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# UNIT 11 TERM-LENDING FINANCIAL INSTITUTIONS – ALL INDIA LEVEL

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## 11.0 OBJECTIVES

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After studying this unit, you should be able to:

- describe the meaning, functions and objectives of development banks
- discuss the origin of development banks in India
- explain the working of all India level development banks
- assess the performance and prospects of development banks in India.

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## 11.1 INTRODUCTION

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In the previous unit you have been introduced to the role of non-bank financial institutions in India in linking the savers and users of capital. In particular, you have been exposed to the growth, working and problems of various non-bank financial institutions including Life Insurance Corporation of India, General Insurance Corporation of India, Unit Trust of India and other non-bank financial institutions. In this unit you will study the meaning, importance and evolution of development banks, role, functions and performance of various national level development banks in India.

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## 11.2 WHAT IS A DEVELOPMENT BANK ?

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Development banks are special financial institutions established for the supply of three basic ingredients of development : 1) capital, 2) knowledge, and 3) entrepreneurship to the industry. They have been set up during the post World War II period in both developed and underdeveloped countries. They are designed as a catalyst for quickening industrial development. In an underdeveloped country, where there is scarcity of capital and dearth of entrepreneurship, a set of banks which do not restrict their activity to the conventional function of providing term capital to the entrepreneurs are needed.

These banks should also assume a promotional role by undertaking potential industrial surveys, identifying growth projects, and providing technical, managerial and other assistance to interested entrepreneurs right from the stage of project

formulation to the commissioning and operation of the project. Thus, emerged the concept of development banks.

According to William Diamond 'a development bank is a hybrid institution which combines in itself the functions of a finance corporation and a development corporation.' A finance corporation is an institution which is concerned primarily with long-term loan capital, while a development corporation is concerned primarily with equity capital and with fostering and managing specific companies as well as providing financial support.

Thus, development bank is a financial agency engaged in providing medium and long-term assistance to industrial undertakings in the form of loans. It guarantees loans in addition to undertaking of underwriting, and direct subscription to shares and debentures. It also provides technical know-how and training to entrepreneurs.

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### 11.3 FUNCTIONS OF DEVELOPMENT BANKS

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The following are the functions of development banks:

- 1) **Sanction** of loans : The important function of the most of the development banks is to provide long-term and medium term loans to industrial concerns. Certain development banks grant loans in foreign currencies also.
- 2) **Guarantee** of loans : They also provide guarantees for loans raised by business concerns from other sources. They extend guarantees for deferred payments for purchase of capital goods from abroad.
- 3) **Underwriting** of industrial securities : Another important function of development banks is to underwrite the issue of shares, bonds or debentures of industrial concerns.
- 4) **Investment** in shares and debentures : In addition to underwriting, the development banks also directly invest in industrial undertakings by subscribing to their shares and debentures.
- 5) **Merchant banking** : In the recent past some development banks have established subsidiary companies, for undertaking various merchant banking activities.
- 6) **Development functions** : Special financial institutions not only act as term lending institutions but also as development banks. They formulate projects, conduct techno-economic surveys, provide training and consultancy to entrepreneurs, and improve management of industrial units.

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### 11.4 ORIGIN OF DEVELOPMENT BANKS

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Although the term 'Development bank' was used for the first time after the Second World War, similar type of institutions were in existence in the early part of the 19th Century in some countries. The first development bank, known as Societe Generale de Belgique, was established in Belgium to finance commercial and industrial ventures. However, its activities did not arouse much interest. In 1852 French Credit Mobiliser was established. Later it became a model for similar investment banks in Germany, Austria, Belgium, the Netherlands, Italy, Switzerland and Spain.

The post-Depression period witnessed the second phase of development banks during which the need to cater for small-scale industries was recognised. Accordingly, special financial institutions were formed in several countries.

In India, the first step towards building up a structure of development finance institutions was taken with the establishment of the Industrial Finance Corporation of India (IFCI) in 1948. The IFCI was established to provide medium and long-term credit to units in the corporate sector and industrial co-operatives. A set of parallel, financial institutions, known as the State Financial Corporations (SFCs), were set up at the State level in 1951 to extend the benefits of long-term loans to medium and small sized industrial undertakings in the respective states. The Industrial Credit and Investment Corporation of India (ICICI) was set up at all India level in 1955 as a joint stock company with support from the Government of India, the World Bank, the Commonwealth Development Finance Corporation and other foreign institutions'

to finance the foreign exchange components of industrial projects particularly in, private sector.

State level institutions, namely the State Industrial Development Corporations (SIDCs) were established in the 1960s mainly for promoting medium scale industrial units. The State Small Industries Development Corporations were also established at state level during sixties for catering to the requirements of small scale units. For co-ordinating all the development banks at the national and the State levels, the Government of India established an apex institution known as Industrial Development Bank of India (IDBI) in 1964. The Government of India in 1990 established Small Industries Development Bank of India (SIDBI) as an apex Bank to meet the needs of small scale units exclusively.

Thus many development banks were set up in India both at the national and state levels.

Let us now discuss the functions and working of the various national level development banks in India (their state level counterparts are discussed in Unit 12).

### Check Your Progress A

- 1) Which of the following statements are True and which are False?
  - i) Development banks help in accelerating industrial growth.
  - ii) Development banks provide medium and short-term financial assistance to industry.
  - iii) Industrial undertakings raising loans from sources other than the development banks can avail of the facility of guarantee of the loan by these development banks.
  - iv) Development banks can directly subscribe to the shares and debentures of industrial units.
  - v) Industrial Development Bank of India was the first development bank in India.
- 2) Fill in the Blanks :
  - i) Societe Generale de Belgigue was the .....development bank in the world.
  - ii) Development banks extend guarantees for ..... payments for purchase of capital goods from .....
  - iii) Development banks provide three basic components of development of industry. They are..... and .....

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## 11.5 INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI)

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Industrial Finance Corporation of India (IFCI) is the first development Bank established in India. It was established in July, 1948 through a Special Act of the Parliament for providing long-term financial assistance to large and medium scale undertakings.

### Objectives

The primary object of the formation of this Corporation was to make medium and long-term credit facilities easily available to the industrial concerns especially in the areas, where normal banking facilities are inappropriate or recourse to capital issue method is impracticable. It provides financial assistance to those companies or Co-operative societies that have been registered in the country and are concerned with manufacturing, mining, shipping, hotel etc. It does not provide finance to small scale industries and unregistered companies.

### Sources of Funds

Its authorised capital is Rs. 250 crore. As on 31st March, 1990, its paid-up capital was Rs. 100 crore. Industrial Development Bank of India owns 50% of its paid-up capital and the balance by scheduled banks, cooperative banks, Insurance Corporations, Investment Trusts, etc. In addition, it borrows from market through bonds, gets loans from Central Government and obtains foreign credits.

### Management and Organisation

Industrial Finance Corporation of India (IFCI) is managed by a Board of Directors, which consists of partly elected and partly nominated directors. The Central Government appoints the whole-time Chairman of the Board in consultation with the Industrial Development Bank of India (IDBI). The Board consists of the following:

One Chairman	— appointed by the Central Government
Two Directors	— nominated by the Central Government
One Director	— nominated by the Reserve Bank of India
Three Directors	— nominated by Industrial Development Bank of India
Two Directors.	— elected by Insurance Concerns, Investment Trusts, etc.
Two Directors	— elected by Co-operative Banks.

### Functions

Following are the important functions of Industrial Finance Corporation of India:

- 1) Granting loans and **advances** to industrial concerns and subscribing to debentures floated by them which are repayable within 25 years.
- 2) Guaranteeing the loans raised by industrial concerns in the open market or from scheduled banks and cooperative banks.
- 3) Underwriting the issue of shares, debentures and bonds by industrial concerns. But it is required to dispose of these securities within 7 years.
- 4) Granting loans to industrial concerns.
- 5) Guaranteeing loans in foreign currency raised by industrial concerns from any bank or institution in a foreign country. However, prior approval of the Central Government is required for this purpose.
- 6) Acting as an agent for the Central Government and for the World Bank with regard to loans sanctioned by them to industrial concerns in India.
- 7) Guaranteeing credit purchase of capital goods from foreign manufacturers. With the approval of the Central Government, the IFCI can guarantee the loans raised in foreign currency from foreign institutions.
- 8) Subscribing directly to the shares issued by industrial concerns.
- 9) Providing assistance under the soft loan scheme to selected **industries** such as cement, cotton textiles, jute, engineering, etc., to expedite modernisation, replacement and renovation of their plant and machinery.
- 10) The IFCI has been undertaking various promotional activities financed out of its benevolent Reserve Fund and allocations of Interest Differential Funds received from the Government. The corporation has been emphasising the development of backward areas and the helping and the developing of small and medium scale industrial entrepreneurs. It has been providing them with the needed guidance for the establishment and management of these units,

### Performance

Industrial Finance Corporation of India had completed 42 years by June, 1990. During this period it acted as a pioneer in the provision of industrial finance.

It sanctioned financial assistance to various enterprises of national importance. The assistance sanctioned by the corporation since 1970-71 till recently can be observed from Table 11.1

During the 42 years of its existence, the corporation had sanctioned a net total financial assistance of Rs. 6,570 crore and disbursed Rs. 4,295 crore. In the recent past, the sanctions and disbursements of the corporation increased substantially. During 1988-89 itself it sanctioned Rs. 1,005 crore. This itself shows the increasing importance of the Corporation in the provision of industrial finance in India.

The assistance given by the Corporation in the early years of its establishment mainly confined to traditional industries like sugar, textiles, jute, etc. But subsequently, in pursuance of the national priorities and objectives, it has extended considerable **assistance** in recent years to non-traditional industries like basic metals, fertilisers, chemicals and a wide range of engineering industries. During 1988-89, the maximum assistance was sanctioned to the **fertiliser industry (Rs. 238 crore)** followed by the basic metals (Rs. 161 crore), cement (Rs. 144 crore), electrical machinery (Rs. 134 crore), food products (Rs. 133 crore) and textile industries (Rs. 126 crore). These six industries together accounted for almost half of the total sanctions.

There is a little controversy on the **performance** of Industrial Finance Corporation of India. If we see the growth of capital, financial assistance sanctioned and disbursed

Table 11.1 : Assistance Sanctioned and Disbursed by IFCI

(Rp. in crores)

Year	Sanctions	Growth rate %	Disbursements	Growth rate %
1970-71	32.3		17.4	
1971-72	28.7	(-) 11.1	23.3	33.9
1972-73	45.7	59.2	28.0	- 20.2
1973-74	41.9	(-) 8.3	31.9	13.9
1974-75	29.2	(-) 30.3	37.0	16.0
1975-76	51.3	75.7	34.7	(-) 6.2
1976-77	<b>76.6</b>	49.3	54.9	58.2
1977-78	113.4	48.0	57.5	4.7
1978-79	138.5	22.1	73.5	27.8
1979-80	137.9	(-) 0.4	91.0	23.8
1980-81	206.6	49.8	108.9	19.7
1981-82	218.1	5.6	169.4	55.6
1982-83	230.2	5.5	196.1	15.8
1983-84	321.9	39.8	224.5	14.5
1984-85	415.4	29.0	272.9	21.6
1985-86	499.2	20.2	403.9	48.0
1986-87	798.0	59.9	451.6	11.8
1987-88	1025.1	28.5	660.0	46.1
1988-89	1095.6	85.9	1005.3	52.3
Cumulative upto March 1989	6569.8		4295.3	—

Source : IDBI, Report on Development Banking in India, 1988-89, p. 22.

and also its profits, its performance is impressive. But we get a different picture when we go deep into its operations. Many criticised the working of the corporation on the following grounds.

- 1) Despite the fact that the assistance to the backward regions has shown a remarkable increase in recent years, a sizeable portion of this assistance has been confined to the backward projects of developed states. It is difficult to justify financial assistance to underdeveloped areas in developed states like Maharashtra, Gujarat, etc., on par with the ones located in backward states like Assam, Orissa, Kerala, Rajasthan, Madhya Pradesh, etc.
- 2) Another criticism on the working of the Corporation is that it offered financial assistance to big concerns which could easily raise resources from the capital market.
- 3) It is failing in exercising its control over defaulting borrowers.

## 11.6 INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI)

Industrial Credit and Investment Corporation of India (ICICI) was the second all-India level financial institution to be established in India. It was established in January 1955. Unlike other development banks in India, this is a privately owned and operated corporation. The World Bank played a crucial role in the establishment of this corporation.

### Objectives

The following are the objectives of the Corporation.

- 1) To provide financial resources to industrial concerns for their promotion, development and modernisation.
- 2) To encourage inflow and participation of foreign capital in the private sector units.
- 3) To encourage private ownership in industrial investment and to increase the scope of investment market.

### Resources

The authorised capital of ICICI is Rs. 200 crore. The issued capital of ICICI as on March 31, 1990 was Rs.91.56 crore. Borrowings constitute a major source for ICICI.

Its borrowings included those from the Government of India, the world Bank, the Development Loan Fund (now merged with the Agency for International Development), Kreditanstalt für Wiederaufbau (an agency of the Government of Federal Republic of Germany), the British Government and Industrial Development Bank of India.

### Management

Ownership and management of ICICI is vested in the hands of a Board of Directors consisting 12 directors. The Chairman and a managing director will be appointed by Government of India after consulting Industrial Development Bank of India.

### Types of Assistance

The following are the various types of financial assistance available from ICICI.

- 1) It provides loans repayable over a period of 15 years.
- 2) It provides finance through equity participation,
- 3) It sponsors and underwrites new issues of shares and other securities.
- 4) It makes funds available for investment by revolving investment as quickly as possible.
- 5) It guarantees loans from private investment sources.
- 6) It provides loans in foreign currency to import capital equipment.
- 7) It furnishes managerial, technical and administrative services to the industry.
- 8) It undertakes promotional activities with a view to fostering growth in the backward areas.

### Performance

ICICI is the only Corporation which specialises in securing assistance for industrial securities from abroad. It is helping in a significant way for setting up of industrial units in private sector. During the last 35 years its financial assistance to the private corporate sector was substantial. As shown in Table 11.2, the cumulative financial assistance sanctioned by the Corporation upto March 31, 1989 amounted to Rs. 9,313

**Table 11.2 : Assistance Sanctioned and Disbursed by ICICI**

(Rs. in crores)

Year	Sanctions	Growth Rate %	Disbursements	Growth Rate %
1970-71	43.9	—	28.9	
1971-72	39.7	9.6	30.3	4.8
1972-73	49.4	24.4	39.7	31.0
1973-74	61.1	23.7	43.5	9.6
1974-75	62.9	2.9	45.4	4.4
1975-76	78.6	25.0	61.1	34.6
1976-77	98.7	25.0	67.3	10.1
1977-78	108.3	9.7	91.6	36.1
1978-79	182.8	68.8	109.2	19.2
1979-80	204.3	11.8	135.8	24.4
1980-81	314.1	53.7	185.3	36.5
1981-82	302.4	(-) 3.7	264.7	42.8
1982-83	392.1	29.7	282.2	6.6
1983-84	507.6	29.5	334.2	18.4
1984-85	620.7	22.3	392.7	17.5
1985-86	708.2	14.1	482.2	22.8
1986-87	1118.3	57.9	695.5	44.2
1987-88	1283.3	14.8	771.2	10.9
1988-89	2056.1	60.2	1085.6	40.8
Cumulative upto March 1989	9313.3	—	6445.0	—

Source : IDBI, Report on Development Banking in India, 1988-89, p. 28.

crore and disbursements to Rs. 6,445 crore. In the recent past, the corporation substantially increased its assistance. It sanctioned Rs. 2,056 crore and disbursed Rs. 1,085 crore during 1988-89 itself.

Of the total sanctions of Rs. 2,056 crore during 1988-89, rupee loans amounted to Rs. 1,400 crore followed by Rs. 539 crore in foreign currency loans, Rs. 19 crore for underwriting and direct subscription and Rs. 7.9 crore for guarantees.

The major recipients of the financial assistance from the corporation are the non-traditional industries, such as chemicals, petro-chemicals, heavy engineering and metal products. While coming to the state-wise assistance, Maharashtra, Gujarat, Uttar Pradesh, Tamil Nadu and Andhra Pradesh received substantial assistance from this institution. However, in the recent past, the assistance to underdeveloped states like Orissa, Mimachal Pradesh, etc., increased substantially.

During the year 1988-89, new projects continued to receive maximum assistance. But assistance to expansion/diversification schemes recorded the highest growth. While coming to the sector-wise analysis, the private sector received maximum assistance (84%) followed by joint sector (12.9%), cooperative sector (2.3%) and public sector (0.9%)

ICICI had been playing a very important role in providing financial assistance to the industrial units particularly in private sector. Its pioneering work as the underwriting institution in this country has been widely acclaimed. The provision of foreign currency loans is another area where the corporation has distinguished itself.

Despite the above achievements, the working of the corporation has been criticised due to the following reasons:

- 1) The ICICI has been concentrating in providing financial assistance to a few industries like chemicals, textiles, cement, fertilisers, etc.
- 2) It is not working towards effectively balanced regional development of the country as per national priorities. For instance, of the cumulative financial assistance sanctioned upto the end of March, 1989, 23.4% went to Maharashtra followed by Gujarat (14.8%), Uttar Pradesh (9.8%), Tamil Nadu (8.7%), and Andhra Pradesh (8.1%). It means that around 65% of the total assistance sanctioned (Rs. 7,923 crore) by the Corporation since its inception went to these five developed States.
- 3) It has been assisting only larger units in private sector contrary to the policy of the Government.

#### Check Your Progress B

- 1) Fill in the blanks :
  - i) Main objective of creation of IFCI was to provide ..... and ..... term financial assistance.
  - ii) The IFCI acts as agent for the loans sanctioned by the .....government and the .....
  - iii) The authorised capital of ICICI is Rs. .... crore.
- 2) State whether the following statements are True or False.
  - i) ICICI is the only corporation that specialises in securing financial assistance for industrial securities from abroad.
  - ii) The World Bank played a crucial role in the establishment of IFCI.
  - iii) The financial assistance provided in the initial years of the establishment of ICICI mainly confined to traditional industries like sugar, jute, etc.
  - iv) IFCI has financed to promotional activities from its Reserve Fund and Interest Differential Funds.
  - v) IFCI has been providing soft loans for modernisation, replacement and renovation of plant and machinery.

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## 11.7 INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

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Industrial Development Bank of India had come into existence in July 1964 by an Act of Parliament. This Bank was a wholly owned subsidiary of the Reserve Bank of India. Since 16th February, 1976, it has been delinked from the RBI and, made an autonomous corporation. This was done mainly to enlarge its role as an apex

financial institution to achieve effective coordination among all the financial institutions in the country.

### Objectives

The principal objective of setting up the IDBI was to make a coordinated effort to achieve maximum industrial growth. The overall activities of the Bank may be classified into three broad categories namely, coordination, **financing** and promotion. The objectives of the bank are summarised below :

- 1) To serve as an apex institution for term finance for industry.
- 2) To coordinate working of institutions engaged in financing, promoting or developing industries and to assist the development of these institutions.
- 3) To provide term finance to industry.
- 4) To plan, promote and develop industries to fill gaps in the industrial structure of the country.
- 5) To provide technical and administrative assistance for promotion and expansion of industry.
- 6) To undertake market and investment research and surveys as also technical and economic studies in connection with the development of industry.
- 7) To act as lender of last resort to finance projects that are in **conformity** with national priorities.

### Resources

As on March, 1989 its authorised capital was Rs. 1,000 crore, while its paid-up capital stood at Rs. 540 crore. Its reserves as on date accounted for Rs. 608 crore. Besides securing loans from RBI, Central Government, foreign sources, it also secured funds from internal capital market.

### Management and Organisation

The management of the IDBI is vested in a Board of Directors consisting of 22 directors including a full-time Chairman-cum-Managing Director appointed by the Central Government. The other Board members comprise a representative of the Reserve Bank of India, two officials of the Central Government, 5 representatives of financial institutions, 6 representatives of public sector banks and SFCs, 2 employees of financial institutions, and 5 persons with special knowledge and professional experience, nominated by the Government of India.

The Board has constituted an Executive Committee consisting of ten directors including the Chairman and Managing Director. The Board of Directors deal with the overall policy matters and the Executive Committee deals with proposals for the sanction of financial assistance and other matters.

The central office of the bank is located in Bombay. It has five **regional** offices at Calcutta, Delhi, Madras, Bombay, and Ahmedabad. Besides these regional offices, the IDBI has eleven branches at Bangalore, Bhopal, Bhubaneswar, Chandigarh, Cochin, Hyderabad, **Jai**pur, **Jammu**, Kanpur, Patna and Simla.

### Functions

The following are the functions of IDBI:

- 1) **Direct financing** : It provides direct financial assistance to industrial concerns by giving them long-term loans and advances.
- 2) **Guaranteeing of loans** : It guarantees loans raised by industrial concerns in the open market or from banks or other financial institutions.
- 3) **Acceptance and discounting of bills** : It accepts, discounts and rediscounts bills of exchange, promissory notes, hundis, etc., of industrial concerns.
- 4) **Direct subscriptions and underwriting** : It subscribes to shares, bonds, and debentures issued by industrial concerns. It also underwrites such issues.
- 5) **Refinancing** : It provides refinancing facilities to scheduled banks and other financial institutions. Its refinances include: 1) loans between 3 to 25 years granted by IFCI, SFCs or any other financial institution, 2) loans between 3 to 10 **years granted** by a scheduled or a cooperative bank to any industrial concern, 3) export loans between 6 months to 10 years given by a scheduled bank or a cooperative bank or any other financial institution.
- 6) **Promotional activities** : It provides and arranges technical and managerial assistance for an industrial concern (or person) for promotion, management or expansion of any industry. It is also entrusted with the responsibility of planning,



promoting and developing industries with a view to filling gaps in the industrial structure.

- 7) **Other functions** : It undertakes research and surveys in the fields of marketing and investment. It may establish subsidiaries to carry out its functions and undertake any business which the Central Government may ask it to undertake.

### Performance

The Industrial Development Bank of India is the leading development bank of India. Its progress, if judged by its operations, has really been spectacular all through but more so during recent years. Let us now discuss the various activities of the bank under the following headings.

The total Financial assistance sanctioned and disbursed by the bank since its inception can be observed From Table 11.3. It can be seen from the table that the IDBI's cumulative assistance upto the end of March, 1989 reached to Rs. 34,400 crore. During the same period the bank disbursed Rs. 25,112 crore. The assistance sanctioned and disbursed for the latest three years is significant. During 1988-89 it sanctioned Rs. 7,117 crore and disbursed Rs. 4,746 crore.

Industry-wise analysis of financial assistance sanctioned by IDBI reveals that the services industry received major (17%) share in cumulative assistance sanctioned upto March, 1989 followed by Textiles (12.8%), electricity generation (10.6%), miscellaneous chemicals (6.6%), fertilisers (6.6%), and food products (5.5%).

**Table 11.3 : Assistance Sanctioned and Disbursed**

(Rs. in crores)

Year	Sanctions	Growth rate %	Disbursements	Growth rate %
1964-65	28.6	—	20.7	—
1970-71	69.6	—	57.6	—
1971-72	148.9	113.9	80.1	39.1
1972-73	96.6	(-) 35.1	81.7	2.0
1973-74	167.0	72.9	137.0	67.7
1974-75	253.7	51.9	203.1	48.2
1975-76	304.6	20.1	223.5	10.0
1976-77	539.6	77.1	341.4	52.8
1977-78	679.5	25.9	410.3	20.2
1978-79	724.8	6.7	618.1	50.6
1979-80	1131.9	56.2	752.9	218
1980-81	1291.2	14.1	1014.1	34.7
1981-82	1549.8	20.0	1217.9	20.1
1982-83	1800.2	16.2	1498.5	23.0
1983-84	2303.4	27.9	1774.3	18.4
1984-85	3342.0	45.1	2073.7	16.9
1985-86	3517.2	5.2	2783.9	34.2
1986-87	4427.0	25.9	3205.9	15.2
1987-88	4791.3	8.2	3613.6	12.7
1988-89	7117.6	48.6	4745.8	31.3
Cumulative upto				
March 1989	34400.4	—	25112.2	—

Source : IDBI, Report on Development Banking in India, 1988-89, P. 17.

A few developed States continued to receive major portion of the assistance sanctioned by the Bank. During 1989-90 Maharashtra (Rs. 737 crore), Gujarat (Rs. 845 crore), Tamil Nadu (Rs. 722 crore), Uttar Pradesh (Rs. 784 crore), Andhra Pradesh (Rs. 552 crore) and Rajasthan (Rs. 523 crore) received 60% of the total assistance sanctioned by IDBI. In fact, out of Rs. 32,942 crore cumulative assistance sanctioned, 61% went to these states only. However, in the recent past, the bank extended its assistance substantially to backward areas.

Assistance sanctioned to private sector projects accounted for three-fourths of the cumulative sanctions as at the end of March, 1989. Public enterprises, on the other

hand, received Rs. 5,797 crore followed by joint sector Rs. 1.895 crore and co-operative sector Rs. 675 crore.

### **The role of IDBI in Nation Development**

As an apex bank, the IDBI has been playing a very important role in the nation building activities. Its contribution is noteworthy particularly from the following:

- 1) **Creation of more employment opportunities** : The Bank has given a big impetus to creation of employment opportunities in the country. As a result of the assistance given by it to the enterprises, about 84.7 lakh jobs were created so far since its inception.
- 2) **Assistance to weaker units** : It is specially helpful to industrial concerns which, for one reason or another, find it difficult to raise finance through normal channels.
- 3) **Development of small-scale units** : The Bank took special interest, for the development of small-scale sector in India until the establishment of Small Industry Development Bank of India in 1990. It played crucial role in the establishment of this apex level institution for solving the problems of small-scale sector.
- 4) **Assistance to new entrepreneurs** : In addition to the grant of finance on liberal terms, it has done a lot to discover and encourage new entrepreneurial talent in the country. It provided a wide variety of services to the new entrepreneurs in addition to training facilities.
- 5) **Sponsoring of technical consultancy organisations** : The bank has sponsored eight Technical Consultancy Organisations (TCOs) in different parts of the country. The TCO cater to the needs of new and small entrepreneurs in areas such as project identification, project formulation, market surveys and various reports. They also provide technical and managerial assistance. The TCOs are also making efforts to identify new entrepreneurs and provide training facilities to them.
- 6) **Development of backward regions** : The bank has channelled a substantial portion of its funds to industries established in backward regions. It is taking active role in correcting regional imbalances in the industrial development of the country.
- 7) **Soft loan scheme** : The Bank provided soft loans to industrial units in selected industries, namely Cotton textiles, Jute, Cement, Sugar and Engineering. Under the soft loan scheme the IDBI sanctions loans to industrial units of these industries to bring about the much neglected modernisation, replacement and renovation of plant and machinery.
- 8) **Coordination between term lending institutions** : It has brought about effective cooperation among the term-finance institutions in the country. The proposals for finance put up by industrial concerns are now jointly appraised, processed and financed. As a result, there is no overlapping of activities, risks are diversified, and financing is in tune with the national priorities.

### **Criticism**

IDBI achieved tremendous growth in loan sanctions, disbursements, assistance to small sector, assistance to backward areas during the period between 1964-65 and 1988-89. However, if we look at the things closely, we notice certain gaps in the activities of IDBI.

- 1) **Fall in disbursements** : There was a steady growth in the loans sanctioned by IDBI in the 1980s. As against this, there was a declining trend in disbursements during the same period. For instance sanctions as a percentage of total was 56.0% in 1980-81 which increased to 62.4% by 1984-85 as against a decline from 44% to 37.5% in the case of disbursements during the same period.
- 2) **Inadequate care on the development of backward areas** : IDBI is criticised for its lenience towards backward areas of developed states than the backward states themselves. For instance, of its total assistance 46.8% was shared by four developed states, Maharashtra (13.5%), Gujarat (12.2%) Uttar Pradesh (11.0%) and Tamil Nadu (10.1%) by March, 1989. As against this, nine backward states received 2.4% only. Further, none of the backward states could get more than 1% in respect of percentage of total assistance of IDBI.
- 3) **Urban culture** : Since its head office, regional offices and branch offices are at metropolitan cities and State Capitals, it developed elitist and urban culture.

- 4) Delay in disposal of applications : It is said that IDBI takes unduly long time in appraising and processing the applications for financial assistance received from industrial concerns.
- 5) No links with outside agencies : It has not made adequate efforts to establish close links with the outside agencies like Asian Development Bank, World Bank and other such International agencies.

## 11.8 OTHER DEVELOPMENT BANKING INSTITUTIONS

Besides IFCI, ICICI and IDBI, there are some other development banking institutions at national level. They are Industrial Reconstruction Bank of India and Small Industries Development Bank of India. Now let us discuss about these two institutions in detail.

### 11.8.1 Industrial Reconstruction Bank of India (IRBI)

The Industrial Reconstruction Bank of India (IRBI) was established as a statutory corporation on 20th March, 1985 to take over the operations of the Industrial Reconstruction Corporation of India (IRCI). Its main objective is to function as the principal credit and reconstruction agency for the revival of sick industries. Another important objective is to bring coordination among various agencies working for the revival of such units. Its management is vested in the hands of Board of Directors with one Chairman and Managing Director and 12 directors. All of them are appointed by Government of India. Its authorised capital was Rs. 200 crore, while its paid up capital was Rs. 98 crore as on June 1988. It has the privilege to receive interest free loans from Central Government to the tune of Rs. 80 crore every year. It can also raise foreign loans guaranteed by Government of India.

The following are the functions of IRBI:

- 1) It can take over the management of sick industrial units, lease them out, sell them as running concerns or prepare schemes for reconstruction by scaling down the liabilities.
- 2) It can also assist and promote industrial development by granting loans and advances and also by subscription and underwriting of shares and debentures.
- 3) Its range of activities also includes services like provision of infrastructure facilities, consultancy, managerial and merchant banking activities.

#### Performance

It sanctioned Rs. 208.7 crore during 1988-89 as against its disbursements of Rs. 116.5 crore. As shown in Table 11.4, till June, 1988 it assisted 535 units with Rs. 522 crore. If we take industry-wise, cotton textiles (14.8%) received a major share of funds, followed by paper and paper products (6.1%) and Steel (5.6%). West Bengal (Rs. 219 crore) stood first in receiving financial assistance disbursed from IRBI, followed by Maharashtra (Rs. 55 crore) and Gujarat (Rs. 50 crore) by June, 1988.

By June 1988, of the total 535 units assisted by IRBI, production of 257 units accounted for Rs. 6,362 crore and sales Rs. 6,450 crore. Thus, it has rendered a lot in remaining the sick units.

**Table 11.4** Loan Sanctions and Disbursements of IRBI

(Rs. in crores)

year	Sanctions	Disbursements
1986-87	148.9	94.6
1987-88	186.5	101.9
1988-89	208.8	116.5
<b>Cumulative Total</b> till 31.3.1989	912.2	624.1

Source : IDBI, Report on Development Banking in India, 1988-89.

**In spite of its contributions**, IRBI is also being criticised because of the following reasons :

- i) It was alleged that the assistance is given only to a set of selected industries like engineering and textiles. Nearly two-thirds of IRBI's assistance was taken away by these industries.
- ii) There was a wide gap between sanctions and disbursements. On average, only 55% of the loans sanctioned were being disbursed.
- iii) It is considering only a fraction of the total applications. Hence many applications are pending unsettled.

### 11.8.2 Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI) was set up as a wholly-owned subsidiary of IDBI under the Small Industries Development Bank of India Act, 1990. It is the principal financial institution for promotion, financing and development of small-scale industries. It is also expected to co-ordinate the functions of existing institutions engaged in similar activities. SIDBI commenced its operations on April 2, 1990 and has taken over from IDBI the responsibility of administering the Small Industries Development Fund and the National Equity Fund.

## 11.9 EVALUATION OF DEVELOPMENT BANKS IN INDIA

All India financial institutions (AIFIs) viz., IDBI, IFCI, ICICI, LIC, GIC and UTI have made rapid progress in their operations in recent years. Over the years, AIFIs have emerged as major catalysts for channelising development finance to industry and related sectors. New and innovative schemes have been devised.

The data relating to sanctions and disbursements made by all financial institutions in India is presented in Table 11.5. It can be seen from the table that the aggregate sanctions and disbursements of loans by development banks had witnessed a steady increase over the years. During the period 1948-64, aggregate assistance sanctioned by them was to the order of Rs. 458 crore. Assistance sanctioned increased from Rs. 118 crore in 1964-65 to Rs. 177 crore during 1969-70. Particularly there was a spectacular growth in their sanctions and disbursements during the 1980s. Thus, loans sanctioned had touched Rs. 13,722 crore during 1988-89. Their cumulative sanctions till March 1989 accounted for Rs. 59,104 crore. Same trend is noticed in respect of their disbursements also. Thus, their disbursements which stood at Rs. 91 crore in 1964-65, shot up to Rs. 8,375 crore during 1988-89. Their cumulative disbursements till March 1989 were to the order of Rs. 42,112 crore.

Table 11.5 : Assistance Sanctioned and Disbursed by AIFIs

(Rs. in crores)

Year	Sanctions	Growth Rate %	Disbursements	Growth Rate %
1980-81	2293.5	—	1599.6	—
1981-82	2367.1	3.2	1826.2	14.2
1982-83	2907.2	22.8	2152.2	17.9
1983-84	3721.4	28.0	2687.3	24.9
1984-85	5031.9	35.2	3180.1	18.3
1985-86	5942.9	18.1	4552.9	43.2
1986-87	7237.6	21.8	5204.0	14.3
1987-88	8579.3	18.5	6233.5	19.8
1988-89	13722.8	60.0	8375.3	34.4
Cumulative upto March 1989	59103.8	—	42112.5	—

Source : IDBI, Report on Development Banking in India, 1988-89 p.11.

### critical.Appraisal

All India financial institutions suffer from the following weaknesses :

- 1) **Procedural delays** : Due to complicated procedures involved from the stage of application till the final stage of disbursement of loans, inordinate delays are taking place. Cost of the projects are tilting away by the time the loan received. As a result, the beneficiary units are drastically affected.
- 2) **Urban and elite culture** : Since all the offices (head offices, regional offices and branch offices) of all development banks are located at metropolitan cities and state capitals, their staff have no access to rural and backward areas. They had no opportunity to understand the problems of those areas. On the other hand, they develop some sort of urban and elite culture, which defeats the very purpose for which they are started in a country like India.
- 3) **Bias towards developed states** : Almost all development banks extended assistance to forward states like Maharashtra, Gujarat, Tamil Nadu and West Bengal instead of assisting backward states like Assam, Orissa, Meghalaya, Arunachal Pradesh, Tripura, Mizoram, Sikkim and Nagaland. This is perhaps due to absence of infrastructural facilities. But it is to be noted that as long as financial assistance is not provided for industrial units, there is very little scope to develop infrastructural facilities.
- 4) **Overdues** : Overdues of development banks are increasing day by day and they have reached an alarming stage. Of the amounts given as loans, nearly one-third are standing as overdues inspite of several legal measures.
- 5) **Paucity of funds** : Yet another problem of development banks is paucity of funds. Obligations are many but resources are limited. Further, Governments are unable to extend their helping hand due to obvious reasons. As a result of growing inflation and increasing industrial activity, their limited resources could not meet the growing demands.
- 6) **Coordination** : In spite of IDBI's efforts, they lack coordination in the course of their activities with each other. As a result, duplication of work, contradictions in procedures, etc., are taking place.

### Check Your Progress C

- I) State whether the following statements are True or False.
  - i) IDBI is the apex institution of term finance in India.
  - ii) The paid-up capital of IDBI on March 1989 stood as Rs. 1,000 crore.
  - iii) The Board of Directors of IDBI deals with proposals for sanction of financial assistance.
  - iv) IDBI is also entrusted with the responsibility of planning, promoting and developing industries with a view to filling gaps in the industrial structure.
  - v) IDBI is also entrusted with the responsibility of planning, promoting and developing industries with a view to filling gaps in the industrial structure.
  - vi) IDBI has sponsored eight Technical Consultancy Organisations.
  - vii) IDBI is the principal agency for promoting small scale industry.
  - viii) Disbursement as a percentage of loan sanctioned has declined lately in case of IDBI.
  - ix) IDBI's activities have hampered the growth of new entrepreneurial talent.
  - x) IDBI also undertakes surveys in the field of investment.

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## 11.110 LET US SUM UP

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Development banks are a special kind of institutions which are a combination of a finance corporation and a development corporation. These development banks are established to supply three basic ingredients to industry : 1) capital, 2) knowledge and 3) entrepreneurship.

Though origin of development banking may be traced to the early 19th century, it came up in its modern form after the World War II. The first development bank established in India was the Industrial Finance Corporation of India. It was established in 1948, followed by State Finance Corporations. Subsequently ICICI, IDBI, SIDC and SIDBI have been established.

The primary objective of IFCI is to provide medium and long-term credit to industrial units. In addition, it guarantees the loans, underwrites the issue of shares, debentures

and bonds and subscribes directly to the shares issued by industry. During its 42 years of existence the IFCI has sanctioned about Rs. 6,600 crore out of which Rs. 1,005 crore have been sanctioned only during 1988-89. Though the performance of IFCI has been good, yet it is criticised for providing resources to big concerns, and primarily to backward areas within advance states.

The ICICI was established in 1955 as privately owned and operated corporation. Its two main aims, besides the normal aims of a development bank, are to encourage foreign capital participated in the private sector and to encourage private investment in industry. It provides the facilities of loans, underwriting, guaranteeing and equity' participation. The non-traditional industries were the major beneficiaries of ICICI. This Corporation has significantly contributed to the growth of private industrial financial assistance to a few industries and geographical regions.

The IDBI was established in 1964 as a wholly owned subsidiary of the RBI. But it was made autonomous in 1976 and was asked to play the role of an apex financial institution. It provides term finance, technical and administrative assistance, and co-ordinate working of those institutions that are engaged in financing and promoting industries. It also acts as a refinancing agency for scheduled banks and other financial institutions. In terms of financial assistance sanctioned and disbursed, the performance of IDBI has been quite impressive. However, developed states like Maharashtra, Gujarat, Tamil Nadu, etc., received the major share of financial assistance. About 75% of assistance went to private sector. However IDBI has contributed significantly by helping weaker industrial units, developing small scale units and channelising funds for the development of backward areas.

IRBI was established to help in the revival of sick industries in India. Though it played a significant role in reviving sick units, it has been criticised for giving assistance to only a set of selected industries, slow working and the wide gap between sanctions and disbursements. The SIDBI was established in 1990 to promote, finance and develop small scale industries.

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## 11.11 KEY WORDS

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Authorised Capital : The amount of share capital in the memorandum of association and the articles of association of a company as required by the Companies Act.

Development Bank : A financial agency engaged in providing medium and long-term financial assistance to industrial undertakings in the form of loans.

Paid-up Capital : That part of the issued capital of a company that has been paid-up by the shareholders.

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## 11.12 ANSWERS TO CHECK YOUR PROGRESS

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- A 1) i) True ii) False iii) True iv) True v) False  
2) i) earliest ii) deferred; abroad iii) capital, knowledge, entrepreneurship.
- B 1) i) medium; long ii) Central; World Bank iii) 200  
2) i) True ii) False iii) False iv) True v) True
- C 1) i) True ii) False iii) False iv) True v) True vi) True vii) False viii) True ix) False  
x) True

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## 11.13 TERMINAL QUESTIONS

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- 1) What do we mean by term lending? Discuss the role of special institutions that have been established recently in India with a view to solve the problem of term finance.
- 2) Critically examine the role of Industrial Development Bank of India as an apex institution.
- 3) Review the objectives and achievements of the Industrial Credit and Investment Corporation of India.

- 4) Has Industrial Finance Corporation of India become irrelevant recently given the emergence of a number of specialised financial institutions in India? Discuss.

**Note :** These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.