ltd. (ITSL).

With a view to placing clear focus on retail banking and development banking activities, the organization structure of the merged entity have been
realigned, as an interim measure, into two Strategic Business Units (SBUs), with one. The Development Bank SBU (DBSBU)- focusing on development banking, with accent on corporate finance, while the other SBU. The Commercial Bank SBU (CBSBU) would focus on retail-intensive commercial banking; however, some common functions are in the process of being integrated. The SBU structure would continue until the Board of Directors of IDBI Ltd. determine that the human resources and operating policies of both the SBUs are sufficient sufficiently harmonized, subject to a minimum period of three years.

IDBI Ltd. has steadfastly pursued the highest standards of Corporate Governance in its operations as per prevailing best corporate practices and statutory/regulatory requirements. The responsibility for maintaining high standards of governance vests with its Board of Directors and various Committees of the Board, which are authorized to monitor implementation of good Corporate Governance practices, including making necessary disclosures within the framework of legal and regulatory provisions and banking conventions. Pursuant to these objectives, the Bank endeavors to ensure that its Board of Directors meets regularly, provides effective leadership, exercises control over management and monitors executive performance. The other policy directives include establishment of a framework of strategic control and continuous reviewing of its efficacy together with clearly documented and transparent management processes for policy development, implementation and review, decision-making, monitoring, control and reporting.

The Bank provides free access to the Board to all relevant information, advice and resources to enable it to carry out its role effectively. IDBI Ltd. has three wholly owned subsidiaries:

From table 3.1 the present status of IDBI share holding pattern can be assessed where the government reduced its equity up to 52 percent where it was the wholly owned subsidiary of RBI when it was transferred in 1974 from direct
ownership of ministry of finance the banks share holding is not much scattered among the public and institutional investors like other companies.

<table>
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<tr>
<th>Sr. No</th>
<th>Category of shareholder</th>
<th>Number of shareholders</th>
<th>Total number of shares</th>
<th>Number of shares held in de materialized form</th>
<th>% Of shares (A+B)</th>
<th>% Of shares (A+B+C)</th>
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<tr>
<td>(A)</td>
<td>Shareholding of Promoter and Promoter Group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
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<td>Indian</td>
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<td></td>
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<td>52.71</td>
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<td>(d)</td>
<td>Financial Institutions/ Banks</td>
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<td>(e)</td>
<td>Any Other (specify)</td>
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<td>0.00</td>
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<td>Sub-Total (A)(1)</td>
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<td></td>
<td>(2) Foreign</td>
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<td>(a)</td>
<td>Individuals (Non-Resident Individuals/ Foreign Individuals)</td>
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<tr>
<td>(b)</td>
<td>Bodies Corporate</td>
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<tr>
<td>(c)</td>
<td>Institutions</td>
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<td>0</td>
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<tr>
<td>(d)</td>
<td>Any Other (specify)</td>
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<td></td>
<td>Sub-Total (A)(2)</td>
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<td>(B)</td>
<td>Total Shareholding of Promoter and Promoter Group (A) = (A)(1)+(A)(2)</td>
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<td>52.71</td>
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<td>Institutions</td>
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<td>Mutual Funds/ UTI</td>
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<tr>
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<td>Venture Capital Funds</td>
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<td>Sub-Total (B)(1)</td>
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<td>203480167</td>
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Source: NSE, Corporate Information, (2007), Share Holding Pattern www.nseindia.com
### Table 1.1 (Contd...)

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<td>(b) Individuals</td>
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<td>NSDL (Transit)</td>
<td>0</td>
<td>746860</td>
<td>744757</td>
<td>0.10</td>
<td>0.10</td>
</tr>
<tr>
<td>Trusts</td>
<td>67</td>
<td>779861</td>
<td>720821</td>
<td>0.11</td>
<td>0.11</td>
</tr>
<tr>
<td>Sub-Total (B)(2)</td>
<td>335227</td>
<td>139032415</td>
<td>111333376</td>
<td>19.19</td>
<td>19.19</td>
</tr>
<tr>
<td>Total Public Shareholding (B) = (B)(1)+(B)(2)</td>
<td>335430</td>
<td>342576088</td>
<td>314813543</td>
<td>47.29</td>
<td>47.29</td>
</tr>
<tr>
<td>TOTAL (A)+(B)</td>
<td>335431</td>
<td>724354088</td>
<td>314813543</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Shares held by Custodians and against which Depository Receipts have been issued</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>GRAND TOTAL (A)+(B)+(C)</td>
<td>335431</td>
<td>724354088</td>
<td>314813543</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: NSE Corporate Information,(2007), Share Holding Pattern, www.nseindia.com

**IDBI Capital Market Services Ltd. (ICMS):** The ICMS was set up in December 1993 to offer a broad range of capital market related services, including Bond Trading, Retail Distribution, Mutual Funds Distribution, Equity Broking, Client Asset Management, Depository Services, Merchant Banking. ICMS is a leading Primary Dealer of the country.\(^5^4\)

**IDBI Home Finance Ltd. (IHFL):** In order to make a foray into retail financing, the erstwhile IDBI acquired the entire shareholding of Tata Finance Limited in Tata Home Finance Ltd. The housing finance company has since been named as IDBI Home Finance Ltd.\(^5^5\)

**IDBI Intech Ltd. (Intech):** was set up in March 2000 to undertake information technology (IT) related activities. However, as IT is not a permissible business for banking companies under section 19 of the Banking Regulation Act, 1949, IDBI Ltd. is in the process of winding up the operations of Intech.\(^5^6\) Also IDBI introduced the gift card for which allows presentation to beloved people to purchases goods and services at over 3.24 lakhs merchant establishments in India that accept Visa cards. No heartaches of being bound to specific stores with gift vouchers.
3.6. Conclusion

The emerging economies in postcolonial era faced the difficulty of choosing an appropriate mechanism for channelizing resources into the development efforts. Many of them had inherited capital-starved primitive financial systems. Such system could not be relied upon to allocate resources among competing demands in the economy. In such a situation several governments in Continental Europe and East Asian economies decided to take matters into their hands and established institutions specifically to cater to the requirements of financial resources for developmental effort. Such institutions were called Development Financial Institutions (DFIs). In India DFIs were established with the Government support for underwriting their losses and for making available low-cost resources for lending at a lower rate of interest than that demanded by the market for risky projects. This arrangement worked well in the initial years of development.

The post independence period of Indian economy witnessed lacking in technology and money where the country was fully self-sufficient with raw material and human resources. The entrepreneurial development of a country needs all the four elements. To cater the financial as well as the consultancy needs entrepreneurs and technocrats the government set up various financial institutions with different aims and objectives. In 1948 IFCI, and in 1956 ICICI and in 1964 IDBI and in 1971 IRBI were the major establishments. Furthermore the government took major steps to encourage the export and agriculture through setting up of EXIM bank and NABARD. Altogether the government in different years established the LIC, GIC, and UTI for further affluence of investment atmosphere within the country.

The basic objective of each institution is different where the development banks specially meant for developmental financing for new and existing business firms. All the six development banks are now in a way to diversify their business fortes in the current business environment after liberalization. The development
banks are now in a turn to be transformed to commercial banks or non banking financial companies (NBFCs). Among the six development banks ICICI has already transformed to pure commercial bank and IDBI has acquired IDBI bank and started the combined business of commercial bank and project financing. The other banks except SIDBI and IDFC are now looking for the suitable merge options. However the major changes in the business environment of development banks had its impact on its business domain and their lending activities which is the basic objective of the research study. The next chapter would present a picture on business environment of development banks of India in pre and post liberalization regime with special reference to IDBI, the apex development financial institution of India.

3.7 References.

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