

CHAPTER – II

FUNCTIONS OF IDBI

Prior to the setting up of the IDBI, a fairly wide network of Financial Institutions (FIs) have emerged in India as a result of deliberate and purposive efforts made by Government and RBI after independence. Though these institutions have served with a degree of success to meet the growing requirements of the expanding industrial sector, but they didn't adequately meet the requirements of long term finance and of rendering promotional services to the industry. Statutory obligations and the traditions of these financial institutions were serious constraints in this regard. Moreover, their overlapping services created confusion in the minds of borrowers and there was no effective mechanism to co-ordinate and integrate the functioning of the diverse institutions in the field. Thus, there was the need for "a co-ordinating machinery which could establish working relationship with other financial institutions and build up a pattern of inter-institutional cooperation that can facilitate the evaluation of a rational and cohesive structure of financial institutions, adapted to the changing needs of emerging industrial structure with its growing complexity of inter-relationship. Further, a

central development institution was essential to provide dynamic leadership in the task of promoting a widely diffused and diversified yet viable process of industrialization". It was against this background that IDBI was established in July 1964. It is functioning as an apex institution co-ordinating and supplementing the operations of Financial Institutions providing long term finance to industry and as an agency for giving direct finance assistance to fill in the gaps. IDBI was established as a wholly owned subsidiary of RBI, but it was delinked from Reserve Bank Act 1976.

IDBI is empowered to undertake considerably broader range of functions as compared with other financial institutions. IDBI Act permit full operational flexibility and freedom to meet any problem related to industrial development in general and industrial finance in particular. This covers all kinds of industrial organisations, both in the public and private sector and there is no upper or lower limit with regard to the amount of assistance or the size of project which it can finance. There is no restrictive provision in the IDBI act regarding the nature and type of security to be obtained.

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

Broadly, the functions of IDBI can be classified into the following categories:

- a) Co-ordinating function
- b) Financing function
- c) Promotional function

a) **CO-ORDINATING FUNCTION**

According to George Terry “Co-ordination deals with the task of binding efforts in order to ensure successful attainment of an objective. It is accomplished by means of planning, organizing, actuating and controlling”. Co-ordination is like a thread in a garland and therefore, its presence is felt in all the activities and functions management”

Co-ordination is the effort to ensure a smooth interplay of the functions and forces of all the different institutions doing the same work so that its purpose will be realized with a minimum of friction and a maximum of collaborative effectiveness.

“It makes diverse elements and sub systems of organizations to work harmoniously towards the realization of common objectives”.

“Co-ordination is the process whereby an Apex institution develops an orderly pattern & group effort among his subordinates and secures unity of action in the pursuit of common purpose”.

Co-ordination is a conscious and rational process of pulling together the different parts of an organization and unifying them into a team to achieve predetermined goals in an effective manner. According to Henry Fayol – “To co-ordinate is to harmonise all the activities of different concerns so as to facilitate the working and success. In a well co-ordinated team, each institution works in harmony with others and is fully informed of its role in the organization. The working schedules of various institutions are constantly tuned to circumstances.”

The IDBI co-ordinates the functions and operations of all the financial institutions, including the IFCI, the ICICI, the LIC, GIC and the UTI into as single integrated financial structure so that each may contribute to the total effect – the growth of the economy.

To serve as the apex institution for term finance for industry, to co-ordinate the working of institutions engaged in financing, promoting or developing industries and to assist in the development of these institutions.

The IDBI is vested with the responsibility of co-ordinating the working institutions engaged in financing, promoting or developing industries. It has evolved an appropriate machinery for this purpose. The appraisal and supervision of projects assisted on a consortium basis one co-ordinated to avoid duplication work and delay.

b) FINANCING FUNCTION

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

As an industrial financier, the IDBI would assist all the deserving projects (regardless of their size), which experience enormous problems in assembling funds from normal channels. Its endeavour in this regard is to ensure that no worthwhile project, however, small, is allowed to languish for want of, or insufficiency of, institutional support. The bank can assist a project, directly and indirectly. Financial assistance sanctioned by IDBI consists of broadly two groups:

- i) Direct Assistance
- ii) Indirect Assistance

i) Direct Assistance /Finance

Direct financial assistance to industrial projects are given by IDBI in similar ways in which other financial institutions normally provide. It grants direct assistance by way of project loans, under writing of and direct subscription to industrial securities, soft loans, technical refunds loans and equipment finance loans. It subscribes to purchase and underwrites the issue of stocks, shares and bonds of debentures. The loans and advances which IDBI makes to any

industrial concern may be converted into equity stocks and shares at a later date by IDBI. The bank is also empowered to guarantee loans raised by industrial concerns in the open market from scheduled banks, the state co-operative banks, IFCI and other 'notified financial institutions. IDBI can also accept, discount or rediscount bonafide commercial bills or promising notes of industrial concern. In direct lending the bank resembles IFCI and ICICI.

However, it has greater freedom of operation and can endeavour to secure collaboration of other institutions in the fields of technical scrutiny and financial partnership. IDBI also grants export finance in the form of direct loans and guarantee to exporters in participation with banks refinancing of medium term export credit granted by banks and overseas buyer's credit.

Direct assistance is usually granted for the acquisition of fixed assets for new units as well as for expansion, modernization or renovation of existing units. It is usually provided to large scale and medium sized projects which have not been able to obtain their full requirements from other term financing institutions. Since the IDBI has been created to supplement and not to supplant other activities of other financial institutions, it normally prefers not to assist projects whose needs can be met by other institutions.

ii) Indirect Assistance /Finance

The Industrial Development Bank of India (IDBI) can assist industrial concerns in an indirect manner also, i.e. through other institutions. IDBI assistance to other institution also includes its rediscounting scheme.

Firstly, it can refinance term loans to industrial concerns, repayable within 3 to 25 years given by the IFCI, the state Financial Corporations and other Financial Institutions.

Secondly, it can refinance term loans repayable between 3 and 10 years given by scheduled banks or state co-operative banks.

Thirdly, it can refinance export credit given by the Scheduled banks and State co-operative banks.

Thus, IDBI finances those banks and financial institutions which are lending to industrial concerns. Finally, IDBI has subscribed to the stocks, shares, bonds and debentures of I.F.C.I., the State Financial Corporations and other “notified” financial institutions so as to increase their financial resources and enable them to provide larger assistance to industry.

COMPOSITION OF ASSISTANCE

Financial assistance sanctioned by IDBI consists of broadly two groups:

- i) Direct Assistance, and
- ii) Indirect Assistance

i) Direct Assistance

IDBI, approach with regard to direct financial assistance has been governed by its apex character, its vantage position for assisting the financing of industry in participation with other financial institutions and the special responsibility vested in it to fill the gaps in the industrial structure and to develop certain vital and strategic sectors of the economy. As the lender of the last resort, it endeavours not only to fill in the gaps that remain after taking into account the assistance provided by other financial institutions, but also takes lead in the appraisal of the project and in arranging for the necessary quantum of financial assistance.

IDBI's direct assistance to industry is extended mainly under its project finance scheme in the form of loans, underwriting of and direct subscription to shares and debentures and guarantees and to a Limited extend under the Technical Development Fund Scheme. Assistance under the Textile Modernisation Fund, Venture Capital Fund, Technology Upgradation and Equipment Finance for Energy Conservation Schemes also included under the project finance scheme.

Direct assistance sanctioned by IDBI to industrial concerns consists of four different forms as follows :

- a) Grant term loans and advances
- b) Underwriting and Direct Subscription
- c) Guarantees, and
- d) Technical Development Fund.

a) Grant Term Loans and Advances

IDBI generally provides loans to industrial concerns directly for periods ranging between ten to twelve years inclusive of grace period of 2-3 years. Loans constitutes the single most important component of IDBI's direct assistance.

b) Underwriting and Direct Subscription

IDBI also finances industrial concerns through underwriting and direct subscription to shares and debentures issued by them, but their magnitude has been limited.

IDBI like other financial institutions such as IFCI, SFS, etc. acts primarily as a term lending agency and its underwriting and investment activity is at a miserably low level. Despite this, IDBI has emerged as the most important development bank in the sphere of underwriting in India next only to ICICI. A notable feature is that its underwriting operations are reflecting the accent on 'promotional' aspects as a major share of its underwriting operations pertains to

issues of risk capital. Equally important is the fact that the issues of capital by new companies occupy a permanent place in IDBI's underwriting operations.

c) Guarantees

Guarantee the differed payments due from industrial concerns to third parties and the loans raised by them in the pan market or from financial institutions.

Apart from loans and underwriting, IDBI also grants direct assistance to industries in the form of guarantees for loans and deferred payments. In fact, IDBI seems to have discontinued the practice of extending guarantees facility to industrial concerns since 1974-75.

d) Technical Development Fund

IDBI providing working capital to projects assisted by the Bank. Since 1976, IDBI also provided direct assistance to industrial enterprises under the technical Development Assistance Scheme. The Government of India in March 1976 created a special fund called Technical Development Fund, in order to promote fuller utilization of capacity, technical upgradation and export development. Technical Development Fund provides foreign exchange for imports of small value balancing equipment, technical know-how, foreign consultancy services and drawings and designs.

Over the years, IDBI is taking an increasing interest in the Technical Development Assistance Scheme. This is a healthy development.

ii) Indirect Assistance

IDBI provides a significant part of its total assistance to industrial concerns indirectly through other financial institutions like SFCs, SIDCs, Commercial banks and cooperative banks, etc. There has been continuous increase in the amount of indirect assistance sanctioned by IDBI, but the rate of increase of assistance has varied from year to year. It is clear that in consonance with its evolving role as apex development bank, IDBI has been adapting its operational policies as a natural concomitant of which more emphasis has progressively come to be placed on indirect assistance for financing of industrial enterprises.

IDBI extends its indirect assistance basically through four important way. They are :

- a) Refinancing of Industrial Loans
- b) Rediscounting Assistance
- c) Subscription of Shares and Bonds of Financial Institutions.
- d) Seed Capital Assistance.

Since 1976-77, IDBI is providing indirect assistance in a limited amount through its Seed Capital Assistance Scheme also.

a) Refinance of Industrial Loans

A major proportion of IDBI's indirect assistance to industrial sector is provided by way of refinance of industrial loans, its refinance facility is available to IFCI, SFCs, commercial banks, cooperative banks and SIDCs, SIICs. Regional Rural Banks are also eligible to avail of refinance assistance from, IDBI. The loans to be refinanced must have a maturity of 3 to 25 years in case of IFCI and SFCs and 3 to 10 years in the case of commercial and cooperative banks. Generally IDBI provides 80 percent of the loans given by financial institutions, but in case of small enterprises and units located in backward areas it can be upto 100 percent of the loans given by financial institutions. Refinance assistance has been single most important form of indirect assistance of IDBI.

A notable feature of IDBI's refinance assistance is that about two-third of its total refinance assistance has gone to the small scale sector. IDBI is providing assistance to small sector indirectly through SFCs, SIDCs/ SIICs, commercial banks, cooperative banks and regional rural banks which are the major beneficiaries of refinance assistance of IDBI.

Institution-wise refinance assistance has undergone significant changes over the years. Though SFCs continue to get the largest

share in the total refinance assistance of IDBI, but their relative share has declined significantly.

b) Rediscounting Assistance/ Bills Finance

There are two schemes viz. Bills Rediscounting Scheme and Direct Discounting of Bills Scheme through which IDBI grants bills finances to industrial concerns. Bills Rediscounting Scheme was introduced in April 1965 to help the use of indigenous machinery. Under the scheme, IDBI rediscounts bills of exchange/ promissory notes covering instalments payment basis. Originally scheme was applicable to only six industries, namely, cotton, jute, silk, cement, sugar and paper machinery. But, over the years, scheme has been considerably expanded in scope and now it covers all machinery manufacturing industries in India. Since 1968 it has been extended to cover purchase – users in the public sector such as State Electricity Boards, State Road Transport Corporations and Government companies.

Direct Discounting of Bills Scheme has been introduced by IDBI in June 1988. Under the scheme, IDBI directly discounts bills promissory notes to machinery manufacturers who have been in production for a minimum period of five years with a good track record. Scheme has initially been extended on a selective basis.

Under the Bills Rediscounting Scheme, there has been sharp increase in the absolute amount sanctioned by IDBI. Other industries assisted under the scheme were food manufacturing, jute, chemicals transport equipment, paper, etc., but their share is very low. IDBI's bills rediscounting assistance is mainly concentrated to four industries viz. electricity generation, textiles, road transport and machinery. This is not a healthy trend and assistance should be spread to other industries too.

c) Subscription to Shares and Bonds of Financial Institutions

As a purveyor of supplementary resources, IDBI has provided financial assistance to other financial institutions through subscription to their share capital and bond issues. Financial institutions to which such assistance has been extended are IFCI, ICICI, IRBI, UTI, SFCs, SIDCs and NSIC, etc. Despite increase in the absolute amount of IDBI's resources support to other financial institutions, its relative importance has declined over the years. This should not be surprising as these subscriptions are intended only to strengthen the financial position of financial institutions so that their lending capacity is increased.

d) Seed Capital Assistance

Since 1976, IDBI has introduced Seed Capital Assistance Schemes. The objective of these schemes is to help such entrepreneurs who have technically feasible and economically viable projects and possess the enterprise but lack adequate financial resources to put in the promoter's contribution. Thus, Seed Capital Assistance Scheme is intended to make-up or supplement promoter's contribution. IDBI should reverse this trend and take active part to help the new entrepreneurs to set-up new projects and accelerate the pace of industrial development in the country.

SPECIAL ASSISTANCE

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

FOREIGN CURRENCY REQUIREMENTS

IDBI raises foreign funds from international money markets and international funding organizations and makes them available to Indian industrial units.

It is interesting to note that unlike the other existing statutory financial corporations, IDBI has no restrictions imposed regarding the nature and type of security which it should accept.

IDBI provides direct loans to industrial concerns, refinance of industrial loans and export credits, rediscounting of bills, underwriting of and direct subscription of shares and debentures of industrial units and direct loans for exports. Till 2000-01, IDBI became the most important institution assisting industrial units.

ASSISTANCE TO BACKWARD AREAS

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

The scheme was revised and liberalized later. Under the liberalized scheme, IDBI in participation with IFCI and ICICI gave concessional rupee assistance up to Rs. 2 crores and underwriting assistance up to Rs. 1 crore. The IDBI's concessional assistance and refinance of loans for backward areas increased steadily in terms of number of applications and amounts sanctioned and utilized.

Refinance facilities by IDBI. IDBI took over the Refinance Corporation of India in November 1964 and was providing refinance facilities to industrial units through member banks. As an apex institution, the IDBI assists State Financial Corporations, the IFCI, Leasing Companies and others working in the field of industrial finance by subscribing to their shares and bonds. IDBI also participates in loans and guarantees to supplement the refinance operations as a measure of risk sharing with other institutions.

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

IDBI launched the National Equity Fund Scheme in 1988 for providing support, in the nature of equity to tiny and small scale industrial units engaged in manufacturing cost not exceeding Rs. 5 lakhs. The scheme was administered by IDBI through nationalized banks. IDBI introduced the single window scheme for grant of term loans and working capital assistance to new tiny and small scale

units. Finally, IDBI set up a Voluntary Executive Corps Cell (VECC) to utilize the services of experience professionals for counseling small units, tiny and cottage units and for providing consultancy support in specific areas.

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

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

Soft Loan Scheme. IDBI introduced in 1976 the soft loan scheme to provide financial assistance to productive units in selected industries, viz., cement, cotton textiles, jute, sugar and certain engineering industries on concessional terms to enable them

to overcome the backlog in modernization, replacement and renovation of their plant and equipment so as to achieve higher and more economic levels of production. The scheme was administered by IDBI with financial participation by IFCI and ICICI. The basic criterion for assistance under the scheme was the weakness of the units on account of obsolescence of machinery. The rate of interest was 7.5 percent and the period of loan was 15 years. The pace of disbursement was very slow as the soft loan scheme was not attractive to the private sector units because of the convertibility clause.

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

IDBI permitted by SEBI to carry out merchant banking activities which cover professional advice and services to industry for raising capital from the market, acquisition of assets on lease, mergers/

take-over of existing units etc. The Merchant Banking Division of IDBI, in the first 2 years of its existence had lead-managed 118 issues and had helped to mobilize Rs. 12,340 crores from the market.

c) PROMOTIONAL FUNCTION

Promotional function under this category includes such activities as marketing and investment research and surveys as well as technological studies. It can also provide technical and administrative assistance to any industrial concern for promotion management or expansion. IDBI also plans, promotes and develops industries to fill gaps in the industrial structure of the country. During the many years of its operations, IDBI evolved number of innovative scheme of assistance and under look various promotional activities to meet the growing needs of the industrial sector. Since 1970, IDBI has taken several measures to step up pace of industrialization in the relatively backward regions of the country.

The IDBI is authorized to perform promotional activities with a view to bringing about a viable industrial development especially in the less developed areas. These promotional activities are oriented towards meeting the dual objectives of balanced regional development and acceleration in industrial growth. The activities directed towards the first objective include the identification and

follow-up of projects located in backward areas. These directed towards fulfilling the second objective include efforts at building up an appropriate framework for industrial development.

In fulfillment of its developmental role, IDBI continues to perform a wide range of promotional activities relating to developmental programmes for new entrepreneurs, consultancy services for small and medium enterprises and programme designed for accredited voluntary agencies for economic upliftment of the under privileged. This includes entrepreneurship development, self-employment and wage employment in industrial sector for weaker sections of the society through voluntary agencies. Support to science and Technology Entrepreneurs' Parks, Energy Conservation and Common Quality Testing Centres for small industries.

IDBI has contributed to the creation and widening of the entrepreneurial base and building up the requisite infrastructure to support this process through a range of activities. In particular, it has set up, in participation with other financial institutions, a network of institutes like Entrepreneurship Development Institute of India (EDII) at Ahmedabad, which also acts as the principal agency to co-ordinate the activities of various agencies in this field, and Institutes of Entrepreneurship Development (IED) with the objectives to foster

the spread of Entrepreneurship development, initiating surveys and studies to identify industrial potential etc.

Thus we see that IDBI has been doing its best since 1964 for the promotion and development of industries in the country. It has been the most important financial institution meeting the different needs of industries through its operations since inception. The above and many other schemes of assistance of IDBI are designed to promote industrial development in the country. IDBI also plays an important role in under taking export guarantees which constitute a major support for achieving contracts abroad.

The focus of IDBI's promotional thrust during these years has been to strengthen the existing institutional network, including the inter-institutional co-ordination, and to evolve appropriate strategy for the development of industries in backward areas.

RTGS SOLUTION FROM IDBI BANK LTD.

When time is of the essence, IDBI Bank Ltd. launches its latest offering, Real Time Gross Settlement (RTGS) payment, a solution for faster and most efficient settlement of esteemed customers. This payment mechanism will enable funds to be received recipient intra-day rather than the net settlement system exchanges that occur and coined the banking hours. The RTGS product would enable beneficiary the following:

- Speed – Guaranteed & Fast settlement of transactions.
- High Liquidity – Lowering interest cost.
- Better Funds Management – Ensures optimum planning and utilization of funds.
- Hassel free HV settlement – Elimination of collections through physical HV clearing.
- Reduces Paper work and improve efficiency.
- Reduces operational risk & systematic risk.

IDBI Bank Ltd. offers the beneficiary the following RTGS product solution competitive terms.

Products

- Single Transaction/ Regular Transaction
- Bulk Payment Product

Transaction Initiation By Customer For Outward Payouts

- The customer fills in the RTGS Application form in duplicate giving the particular Beneficiary and authorizes the Remitting branch of IDBI Bank to remit a specified amount the beneficiary by raising a debit to the customer's (remitter's) account.
- After verification, IDBI Bank will debit the customer account.

- If all the details of beneficiary are correct, the transaction will successfully procure the funds which will be transferred to the beneficiary's bank branch.
- Each message thus set will have a Unique Transaction Reference Number which will be given to customer and can be used as a reference for future enquiry.

**Inward Receipts by IDBI Bank through RTGS on behalf of
(Company Name)**

- Inward Payment messages once received at IDBI Bank's PI, will be credited to the account after matching the account name and account number.