# 12

# Development Financial Institutions

**Chapter Objectives**

This chapter will enable you to develop an understanding of the following:

1 *Meaning and objectives of development financial institutions*

2 *Evolution of development banks*

3 *Development Financial Institutions in India*

4 *Changing role of development financial institutions*

5 *Universal banking*

6 *Policy measures relating to development financial institutions*

7 *Industrial Finance Corporation of India*

8 *Small Industries Development Bank of India*

9 *Infrastructure Development Finance Company Limited*

10 *The Export Import Bank of India*

11 *National Bank for Agricultural and Rural Development*

## INTRODUCTION

The economic development of any country depends on the extent to which its financial system efficiently and effectively mobilizes and allocates resources. There are a number of banks and financial institutions that perform this function; one of them is the development bank. Development banks are unique financial institutions that perform the special task of fostering the development of a nation, generally not undertaken by other banks.

Development banks are financial agencies that provide medium and long-term financial assistance and act as catalytic agents in promoting balanced development of the country. They are engaged in promotion and development of industry, agriculture, and other key sectors. They also provide development services that can aid in the accelerated growth of an economy.

The objectives of development banks are as follows:

1. To serve as an agent of development in various sectors, namely, industry, agriculture, and international trade.
2. To accelerate the growth of the economy.
3. To allocate resources to high priority areas.
4. To foster rapid industrialization, particularly in the private sector, so as to provide employment opportunities as well as higher production.
5. To develop entrepreneurial skills.
6. To promote the development of rural areas.
7. To finance housing, small scale industries, infrastructure, and social utilities.

In addition, they are assigned a special role in the following:

1. Planning, promoting, and developing industries to fill the gaps in industrial sector.
2. Coordinating the working of institutions engaged in financing, promoting or developing industries, agriculture, or trade.
3. Rendering promotional services, such as discovering project ideas, undertaking feasibility studies, and providing technical, financial, and managerial assistance for the implementation of projects.

## EVOLUTION OF DEVELOPMENT BANKS

The concept of development banking originated during the post Second World War period. Many countries of Europe were in the stage of industrial development and special financial institutions known as development banks were set up to foster industrial growth. In the US, development finance institutions came into existence for special purposes such as economic rehabilitation and filling gaps in the traditional financing pattern. Not only developed countries, but several underdeveloped countries in Asia, Africa, and Latin America established special financial institutions to hasten the pace of industrialization and growth.

The International Bank for Reconstruction and Development (IBRD) known as the World Bank and the International Monetary Fund (IMF) are examples of development banks at the international level. The major objective of the World Bank is to promote world development and perform the task of transfer of enormous financial and technical resources from the

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developed to developing nations. The IMF performs a special function of providing financial assistance to private sector projects in developing countries.

## Development Financial Institutions in India

The need for development financial institutions was felt very strongly immediately after India attained independence. The country needed a strong capital goods sector to support and accelerate the pace of industrialization. The existing industries required long-term funds for their reconstruction, modernization, expansion, and diversification programmes while the new industries required enormous investment for setting up gigantic projects in the capital goods sector. However, there were gaps in the banking system and capital markets which needed to be filled to meet this enormous requirement of funds. Some of them are listed below:

1. Commercial banks had traditionally confined themselves to financing working capital requirements of trade and industry and abstained from supplying long-term finance.
2. The managing agency houses, which had served as important adjuncts to the capital market, showed their apathy to investment in risky ventures.
3. Several malpractices, such as misuse of funds, excess speculation, and manipulations were unearthed. Owing to this, the investors were not interested in investing in the capital market.
4. There were a limited number of issue houses and underwriting firms that sponsored security issues.

Hence, to fill these gaps, a new institutional machinery was devised—the setting up of special financial institutions, which would provide the necessary financial resources and know-how so as to foster the industrial growth of the country.

The first step towards building up a structure of development financial institutions was taken in 1948 by establishing the Industrial Finance Corporation of India Limited (IFCI). This institution was set up by an act of parliament with a view to providing medium-and long-term credit to units in the corporate sector and industrial concerns.

In view of the immensity of the task and vast size of the country, it was not possible for a single institution to cater to the financial needs of small industries spread in different states. Hence, the necessity for setting up regional development banks to cater to the needs of small and medium enterprises was recognized. Accordingly, the State Financial Corporations Act was passed in 1951 for setting up state financial corporations (SFCs) in different states. By 1955–56, 12 SFCs were set up and by 1967–68, all the 18 SFCs now in operation came into existence. SFCs extend financial assistance to small enterprises.

Even as the SFCs were being set up, a new corporation was established in 1955 at the all-India level known as the National Small Industries Corporation (NSIC) to extend support to small industries. The NSIC is a fully government-owned corporation and is not primarily a financing institution. It helps small-scale industries (SSIs) through various promotional activities, such as assistance in securing orders, marketing the products of SSIs, arranging for the supply of machinery, and training of industrial workers.

The above institutions had kept themselves away from the underwriting and investment business as these were considered to be risky. Due to the absence of underwriting facilities, new entrepreneurs and small units could not raise equity capital nor could they get loan assistance owing to this weak financial position. To fill this gap, the Industrial Credit and Investment Corporation of India Limited (ICICI) was set up in January 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. The ICICI was organized as a wholly privately-owned institution; it started its operation as an issuing-cum-lending institution. It provides term loans and takes an active part in the underwriting of and direct investments in the shares of industrial units.

In 1958, another institution, known as the Refinance Corporation for Industry (RCI) was set up by the RBI, the Life Insurance Corporation of India (LIC), and commercial banks with a view to providing refinance to commercial banks and subsequently to SFCs against term loans granted by them to industrial concerns in the private sector. When the Industrial Development Bank of India (IDBI) was set up in 1964 as the central coordinating agency in the field of industrial finance, the RCI was merged with it.

At the state level, another type of institution, namely, the State Industrial Development Corporation (SIDC) was established in the 1960s to promote medium-and large-scale industrial units in the respective states. The SIDCs promoted a number of projects in the joint sector and assisted in setting up industrial units. In recognition of the crucial role played by them in the promotion of industries in different states, the SIDCs were made eligible for IDBI refinance facilities in 1976. Thus, they became an integral part of the development banking system of the country.

State Small Industries Development Corporations (SSIDCs) were also established to cater to the requirements of the industry at the state level. They helped in setting up and managing industrial estates, supplying of raw materials, running common service facilities, and supplying machinery on hire—purchase basis.

By the early 1960s, a plethora of financial corporations catering to the financial needs of a variety of industries had come into existence. However, the need for an effective mechanism to coordinate and integrate the activities of the different financial institutions was increasingly felt. Furthermore, many gigantic projects of national importance were held up as these financial institutions were not able to supply the necessary capital in view of their own limited resources. Hence, the establishment of a financial institution with a substantially large amount of capital resource and capable of functioning independently, unhindered by statutory rigidities, became inevitable.

The Industrial Development Bank of India (IDBI) was set up in 1964 as an apex institution to establish an appropriate working relationship among financial institutions, coordinate their activities, and build a pattern of inter-institutional cooperation to effectively meet the changing needs of the industrial structure. IDBI was set up as a wholly owned subsidiary of the RBI. The IFCI became a subsidiary of the IDBI so that it might play an enlarged role. In February 1976, the IDBI was restructured and separated from the control of the RBI.

An important feature of industrial finance in the country is the participation of major investment institutions in consortium with other all-India financial institutions. The Unit Trust of India (UTI), established in 1964, the Life Insurance Corporation of India (LIC), established in 1956, and the General Insurance Corporation of India (GIC), established in 1973, work closely with other all-India financial institutions to meet the financial requirements of the industrial sector.

Specialized institutions were also created to cater to the needs of the rehabilitation of sick industrial units, export finance, and agriculture and rural development. In 1971, the Industrial Reconstruction Corporation of India Limited (IRCI) was set up for the rehabilitation of sick units. In January 1982, the Export-Import Bank of India (EXIM Bank) was set up. The export finance operations of the IDBI were transferred to the EXIM Bank with effect from March 1, 1982. With a view to strengthening the institutional network catering to the credit needs of the agricultural and rural sectors, the National Bank for Agriculture and Rural Development (NABARD) was set up in July 1982.

These financial institutions have a network of branches and are supported by technical consultancy organizations. Their strategies, policies, and industrial promotional efforts subserve the national objectives of rapid industrial growth, balanced regional development, creation of a new class of entrepreneurs, and providing self-employment opportunities. They have not only provided medium-to long-term financial assistance to industry in the form of project finance, but have also rendered a wide range of services including providing risk capital, underwriting of issues, preparing and evaluating project reports, disseminating technical advice, and refinancing.

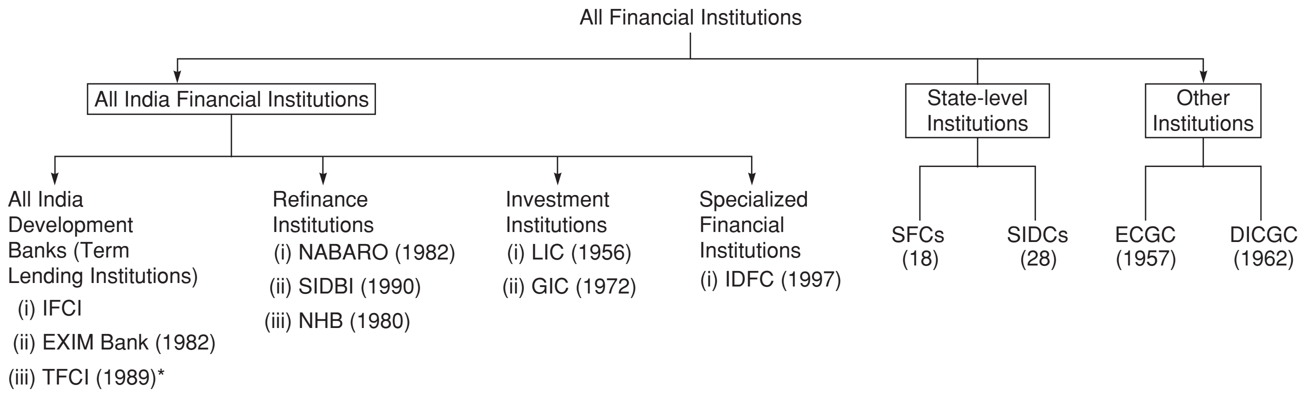
The national-level institutions, known as All India Financial Institutions (AIFIs), comprise two All India Development Banks (AIDBs), also known as term-lending institutions three refinance institutions, two investment institutions and one specialized financial institutions. The term-lending institutions are Industrial Finance Corporation of India Limited (IFCI), Export-Import Bank of India (EXIM Bank) and Tourism Finance Corporation of India Limited (TFCI).

At the state level, there are 18 state financial corporations (SFCs) and 28 state industrial development corporations (SIDCs).

The Specialized Financial Institutions comprise Infrastructure Development Finance Company Limited (IDFC).

The investment institutions are the Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC).

The refinance institutions are National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and National Housing Bank (NHB). These institutions extend refinance to banks as well as non-banking financial intermediaries for lending to agriculture, small scale industries, and housing finance companies (refer Figure 12.1).




*** Tourism Finance Corporation of India Ltd.**

**Notes:**

1. **Figures in brackets under respective institutions indicate the year of establishment or incorporation.**
2. **Figures in the brackets under state financial corporations (sfcs)/state industrial development corporations (sidcs) indicate the number of institutions in that category.**
3. **Ecgc: export credit guarantee corporation of india; dicgc: deposit insurance and credit guarantee corporation.**
4. **Icici and uti were part of the aifis till 2002–03. Idbi became a commercial bank from october 1, 2004.**

*Source:* RBI, *Report on Trend and Progress of Banking in India*, various issues.

**Figure 12.1** All India Financial Institutions

## CHANGING ROLE OF DEVELOPMENT FINANCIAL INSTITUTIONS

Financial institutions were functioning in a highly regulated regime upto 1991. DFIs were mostly engaged in consortium lending and they offered similar services at uniform prices. In the administered interest rate regime, the cost of borrowings of DFIs was substantially lower than the return on financing (lending). Long-term lending involves uncertainties and to handle this, the DFIs used to get concessional funds upto the 1990s. The RBI and the central government used to finance these institutions by subscribing to the share capital, allowing them to issue government guaranteed bonds and extending long-term loans at concessional rates. However, this concessional lending was phased out in the 1990s with the initiation of financial sector reforms. Interest rates were deregulated and the facility of issuing bonds eligible for SLR investments was withdrawn. At present, these financial institutions have to rely on equity and debt markets for financing their needs. DFIs have resorted to market-based financing by floating a number of innovative debt and equity issues. They also raise resources by way of term deposits, certificates of deposits and borrowings from the term money market within the umbrella limit fixed by the RBI in terms of net owned funds. More stringent provisioning norms have come into operation. Many of the DFIs including IDBI have lost their tax-exempt status.

Moreover, with deregulation, the distinction between different segments of financial intermediaries has blurred. The commercial banks and NBFCs are now financing the medium-and long-term capital needs of the corporate sector and DFIs have started extending short-term/working capital finance. This has led to a stiff competition between banks and DFIs. Commercial banks have a competitive edge over DFIs in terms of their branch network, infrastructure, client base and flexibility in operations. These have provided them the benefit of economies of scale and backed by low-cost deposits, they deliver low cost services to clients which DFIs cannot. Moreover, DFIs are saddled with huge amount of non-performing assets (NPAs) which are a result of large amount of disbursements in certain old economy sectors and greenfield projects with a lack of concern on quality and recovery of funds. As a result, the focus of DFIs has shifted from the purpose for which they were set up.

With globalization and liberalization, the financing requirements of the corporate sector has undergone a tremendous change. Many foreign players have entered into strategic alliances with Indian firms. There was an increase in research and development activities as well as the diversification plans of firms. Investment in technology and infrastructure became crucial. With a view to taking advantage of new opportunities, the financial institutions started offering a wide range of new products and services. DFIs set up several subsidiaries/associate institutions which offer various services such as commercial banking, consumer finance, investor and custodial services, broking, venture capital finance, infrastructure financing, registrar and transfer services, and e-commerce.

Corporates are now eyeing domestic and international stock markets to raise medium-and long-term funds for large projects as it has become not only easy to raise funds through these markets but it is costeffective also. Moreover, these markets are offering a wide range of innovative products and riskhedging mechanisms. Competition has made the traditional business model of DFIs redundant.

DFIs are in the process of converting themselves into universal banks. ICICI has become a universal bank by a reverse merger with its subsidiary ICICI Bank. IDBI has also transformed itself into a universal bank. IDBI was merged with its private banking arm IDBI Bank, in 2003–04. The new entity repositioned itself as a bank that focuses on development financing as mandated in legislation, while offering retail banking services. The name of 'Industrial Development Bank of India' has been changed to 'IDBI Bank Limited' with effect from May 7, 2008. IDFC, a development financial institution focusing on the development of infrastructure, was issued a banking license by the Reserve Bank of India in 2015. It started its operations as a bank by launching 23 branches on October 1, 2015.

The RBI has issued guidelines for DFIs to become commercial banks. These guidelines are the same as for commercial banks under the Banking Regulation Act. It is envisaged that there will be only two types of financial intermediaries in future, *i.e.*, commercial banks and non-banking finance companies (NBFCs).

## Universal Banking

Universal banking is a one-stop shop of financial products and services. Universal banks provide a complete range of corporate financial solutions under one roof—everything from term finance, working capital, project advisory services, and treasury consultancy. Universal banking encompasses commercial banking and investment banking, including investment in equities and project finance. It refers to a bank undertaking all types of business—retail, wholesale, merchant, private, and others under one organizational roof. It means a complete breakdown of barriers between different categories of financial intermediaries such as commercial banks, FIs, and NBFCs.

- Universal bank refers to a bank providing various financial products and services under one organizational roof.

Universal banking helps the service provider to build up long-term relationships with the client by catering to his different needs. The client also benefits as he gets a whole range of services at a low cost under one roof. Globally, banks such as Deutsche Bank, Citibank, and ING Bank are universal banks.

In India, the trend towards universal banking began when financial institutions were allowed to finance working capital requirements and banks started term financing. This trend got a momentum with the report of Narasimham Committee II, suggesting that development finance institutions should convert ultimately into commercial banks or non-bank finance companies (NBFCs). The Khan Committee, which was set up by the RBI to examine the harmonization of business of banks and development financial institutions, endorsed this conversion. It was of the view that DFIs should be allowed to become banks at the earliest. The committee recommended a gradual move towards universal banking and an enabling framework for this purpose should be evolved. In January 1999, the RBI released a discussion paper for wider public debate on universal banking. The feedback indicated the desirability of universal banking from the point of view of efficiency of resource use. In the mid-term review of monetary and credit policy (1999–2000), the RBI acknowledged that the principle of universal banking 'is a desirable goal.' In April 2001, it set out the operational and regulatory aspects of conversion of DFIs into universal banks.

ICICI was the first financial institution to convert itself into a truly universal bank. The concept of universal banking provides the financial institutions an access to the retail market wherein high margins are involved. This concept is slowly gaining popularity among banks as the interest spread has squeezed in the past few years and non-performing assets (NPAs) have increased in banking activity. A foray into universal banking would help the banks to diversify beyond the traditional portfolio of loans and investment and extend to treasury, capital market operations, infrastructure finance, retail lending, and advisory services.

# POLICY MEASURES RELATING TO DEVELOPMENT FINANCIAL INSTITUTIONS

The change in the role of DFIs, the South-East Asian crisis, and the general economic slowdown necessitated introduction of policy measures and regulation. In November 1994, the Board for Financial Supervision (BFS) was constituted under the aegis of the RBI for comprehensive and integrated regulation and supervision over commercial banks. FIs and NBFCs have been brought under the purview of the board. The scope and coverage of the FIs inspection are very limited, unlike that of NBFCs, and are not as rigorous as that of banks.

Select FIs such as IDBI, ICICI Ltd, IFCI Ltd, IIBI Ltd, NABARD, NHB, EXIM Bank, TFCI, SIDBI, and IDFC have been brought under the supervisory purview of the RBI to enhance the transparency in their performance and maintain systemic stability.

## Policy Measures

- Financial institutions were permitted to include the 'general provision on standard assets' in their supplementary (tier II) capital with a stipulation that the provisions on standard assets along with other 'general provisions and loss reserves' should not exceed 1.25 per cent of the total risk-weighted assets.
- An asset would be treated as non-performing, if interest and/or instalment of principal remain overdue for more than 180 days with effect from the year ending March 31, 2002. A non-performing asset is that part of a financial institution's asset that is currently yielding no return and on which none is expected.
- FIs have to assign a 100 per cent risk weight only on those state government guaranteed securities which were issued by the defaulting entities.
- FIs are required to assign a risk weight of 2.5 per cent for market risk in respect of investments in all securities from March 31, 2001. This risk weight would be in addition to the 20 per cent/100 per cent risk weight already assigned for credit risk in non-government/non-approved securities.
- In order to bring about uniformity in the disclosure practices adopted by the FIs and with a view to improving the transparency in their affairs, FIs were advised to disclose certain important financial ratios/data with effect from the financial year 2000–01. These disclosures pertain to capital-to-risk weighted assets ratio (CRAR), Core CRAR, supplementary CRAR, amount of subordinated debt raised/outstanding as tier II capital, risk-weighted assets, shareholding pattern, asset quality and credit concentration, maturity pattern of rupee and foreign currency assets and liabilities, and details on operating results. Besides, separate details on loan assets and substandard assets which have been subject to restructuring, and so on, would also need to be disclosed.
- Capital to risk-weighted asset ratio (CRAR) should be 9 per cent of risk-weighted assets (RWA) on an ongoing basis. CRAR represents the amount of capital maintained in consonance with the risk-adjusted aggregate of funded and non-funded assets of an FI. The risk-adjusted asset is arrived at by multiplying each asset with its corresponding risk weight in the case of funded assets. Conversion factors are assigned in case of non-funded assets apart from weights. CRAR includes core capital (tier I) and supplementary capital (tier II). Tier I capital includes paid up capital, statutory reserves, and other disclosed free reserves, if any. Certain Government of India grants and reserves held under Section 36(1)(viii) of the Income Tax Act, 1961 are treated as capital. Besides capital reserves, equity investment in subsidiaries, intangible assets, gaps in provisioning, and losses in the current period and those brought forward from the previous period will be deducted from tier I capital. The core CRAR should not be less than 50 per cent of CRAR at any point of time. Supplementary CRAR, or tier II capital, includes undisclosed reserves and cumulative preference shares, revaluation reserves, general provisions and reserves, hybrid debt capital instruments, and subordinated debt. The supplementary capital is limited to a maximum of 100 per cent of tier I capital.
- Since June 2000, FIs need not seek the RBI issuewise prior approval/registration for raising resources through either public issue or private placement if (a) the minimum maturity period is three years; (b) where bonds have call/put or both options, the same is not exercisable before expiry of one year from date of issue; (c) yield to maturity (YTM) offered at the time of issue of bonds, including instruments having call/put options, does not exceed 200 basis points over that on government securities of equal residual maturities; and (d) 'exit' option is not offered prior to expiry of one year, from date of issue. The outstanding total resources mobilized at any point of time by an individual FI including funds mobilized under the 'umbrella limit' as prescribed by the RBI should not exceed 10 times its net owned funds as per the latest audited balance sheet.

  The rating for the term deposits accepted by FIs was made mandatory effective November 1, 2000.
- FIs are required to classify entire investment portfolio from March 31, 2001, under three categories, namely, (a) held to maturity, (b) available for sale, and (c) held for trading. Investments under (b) and (c) are to be marked-to-market as prescribed or at more frequent intervals, while those under (a) need not be marked-to-market and should not exceed 25 per cent of total investments.
- Looking to the deteriorating financial position of FIs, it was decided that the inspection of all the FIs would be undertaken by the RBI on an annual basis with effect from March 31, 2001.
- The RBI introduced a CAMELS based supervisory rating model for the FIs effective March 31, 2002.

The above mentioned policy initiatives were undertaken by the RBI for strengthening the regulation and supervision of select all India financial institutions in the context of their financial performance, the market conditions for resource mobilization and increasing competition from banks.

The Reserve Bank initiated several regulatory measures for these financial institutions during 2005–06. The financial institutions are subject to same provisioning norms as the banking sector. The guidelines relating to schemes for recovery of NPAs and securitization are also applicable to the financial institutions. The Reserve Bank constituted an Internal working group in December 2005 to examine and suggest the future role of refinance institutions.

## INDUSTRIAL FINANCE CORPORATION OF INDIA LIMITED

The Industrial Finance Corporation of India Limited (IFCI), India's first DFI, was established on July 1, 1948, under the Industrial Finance Corporation Act as a statutory corporation. It was set up to provide institutional credit to medium and large industries.

With a view to imparting greater operational flexibility and enhancing its ability to respond to the needs of the changing financial system, the IFCI was converted from a statutory corporation to a public limited company. It was the first institution in the financial sector to be converted into a public limited company on July 1, 1993. IFCI is a board-run company and its directors are elected by shareholders.

IFCI's principal activities can be categorized into financing and promotional activities.

### Financing Activities

IFCI's financing operations include project financing, financial services, and corporate advisory services. These are outlined below.

- **Project financing:** Project financing is the core business of IFCI. The main objective behind the incorporation of the DFI was to fund green-field projects. Financial assistance is provided by way of medium or long-term credit for setting up new projects, expansion/diversification schemes, modernization/balancing schemes of existing projects.

  Financial assistance is provided by way of rupee loans, loans in foreign currencies, underwriting of/direct subscription to shares and debentures, providing guarantee for deferred payments and loans.
- **Financial services:** IFCI provides tailor-made assistance to meet specific needs of corporates through specifically designed schemes. The various fund-based products offered are equipment finance, equipment credit, equipment leasing, supplier's/buyer's credit, leasing and hire purchase concerns, working capital term loans, short-term loans, equipment procurement, instalment credit, and others. The fee-based services offered by it are guarantees and letters of credit.
- **Corporate advisory services:** IFCI provides advisory services in the areas of projects, infrastructure, corporate finance, investment banking, and corporate restructuring. It provides customized services in areas of investment appraisals, corporatization, disinvestment, business restructuring, bid-process management, and formation of joint ventures. It also acts as a catalyst in channelising foreign direct investments (FDIs) and provides a range of services to prospective foreign investors. IFCI also provides consultancy services on certain policy-related technical and financial matters to regulatory agencies in different infrastructure sectors, namely, electricity, telecom, oil and gas, insurance, and education.
- **Corporate advisory services to foreign investors:** IFCI provides a whole range of services to prospective foreign investors, namely, facilitating the foreign business entities through information services; necessary office infrastructure for the start-up operations of the organization; coordination for obtaining the required approvals/clearances from the government departments/regulators/statutory agencies; inputs on markets, materials, and manpower available in the country; inputs on available manufacturing facilities; syndication services for obtaining the required capital; research inputs and information regarding tax incentives; tariff protections, and opportunities available for acquisitions, mergers, and amalgamations.

### Developmental and Promotional Activities of IFCI

IFCI has been instrumental in translating the government's development priorities into a reality by contributing to the development of industry exports infrastructure and generation of employment. It has played a pivotal role in removing the regional imbalances by sanctioning 47 per cent of its total assistance to 2,172 units located in backward areas. It has played a key role in the development of cooperatives in the sugar and textiles sectors. 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. It has founded and developed institutions such as the Management Development Institute (MDI), the Investment and Credit Rating Agency (ICRA), the Tourism Finance Corporation of India (TFCI) and the Rashtriya Gramin Vikas Nidhi (RGVN). It, along with other institutions has also promoted the Stock Holding Corporation of India Limited (SHCIL), the Discount and Finance House of India Limited (DFHI), the National Stock Exchange (NSE), the Over the Counter Exchange of India (OTCEI), the Securities Trading Corporation of India (STCI), LIC Housing Finance Limited, GIC Grih Vitta Ltd, and Biotech Consortium India Ltd. (BCIL).

A major contribution of IFCI has been in the early assistance provided by it to some of today's leading Indian entrepreneurs who may not have been able to start their enterprises or expand without the initial support from IFCI.

Since 1998–99, the assistance sanctioned and disbursed by IFCI has declined. During 2000–01, sanctions and disbursements under direct finance constituting 99.4 per cent and 99.5 per cent of overall sanctions and disbursement declined by 10.8 per cent and 35.3 per cent, respectively. Sanctions and disbursements under project finance accounting for 97.5 per cent and 94.7 per cent of the total sanctions and disbursements declined by 8.3 per cent and 30 per cent, respectively in 2000–01. The decline was recorded across all the products under project finance. The assistance sanctioned and disbursed during 2003–04 was largely by way of restructuring assistance and they were ₹1391.6 crore and ₹278.2 crore respectively.

IFCI started reporting losses from 1999. In 1999, it reported a loss of ₹267.70 crore which increased to ₹884.7 crore in 2001–02. Spreads (the difference between interest income and expense) have begun to narrow across the financial sector due to stiff competition. This has had an impact on the profitability of IFCI. The non-performing assets (NPAs) of the company at ₹3,937.2 crore had touched 46 per cent of its total assets of ₹8,183.2 crore. Its capital adequacy ratio was just 3 per cent, way below the stipulated 12 per cent.

The income from operations during the subsequent financial years further declined due to the reduction in interest earning assets and non-recognition of income on non-performing assets.

IFCI's financial health had deteriorated and the state of affairs displayed a dismal picture of the company. The reasons attributable to this dismal state of affairs of the company were as follows:

- **Operational inefficiency:** The cost of borrowing had exceeded the income from operations.
- **Political interference:** IFCI was used as a handmaiden of politicians and most of the loans have been sanctioned under political pressures.
- **Traditional sector financing:** IFCI had sanctioned majority of the loans in traditional sectors such as iron and steel, textiles, synthetic fibres, cement, synthetic resins, plastics, and so on. These traditional sectors were facing rough times due to demand recession, price fluctuations, abolition of import controls, gradual reduction of tariffs, among others. Hence, this led to a rise in NPAs of IFCI.
- **Higher provisioning for non-performing assets:** Project financing is the major activity of IFCI and revenue arising from this activity constitutes a substantial portion of its revenues. These projects have a long gestation period. The RBI has tightened the provisioning norms for NPAs and stipulated that loans related to projects under implementation have to be classified as NPAs. Hence, the company had to make larger provision at the end of the year, dampening the net profit level.

These huge NPAs made IFCI terminally ill. IFCI had raised ₹1,237 crore through public issue and ₹13,689 crore in private placements for lending operations. This amount had to be paid back to public sector banks, mutual funds, trusts, and provident funds that invested in these tax-free instruments. IFCI had a ₹900 crore redemption obligation on bonds, guarantee commitments of ₹800 crore, foreign currency loan of USD 100 million and rupee loans of ₹300 crore. Any default could cause systemic risks and could weaken confidence in the system. IFCI's rating had plummeted to default category, which means it could not raise funds to lend profitably.

The Government of India, based on the recommendations of the Basu Committee appointed for suggesting a restructuring plan for IFCI, declared a ₹1,000 crore package for IFCI in late 2001. This package consisted of two parts: ₹400 crore was given by the government by way of subscription to long-term convertible debentures and the remaining ₹600 crore was contributed by the government- controlled institutional shareholders of IFCI on a pro-rata basis. IDBI is the principal shareholder of IFCI with a 31.71 per cent shareholding and it had to make the largest contribution among the FIs. But the IDBI itself was in trouble and the government was drawing out a bailout package for it also. In this situation, the State Bank of India (SBI) lent a helping hand by contributing towards IDBI's share. But this package also could not save IFCI from the burgeoning NPAs and declining capital adequacy ratio.

The government appointed the international consulting giant McKinsey to suggest the amount of funds needed to revive IFCI and a course of action to get the company back into the profit zone. McKinsey suggested that IFCI should be divided into two companies: one with good assets and the other with bad assets. The company with good assets would provide financing to mid-sized companies and undertake fee-based services. The business model for the good bank entailed merger with a potential universal bank. An asset reconstruction company should be set up with a capital of ₹200 crore to take care of the bad loans worth ₹4,000 crore. The bailing out would cost the government around ₹5.26 billion to ₹88 billion and the cost of liquidation would be between ₹88–122 billion. The one-time cost to the government for bailing out the institution was pegged at ₹11,200 crore. The government approved a package of ₹5,525 crore in 2002 to turnaround the country's oldest DFI. It was proposed to merge IFCI with IDBI Limited. The attempts to merge IFCI with IDBI failed.

### Steps Taken for Revival

IFCI constituted an expert committee in 2001 to formulate a medium-to long-term strategic plan for IFCI in the emerging new business environment. The committee laid down the road map/action plan for the next five years. The committee made recommendations covering a wide range of structural and operational areas.

IFCI is concentrating on its core competence and is focusing on lending to established clients with a sound track record. It has strengthened its risk management techniques and is putting in efforts to bring down the NPAs to a manageable level, through corporate debt structuring.

The company has initiated the process of restructuring of liabilities and has initiated action against defaulters and has filed suits against defaulter companies.

It has repositioned itself as a mid-corporate specialist targeting small and medium enterprises (SMEs) and offering them services relating to asset financing, IPO management, loan syndication, project finance, receivables financing, mergers and acquisitions, and corporate and project advisory services.

Inspite of all these efforts, the financial state of affairs of the company has not improved.

IFCI reported a net profit of ₹229.59 crore for the first time in the nine-month period ending December 31, 2006. The profit before tax of over ₹1,200 crore during FY 2007 was the highest ever in the history of IFCI. From a serious liquidity and solvency crisis, IFCI, within a short span of time could turnaround as a profitable institution with a comfortable liquidity position.

### Conclusion

IFCI has reported losses during the year 2016–17 due to reversal of income on account of increase in non-performing assets, pre-payments, low credit off take and reversal of unrealised interest.

The Government of India converted its OCDs worth ₹923 crores into equity in December 2012 and further acquired preference shares of ₹60 crores from PSU Banks in April 2015. IFCI has become a Government of India Undertaking with effect from 7th April 2015.

The Government of India has placed a Venture Capital Fund of ₹200 crore for Scheduled Castes (SC) with IFCI with an aim to promote entrepreneurship among the Scheduled Castes (SC) and to provide concessional finance. IFCI has also committed a contribution of ₹50 crore as lead investor and sponsor of the fund. IFCI Venture Capital Funds Ltd., a subsidiary of IFCI Ltd., is the investment manager of the fund. The Fund has been operationalized during FY 2014–15 and IVCF is continuously making efforts for meeting the stated objective of the scheme.

Further, Government of India has recently designated IFCI as a nodal agency for "Scheme of Credit Enhancement Guarantee for Scheduled Caste (SC) Entrepreneurs" in March, 2015 with an objective to encourage entrepreneurship in lower strata of the societies. Under the Scheme, IFCI would provide guarantee to banks against loans to young and start-up entrepreneurs belonging to scheduled castes.

IFCI Ltd is now being regulated as a systemically important non-deposit taking NBFC.

## THE SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

The Small Industries Development Bank of India (SIDBI) was set up in 1990 under an act of parliament—the SIDBI Act, 1989. The charter establishing SIDBI envisaged SIDBI to be 'the principal financial institution for the promotion, financing and development of industries in the small scale sector and to coordinate the functions of other institutions engaged in similar activities'.

SIDBI commenced its operations on April 2, 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, and as approved by the Government of India, 51.1 per cent equity shares of SIDBI held by IDBI have been transferred to public sector banks, LIC, GIC, and other institutions owned and controlled by the central government. Presently SIDBI has 33 banks, insurance companies, investment and financial institutions as its shareholders in addition to IDBI, which continues to hold 19.21 per cent share in SIDBI. IDBI Bank Ltd, State Bank of India and LIfe Insurance Corporation of India are its three largest shareholders. During 2016, the Government of India subscribed to the equity capital of SIDBI which increased its paid-up capital to ₹487 crore.

Four basic objectives are set out in the SIDBI charter. They are:

1. Financing
2. Promotion
3. Development
4. Coordination for orderly growth of the small scale industrial sector

Small-scale industries are the industrial units in which the investment in plant and machinery does not exceed ₹10 million. The small-scale sector, consisting of 5.1 crore units, forms the backbone of the Indian economy, contributing to around 45 per cent of India's total manufacturing sector output, around 40 per cent of total exports and providing employment to nearly 11.7 crore, manufacturing more than 6,000 products. The major issues hindering the growth of small-scale industries are technology obsolescence, managing inadequacies, delayed payments, poor quality, incidence of sickness, lack of appropriate infrastructure, and lack of marketing network. This sector needs to be nurtured and provided strong support services for its long-term profitable growth. SIDBI tries to strike a balance between financing and providing support services for the development of the small-scale sector.

As an apex institution, SIDBI makes use of the network of the banks and state financial institutions, which have retail outlets for coordinating the development of the small scale sector. It has initiated a system of dialogue and obtaining feedback from the representatives of institutions of small scale industries who are on the SIDBI's National Advisory Committee and Regional Advisory Committees. SIDBI has entered into Memorandums of Understanding (MOUs) with 18 banks, government agencies, international agencies, development institutions, and industry associations to facilitate a coordinated approach for the development of the small scale sector.

## Financial Products Offered by SIDBI

SIDBI offers a chain of financial products covering micro-finance, business, incubation, venture capital, project finance, assistance for technology development and marketing of small-scale industries products, export finance, bills finance, factoring, guarantees for loans, and so on. SIDBI also provides support services such as training, market information, and advice for enhancing the inherent strength of small-scale units.

## DIRECT FINANCE

SIDBI provides direct finance with special focus on the following areas:

**Growth Capital and Equity Assistance:** With a view to ameliorating the problems faced by the MSMEs in accessing growth capital, SIDBI provides risk capital to support the growth requirements of MSMEs including leveraging of senior loans, marketing/ brand building, technical knowhow, etc., where such investments are non-asset creating. This type of quasi-equity support is collateral free, having higher moratorium on repayment and a flexible structuring

**Financing Schemes for Sustainable Development:** As a part of its green initiative, SIDBI has developed specialized loan schemes to promote Energy Efficiency (EE), Cleaner Production (CP) and environment protection in the Micro, Small and Medium Enterprises (MSME) sector. These loans are under bilateral line of credit from international agencies such as JICA, Japan; AFD, France and KfW, Germany.

SIDBI has developed financial products to enable climate and environmental friendly investments to:

- Promote energy saving in MSMEs in India, by providing financial assistance to MSMEs, directly by SIDBI as well as through refinance to Primary Lending Institutions (PLIs) and Non Banking Financial Companies (NBFCs),
- Reduce the emission of greenhouse gases, especially Carbon Dioxide ($CO_2$) to contribute towards climate change mitigation and achieve a reduction or avoidance of emissions and pollution through the introduction of financial products
- Support MSMEs towards development, up-scaling, demonstration and commercialization of innovative technology based project.

**Service Sector Assistance:** In view of the growing importance and share of service sector to national income, employment and entrepreneurial opportunities, SIDBI has been focusing on service sector as one of its niche areas in business. SIDBI has negotiated new lines of credit for service sector with international funding agencies like World Bank and JICA, Japan. This assistance is for existing small and medium service sector enterprises in need of loan/capital for growth and for existing promoters with experience in the similar activity for setting up new projects.

**Receivable Finance Scheme:** In order to help the MSMEs for quicker realization of their receivables, SIDBI has been operating Receivable Finance Scheme under which it fixes limits to well-performing purchaser companies and discounts receivables/usance bills of MSMEs supplying goods and services to those purchasing companies, so that the MSMEs/service sector units realise their sale proceeds quickly. SIDBI also offers invoice discounting facilities to the MSME suppliers of purchaser companies.

**Finance for Upgradation/Modernisation:** To help MSMEs adopt modern technological processes and undertake capacity expansion.

## INDIRECT FINANCE

Indirect finance includes refinance support, micro finance and resource support to intermediaries for onward lending to MSMEs. Indirect finance constitutes 83% of total credit outstanding of the bank as on March 31, 2016

### Micro and Small Enterprises Refinance Scheme (MSERS)

The overall objective of the scheme is to support the micro and small enterprises by facilitating flow of credit to the sector at reasonable rates to public sector banks/private sector banks.

### Assistance to NBFCs

The NBFCs–Asset Finance Companies/Loan Companies/Infrastructure Finance Company (both in the category of deposit taking and non-deposit taking) registered with RBI which are engaged in financing **enterprises in the** MSME (as defined by MSMED Act 2006) are eligible for resource support from SIDBI.

### SIDBI Foundation for Micro Credit (SFMC)

It was launched by the bank in January 1999 for channelizing funds to the poor in line with the success of pilot phase of Micro Credit Scheme.

SFMC's mission is to create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) for providing micro finance services to the economically disadvantaged people, especially women. The bank has collaborated with many international agencies like Asian Development Bank, Kreditanstalt fur Wiederaufbau (KfW), Germany, etc., to improve access to microfinance products in India among the poor.

SIDBI has been a pioneer financial institution to promote micro finance by working with and through a large number of Micro Finance Institutions (MFIs) who have been nurtured, incubated and strengthened through a comprehensive range of financial and non-financial support. The bank provides financial assistance in the form of term loan as well as equity/quasi-equity assistance. As on March 31, 2016, SIDBI had provided cumulative assistance of ₹10,769 crore to MFIs which benefitted about 345 lakh persons in the unserved and underserved sections of society.

SIDBI has also been promoting responsible micro finance culture in the country's micro finance ecosystem. As part of its responsible finance initiatives, SIDBI has created a lenders' forum comprising key MFI funders with a view to promote cooperation among MFI lenders to implement responsible lending practices through a common set of loan covenants.

Another major initiative of SIDBI is the development of a Code of Conduct (COC) for MFIs to practice responsible lending. The Code of Conduct Assessment (COCA) assesses an MFI's degree of adherence to the voluntary microfinance COC. Further, with the support of USA's MIX which is a global, web-based, micro finance information platform, SIDBI has developed a similar market tailored for India, i.e., the India Microfinance Platform (IMFP)—to provide and disseminate valuable information on the Indian MFIs.

## Poorest States Inclusive Growth Programme (PSIG)

SIDBI is implementing the PSIG programme (called Samridhi Programme) funded by UKAid through Department for International Development (DFID), UK. The programme aims to ensure poor and vulnerable people in low-income states (especially women) benefit from economic growth through better access to financial services. This project will ensure that 12 million poor households are reached with financial services and over 5 million women clients testify improvements in social status and mobility. PSIG is expected to leverage private sector financial and technical resources to reach up to 12 million direct and indirect programme participants in 4 states of UP, MP, Bihar and Odisha. The programme duration is 6 year starting from April 2012–March 2018, extendable upto 1 year, i.e., March 2019.

## GOVERNMENT SCHEMES

SIDBI is the Nodal Agency for implementation of certain MSME related schemes of the Government of India for encouraging implementation of technology upgradation and modernisation in the MSME sector. SIDBI has been identified as a nodal agency for the releasing of assistance, monitoring, interface and coordination with financial institutions, banks and the government.

SIDBI provides nodal agency services for implementation of Credit Linked Capital Subsidy Scheme (CLCSS) and Technology and Quality Upgradation Programme (TEQUP) (Ministry of MSME), Technology Upgradation Fund Scheme for Textile Industry (TUFS) (Ministry of Textiles), Integrated Development of Leather Sector Scheme (IDLSS) (Ministry of Commerce & Industry) and Scheme of Technology Upgradation of Food Processing Industries (Ministry of Food Processing Industries).

## TIFAC-SRIJAN Scheme

- Provide financial assistance to MSMEs towards development, up scaling, demonstration and commercialization of innovative technology based projects.
- The assistance is given in the form of early stage "debt" funding on softer terms for development, demonstration and commercialization of new innovations in emerging technological areas, unproven technologies, new products, process, etc., which have not been successfully commercialized so far.
- Maximum assistance is generally not more than ₹100 lakh per project.

Interest rate would be as approved by the Project Approval Committee (PAC) (not be more than 5% p.a.).

## RECENT INITIATIVES

**SIDBI Make in India Soft Loan Fund for Micro, Small & Medium Enterprises (SMILE):** SIDBI launched a ₹10,000 crore 'SIDBI Make in India Soft Loan Fund for Micro, Small & Medium Enterprises (SMILE)' to make available soft loan to MSMEs in the nature of quasi-equity to meet the required debt-equity ratio and term loan on relatively soft terms for establishment of new MSMEs, as also for pursuing opportunities for growth of existing MSMEs.

Reserve Bank of India (RBI) has granted an "in-principle" approval to three companies including a joint venture between Small Industries Development Bank of India (SIDBI) and National Stock Exchange's NSE Strategic Investment Corporation Limited (NSICL) to set up and operate a new Trade Receivables e-Discounting System (TReDS) to be formed under the Payment and Settlement System (PSS) Act, 2007. TReDS will allow MSMEs to post their receivables on the system and get them financed quickly and at competitive rates, thereby addressing the problem of delayed payments of MSME sector.

"Start-up India" initiative of Government of India is aimed at fostering entrepreneurship and promoting innovation by creating an eco-system that is conducive for growth of startups. The prime objective of the programme is to reduce the regulatory burden on start-ups, thereby allowing them to focus on their core business and keep compliance cost low. The action plan is divided across the following areas: (a) simplification and handholding, (b) funding support and incentives and (c) industry-academia partnership and incubation.

As part of up-scaling its initiatives to address the gaps in the start-up eco-system, SIDBI created an on-line platform "www. sidbistartupmitra.in", which was launched by the hon'ble president of India on March 17, 2016. The portal enables startup entrepreneurs to get connected with various stakeholders, viz., incubators, mentors, angel networks, venture capital funds, etc. The portal is also supported by Department of Science and Technology (DST), Government of India. Around 500 start-ups, 48 incubators and 50 investors had already registered on this platform at end of March 2016.

India Aspiration Fund (IAF) was launched by SIDBI with a corpus of ₹2,000 crore to boost start-up venture capital ecosystem in the country. IAF acts as fund of funds managed by SIDBI and contributing to MSME-focussed VCFs, which enables them to raise private capital, thus enhancing flow of equity to start ups, and growth stage MSMEs in the country.

Stand-up India Scheme of Government of India is intended to provide credit from ₹10 lakh to ₹1 crore to atleast two new enterprises (one enterprise for SC/ST and one for woman) per bank branch and is expected to benefit at least 2.5 lakh borrowers. The Stand-up India Scheme is strengthened by an envisaged refinance window from SIDBI and creation of a credit guarantee mechanism through the National Credit Guarantee Trustee Company (NCGTC).

SIDBI has operationalized the portal 'www.udyamimitra.in', which offers various on-line facilities for MUDRA loans (upto ₹10 lakh), Stand-up India loan for SCs/STs & Women (₹10 lakh to ₹100 lakh) & SME Loans (presently upto ₹100 lakh). The portal provides access to 1.25 lakh bank branches and 17,000 plus hand-holding agencies who assist in filing of applications, financial training, skill training, mentoring, access to margin money, subsidy, etc.

A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship (ASPIRE) was launched by Government of India in March, 2015 to set up a technology centre network across-the-country and incubation centres to accelerate entrepreneurship and promote start-ups for innovation and entrepreneurship in rural and agro-industry. Under the scheme, Ministry of MSME, Government of India allocated ₹60 crore to SIDBI for managing the fund for investing in VCs with investment focus on start-ups and early stage enterprises in the areas of rural and agro industries.

An in-house mobile app called 'SIDBI MITRA' was developed to enhance customers delight by providing information related to accounts of the customer with SIDBI, channel for mobile messaging directly with the Relationship Manager (RM) and service requests related to loan ledger, demand advices, etc.

## PROMOTIONAL & DEVELOPMENTAL SUPPORT

SIDBI adopts a 'Credit Plus' approach by providing various Promotional & Developmental (P&D) support through rural industrialization, entrepreneurship development, skill upgradation, marketing support, financial literacy, MSME advisory services, cluster development and so on. These P&D support have benefitted more than 2.3 lakh persons in the MSME sector, created more than 1.5 lakh employment and helped in setting up more than 80,000 units, mostly rural enterprises.

**The brief highlights of various P&D activities of SIDBI are given below:**

**Promoting Youth Entrepreneurship:** SIDBI has developed a website 'www.smallB.in', which is a virtual mentor and handholding forum for the potential/budding and even existing entrepreneurs to set up new units and grow the existing ones. The website is quite exhaustive, covering various aspects like how to set up new business, business plan preparation, understanding various requirements for obtaining credit from banks/financial institutions, knowing policies and regulations, schemes and incentives offered by the central and state governments, etc.

**MSME Advisory:** With a view to helping MSMEs in obtaining credit, SIDBI has set up MSME Advisory Centres (MACs), in partnership with industry associations to guide new/existing entrepreneurs regarding availability of schemes of banks/FIs, government subsidies/benefits, provide borrowers with debt counselling, answering queries raised by banks, financial linkages, etc. As on March 31, 2016, more than 12,500 MSMEs had benefited through MACs.

**Capacity Building of Smaller Banks:** Regional Rural Banks (RRBs)/Urban Cooperative Banks (UCBs) are well-suited to meet the last mile credit requirement of micro enterprises. In order to enable these banks to purvey credit to MSMEs, SIDBI is extending capacity building training support to these institutions for augmenting micro enterprises loans.

**Skill Development:** With a view to strengthening the technical and managerial capacities in the MSME sector, the bank supports reputed management/technology institutions to offer certain structured skill management/development programmes, viz., ‘Skill-cum-Technology Upgradation Programme’ (STUP) and ‘Small Industries Management Assistants Programme’ (SIMAP). Cumulatively, more than 42,500 participants had been benefitted from 1,556 STUPs and 302 SIMAPs till March, 2016.

**Micro Enterprises Creation:** SIDBI has developed Micro Enterprises Promotion Programme (MEPP) which aims at promoting viable rural enterprises leading to employment generation in rural areas. As on March 31, 2016, MEPP was implemented in more than 126 districts in 26 states. Cumulatively, more than 42,000 rural enterprises were promoted. These enterprises provided employment to over 1 lakh persons, mostly in rural areas.

**Cluster Development:** SIDBI has adopted cluster-based approach for providing credit and non-credit support to the MSME sector. Under cluster development approach, SIDBI provides various Business Development Services (BDS), such as new technologies, use of IT, skill development, energy efficiency, marketing, credit support, etc.

## SUBSIDIARIES/ASSOCIATES

**SIDBI Venture Capital Limited:** SIDBI Venture Capital Ltd. (SVCL), a subsidiary of SIDBI set up in July, 1999, is an investment management company presently managing seven funds, viz., the National Venture Fund for Software and Information Technology Industry (NFSIT), SME Growth Fund (SGF), India Opportunities Fund (IOF), Samridhi Fund (SF), TEX Fund (TF), Maharashtra State Social Venture Fund (MS Fund) and West Bengal MSME VC Fund (WB Fund).

**Micro Units Development and Refinance Agency:** As per the announcement in Union Budget 2015–16, hon’ble prime minister launched Micro Units Development & Refinance Agency (MUDRA) on April 08, 2015 as a subsidiary of SIDBI with the main purpose of funding the unfunded, by way of providing access to institutional finance to small units. MUDRA refinances all banks, Micro-finance Institutions (MFIs) and other lending institutions, which are in the business of lending to micro/small business entities, engaged in manufacturing, trading and services activities to expand their outreach. This will in turn help micro businesses across the length and breadth of the country. MUDRA’s mandate also includes developing the micro enterprise sector into a viable economic sector, for which various developmental interventions including financial/business literacy programmes are planned

**Credit Guarantee Fund Trust for Micro and Small Enterprises:** In order to encourage banks to lend more to Micro and Small Enterprises (MSEs), Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in July 2000 to provide credit guarantee support to collateral free/third-party guarantee free loans upto ₹100 lakh extended by banks and lending institutions for MSEs.

**SMERA Ratings Limited:** SIDBI, along with Dun & Bradstreet (D&B) and several public and private sector banks, set up the SMERA Ratings Limited in September 2005, as an MSME dedicated third-party rating agency to provide comprehensive, transparent ratings to MSMEs. In year 2011, SMERA received its registration from the Securities and Exchange Board of India (SEBI) to rate the debt instruments. SMERA also received the accreditation from Reserve Bank of India (RBI) in the year 2012 as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking bank loan ratings. SMERA’s pioneering work is globally recognized. SIDBI was awarded ‘Outstanding Development Project Award’ in SME development category for setting up SMERA by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). SMERA has entered into MoUs with over 40 banks, financial institutions and trade associations of the country.

**India SME Technology Services Limited:** India SME Technology Services Limited (ISTSL), set up in November 2005, offers technology advisory and consultancy services for projects/assignments related to energy efficiency and demand side management, renewable energy (particularly solar), etc. ISTSL also provides services such as information on technology options, technology match making, business collaboration and organizing seminars. In order to strengthen and accelerate the process of technological modernization in the MSME sector, ISTSL has entered into partnership with various national and international organizations engaged in similar activities. ISTSL took up the project for implementing energy efficient technologies in stainless steel re-rolling cluster of Jodhpur, in association with KfW, Germany. The project is now being taken up for implementing Clean Development Mechanism (CDM) project by implementing energy efficiency measures, which are expected to generate CDM revenues, besides reducing the cost of fuel being consumed by the units.

**India SME Asset Reconstruction Company Ltd.:** India SME Asset Reconstruction Company Ltd. (ISARC) is the country's first MSME focused company striving for speedier resolution of Non-Performing Assets (NPA) in the MSME sector by unlocking the idle NPAs for productive purposes which would facilitate greater flow of credit from the banking sector to the MSMEs. Set up in April 2008, ISARC's objective is to acquire NPAs and to resolve them with a special focus on the NPAs of MSME sector.

## National Credit Guarantee Trustee Company Ltd (NCGTC)

NCGTC was set up by the department of financial services, ministry of finance, Government of India with the purpose to, inter-alia, act as a common trustee company to manage and operate various credit guarantee trust funds, viz., Credit Guarantee Fund for Skill Development (CGFSD), Credit Guarantee Fund for Education Loans (CGFEL), Credit Guarantee Fund for Factoring (CGFF), etc. NCGTC is also the implementing agency for MUDRA Credit Guarantee scheme and for 'Stand-up India' Credit Guarantee Scheme. SIDBI provides management and infrastructural support to NCGTC.

## Receivables Exchange of India Ltd (RXIL)

Receivables Exchange of India Ltd (RXIL) is a joint venture promoted by Small Industries Development Bank of India (SIDBI) and National Stock Exchange of India Limited (NSE). RXIL has been incorporated under the Companies Act, 2013 on February 25, 2016. RXIL has launched India's first Trade Receivables Discounting System (TReDS)—an online platform for financing of receivables of micro, small & medium enterprises on January 09, 2017, based on the guidelines issued by RBI on December 03, 2014.

TReDS is an online electronic institutional mechanism for facilitating the financing of trade receivables of MSMEs through multiple financiers. The TReDS platform will enable discounting of invoices/bills of exchange of MSME sellers against large corporates including government departments and PSUs, through an auction mechanism, to ensure prompt realisation of trade receivables at competitive market rates.

TReDS platform of RXIL is expected to be a catalyst in the growth of MSMEs by bringing in transparency in the business eco-system and addressing the issue of delayed payments for MSMEs.

## Achievements of SIDBI

- While serving MSMEs for 26 years, SIDBI has channelized cumulative assistance of around ₹4.5 lakh crore.
- SIDBI has reached out to over 350 lakh persons/enterprises through its direct offices (80 offices) as also leveraging network of banks/institutions (having more than 1.25 lakhs branches).
- In micro finance, SIDBI has extended loans, equity and quasi-equity aggregating ₹9366 crore benefitting 332 lakh disadvantaged people, mostly women.
- SIDBI has deepened its outreach by nurturing and evolving more than 150 MFIs who have emerged as strong and viable financial intermediaries serving the unserved.
- SIDBI has supported more than 1.16 lakh budding and existing entrepreneurs by infusing skills and reskilling. The performance linked support to EDPs on thematic and targeted support (to less privileged section such as women, minorities and SC/ST) have success rate of around 55% in setting up enterprises.
- SIDBI has been in profit and declaring dividend 25% since inception.
- As on 31st March, 2015, the banks overall outstanding portfolio stands at ₹55343 crore with 99.22% standard assets.
- SIDBI has a passionate pool of 1000+ professionals with 22% women and 40% belonging to SC/ST and OBCs category.

- SIDBI had nurtured institutions like Bandhan Bank for several years through loan, equity and capacity building support. The institution is one of the two institutions issued license in 2014 by RBI for forming a universal bank. Thus, Bandhan is now transforming itself into a universal bank with rich domain knowledge to cater mainly to micro enterprises.
- 9 out of 10 SIDBI nurtured/supported MFIs/NBFCs have got license for small finance banks.

## Resources Raised by SIDBI

SIDBI has been raising resources through international and domestic markets. It has raised borrowings from Japan Bank for International Cooperation and KfW Germany. It also raises taxable priority sector bonds from domestic markets as also deposits from foreign banks. As per the provisions of Union Budget 2002–03, SIDBI has been allowed to raise capital gains bonds. It has raised higher amount of resources through fixed deposits.

## Conclusion

SIDBI's overall operations have registered an increasing trend. As on March 31, 2016, SIDBI has made cumulative disbursements of about ₹4.50 lakh crore benefitting about 350 lakh persons. SIDBI is complementing and supplementing efforts of banks/FIs in meeting diverse credit needs of MSMEs. The micro-finance activities registered a significant growth. Micro-credit outstanding crossed ₹9000 crore. It initiated the first ever loan syndication for an MFI.

SIDBI's growth is directly linked to the growth of SSI sector. And this sector stands at the cross roads and no more in a safe zone due to lack of number of concessions and liberalization and progressive internationalization of trade, deregulation, growing access of foreign capital, and dereservation. To further compound problems, despite government and SIDBI initiatives to come forward to offer guarantees against loans to small and tiny enterprises, banks have stayed away from financing them.

Small and medium enterprises were the hardest hit on account of the global liquidity crisis. The government announced stimulus packages to provide support to this sector. The SIDBI was provided a special facility of ₹7,000 crore to refinance banks, state financial corporations, NBFCs, and MFIs for lending to SMEs. The SIDBI has also introduced supportive measures like additional 15 per cent credit assistance to all existing borrowers, special scheme under receivable finance scheme, ensuring timely payment for receivables of MSMEs, reduction in PLR, and restructuring of advances.

After making a beginning as essentially a refinance institution, SIDBI has grown into a multi-faceted organization. It has served the small sector well by providing a wide range of products and resource support services in its 26 years of existence. SIDBI should endeavour to contain non-performing assets and build quality long-term assets and thereby become a strong and vibrant financial institution.

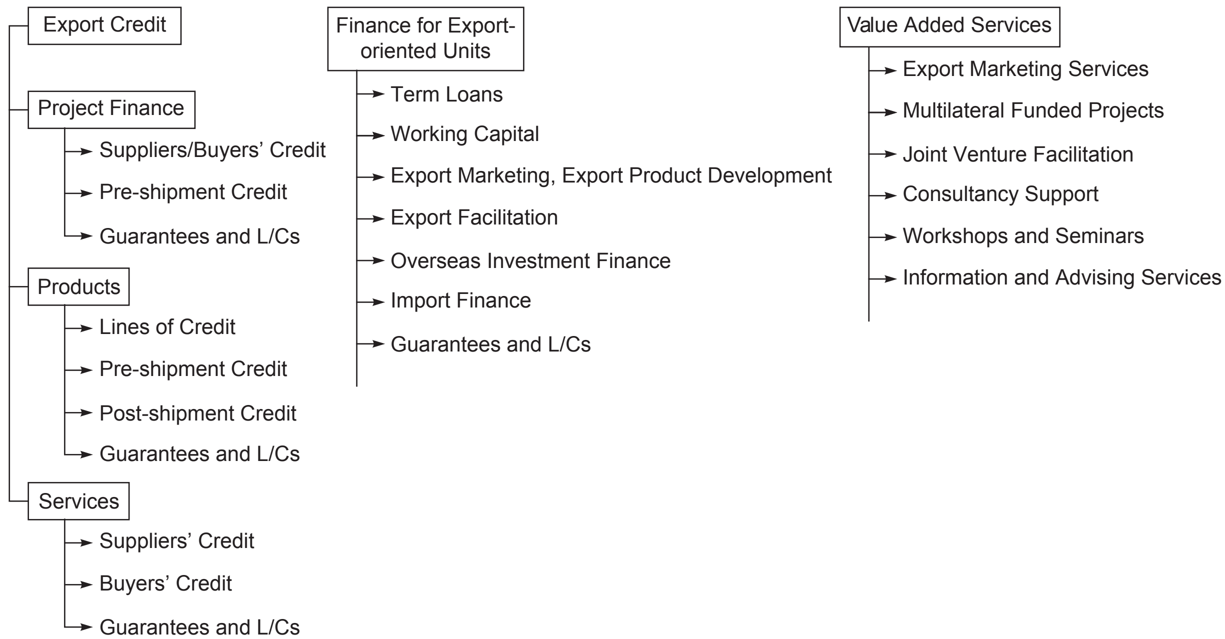
## THE EXPORT-IMPORT BANK OF INDIA

The Export-Import Bank of India (EXIM Bank) is a public sector financial institution created by an act of parliament—the Export-Import Bank of India Act, 1981. It commenced its business operations in March 1982. It is wholly owned by the Government of India and was set up for the purpose of financing, facilitating, and promoting foreign trade in India. During the years 2004–05, and 2008–09, the Government of India subscribed to the share capital of the bank to the tune of ₹200 crore and ₹300 crore, respectively. During 2016–17, the Government of India infused capital of ₹500 crore in EXIM bank. The networth of the bank as on March 31, 2017 was ₹11986 crore. EXIM Bank's resource base includes bonds, certificates of deposit, commercial paper, term deposits, term loans, and foreign currency/bonds/notes/borrowings.

EXIM Bank is the principal financial institution in the country for coordinating working of institutions engaged in financing exports and imports. EXIM Bank is an apex institution which promotes foreign trade. Its head office is in Mumbai. It has a network of 9 offices in India and 9 offices overseas.

## Objectives

1. Financing, facilitating, and promoting India's foreign trade.
2. Creating export capability by arranging competitive financing at various stages of the export cycle.
3. Developing commercially viable relationships with a target set of externally oriented companies by offering them a comprehensive range of products and services, aimed at enhancing their internationalization efforts.




*Source:* www.eximbankindia.com

**Figure 12.2** EXIM Bank's Major Programmes at a Glance

Vision statement of EXIM Bank: 'To offer best-in-class services to our customers in their globalization efforts through the creation of an environment for our people that rewards excellence, initiative and innovation.'

## EXIM Bank—Business Profile

Figure 12.2 provides an overview of EXIM Bank's major programmes.

The operations of the bank are grouped as follows:

### Export Credit

- The bank provides export credit on deferred payment terms on exports of Indian machinery, manufactured goods, consultancy and technology services on deferred payment terms.
- Lines of credit/buyer's credits are extended to overseas entities, *i.e.*, sovereign governments, central banks, commercial banks, development finance institutions, regional development banks for enabling buyers in those countries to import developmental and infrastructural projects, equipment, goods and services from India, on deferred credit terms. The Indian exporters can obtain payment of eligible value from EXIM Bank, without recourse to them, against negotiation of shipping documents. LOC is a financing mechanism that provides a safe mode of nonrecourse financing option to Indian exporters, especially to small and medium sized enterprises and serves as an effective marketing entry tool. The Government of India in its Budget (2003–04) announced its decision to route GOI export lines of credit through EXIM Bank. Buyers' Credit is a unique programme of EXIM Bank under which the Bank facilitates Indian exports by way of extending credit facility to the overseas buyers for financing their imports from India. Under Buyers' Credit programme, EXIM Bank makes payment of eligible value to Indian exporters, without recourse to them.
- The bank also provides project finance and trade finance.

### Export Capability Creation

- Export product development.
- Export marketing finance.
- Export oriented units.

  - Project finance
  - Working capital
  - Production equipment finance
- European Community Investment Partners (ECIP)
- Asian Country Investment Partners (ACIP)
- Overseas Investment Finance
- Export facilitation programmes
  - Software training institutes
  - Minor ports development

**Export Services**

- In addition to finance, the bank provides a range of information and advisory services to Indian companies to supplement their efforts aimed at globalization of Indian business.

**Supporting Groups**

- Planning and research
- Accounts/MIS/EDP
- Legal
- Coordination
- HRD
- Establishment

EXIM Bank provides a range of programmes which can be classified into the following categories:

- Financing programmes, and
- Export services and export promotion programmes.

**Financing Programmes** EXIM Bank provides financial assistance to Indian companies by way of a variety of lending programmes, namely, non-funded and funded lending programmes. Non-funded lending programmes include bid bond, advance payment guarantee, performance guarantee, guarantee for release of retention money, guarantee for raising borrowings overseas, and other guarantees. Funded lending programmes include preshipment rupee credit, postshipment rupee credit, foreign currency loan, overseas buyers credit, lines of credit, loan under FREPEC Programme, and refinance of export loans.

EXIM Bank also provides financial assistance to Indian companies for export capability creation by way of a lending programme for export oriented units, production equipment finance programme, import finance, export marketing finance programme, software training institutes, financing, research and development, and programme for export facilitation. The programme for export facilitation includes port development, export vendor development lending programme, foreign currency preshipment credit, and working capital term loan programme for export oriented units.

EXIM Bank has an arrangement for sponsoring and part financing Indian consultants for providing consultancy services to private sector small and medium enterprises in developing countries under the Technical Assistance Programme of IFC Washington D.C. and other international agencies. The facilities in operation include Africa, CIS, China, and South Asia.

The bank provides a wide range of information, advisory and support services which complement its financing programmes. These services are provided on a fee basis to Indian companies and overseas entities. The scope of services include market-related information, sector and feasibility services, technology supplier identification, partner search, investment facilitation and development of joint ventures both in India and abroad.

**Export Services and Export Promotion Programmes** EXIM Bank provides a range of export-related services. The bank's fee-based services help identify new business propositions, source trade, and investment-related information, create and enhance presence through joint network of institutional links across the globe, and assist externally oriented companies in their quest for excellence and globalization. It also provides services such as search for overseas partners, identification of technology suppliers, negotiating alliances, and development of joint ventures in India and abroad. The bank also supports Indian project exporters and consultants to participate in projects funded by multilateral funding agencies such as World Bank, Asian Development Bank, African Development Bank, and European Bank for Reconstruction and Development.

It also extends assistance to Indian promoter companies in setting up of joint ventures through the Overseas Investment Finance Programme (OIF) and the Asian Countries Investment Partners (ACIP) programme.

EXIM Bank plays the role of an intermediary for facilitating the forfaiting transaction between the Indian exporter and the overseas forfaiting agency. It also set up a new company, the Global Trade and Finance Private Limited in association with West LB, Germany, and IFC Washington to offer export factoring and forfaiting to Indian exporters.

The bank undertook new initiatives during 2000–01. It launched a new programme in association with EBRD, London, to support Indian exports to 26 countries. It also entered new businesses like venture capital finance and brand promotion in Europe.

EXIM Bank has made an entry into financing of the entertainment industry and healthcare services sectors. It has provided loan for import of state-of-the art medical equipment for a super specialty hospital project.

Besides, the bank has signed an MoU with the Ministry of Food Processing Industries (MFPI) to synergise efforts in developing the food processing industry with its expertise. Seven projects financed by the bank have been referred to MFPI also for assistance and these projects are expected to result in incremental exports of around ₹1,000 crore in the first five years of operation.

The bank is focusing on support to the food processing industry which includes finance to units engaged in manufacture and processing of various produces. The units financed included a seabuck thorn fruit juice, pulp and oil unit setup in the Ladakh region, and a fruit juice unit in Manipur. The bank also entered into an MOU with the Central Food Technological Research Institute (CFTRI) to leverage complementing strengths, and promote research undertaken by the institutional and its commercial applications as relevant to exports.

## Performance and Contribution

The EXIM Bank has, over the years, supported 587 ventures set up by over 451 companies in 78 countries, in both industrial countries as also developing and emerging markets.

The Bank provides a wide range of information, advisory and support services, which complement its financing programmes. These services are provided on a fee basis to Indian companies and overseas entities. The scope of services includes market-related information, sector and feasibility studies, technology supplier identification, partner search, investment facilitation, and development of joint ventures both in India and abroad The EXIM Bank supports globalization of rural industries through its Rural Grassroots Business Initiative. It is one of the nodal agencies appointed by the Government of India, Ministry of Textiles, to establish and approve the eligibility of projects under Technology Upgradation Fund Scheme (TUFS) and release subsidy directly to the approved projects.

The EXIM Bank holds a digital certificate to deal through the Negotiated Dealing System—Order Matching segment (NDS-OM) of RBI—which provides the electronic dealing platform for trading in GOI securities. The securities/foreign exchange transactions of the Bank are routed through the Guaranteed Settlement Facility provided by the Clearing Corporation of India Ltd. (CCIL). The EXIM Bank is an active member of Collateralized Borrowing & Lending Obligation (CBLO) segment of CCIL. During FY 2008–09, it became a member of CROMS (Clearcorp Order Matching System), the Repo Dealing System of CCIL. CROMS is a Straight Through Processing (STP) enabled anonymous Order Matching Platform launched by CCIL during the year for facilitating dealing in market repos in all kinds of Government Securities on T + 0/T + 1 basis. CCIL acts as a central counterparty to all CROMS trades and settlements guaranteed by CCIL.

The Capital to Risk Assets Ratio (CRAR) was 15.81 per cent as on March 31, 2017, against a minimum 9.0 per cent norm stipulated by RBI.

The EXIM Bank's gross NPAs stood at ₹42.75 billion and were 4.17 per cent of the total loans and advances as at March 31, 2009. Its NPAs (net of provisions) at ₹8.55 billion worked out to 0.86 per cent of its loans and advances (net of provisions) as at March 31, 2016.

The bank was conferred with the 'Trade Development Award' during the years 2002, 2004, 2005, 2006, and 2009 by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). The bank was also conferred a special 'Plaque of merit' by the Association of Development Financing Institutions in Asia and Pacific (ADFIAP) for its program for financing export-oriented creative industries in India.

These awards were in recognition of the Bank's innovative export marketing services and support to village and rural industries which enabled them and other Indian firms explore newer geographies.

## Conclusion

EXIM Bank has reoriented its strategies looking to the changing dynamics of international trade and global environment. It caters not only to the financing needs of exporters and importers but also supports Indian companies in their effort to globalize their business. These new initiatives have helped the exporters and importers to secure more business which, in turn, has led to an increase in the bank's assets and profits.

## NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

The National Bank for Agriculture and Rural Development (NABARD), a development bank, came into existence on July 12, 1982, under an act of parliament with an initial capital of ₹100 crore. It is an apex institution set up for providing and regulating credit and other facilities for the 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 with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto.

NABARD took over the functions of the erstwhile Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of the RBI and Agricultural Refinance and Development Corporation (ARDC). Its subscribed and paid-up capital was ₹100 crore which was enhanced to ₹500 crore, contributed by the Government of India (GOI) and the RBI in equal proportions. NABARD's paid up capital stood at ₹5,300 crore (including ₹300 crore advance towards share capital) as on 31 March, 2016. Consequent to the revision in the composition of share capital between Government of India and RBI, the Government of India today holds ₹4980 crore (99.62 per cent) while Reserve Bank of India holds ₹20 crore (0.38 per cent).

The management of NABARD vests in a board of directors, representatives from the RBI, the Government of India, state governments and directors nominated by the Government of India.

### NABARD's Mission

Promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives.

### Functions of NABARD

- It serves as an apex refinancing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas.
- It takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, and training of personnel.
- It coordinates and supervises the rural financing activities of all institutions engaged in developmental work at the field level and maintains liaison with the Government of India, state governments, RBI, and other national level institutions concerned with policy formulation,
- It undertakes monitoring and evaluation of projects refinanced by it.
- It promotes research in the fields of rural banking, agriculture, and rural development.
- It prepares annual rural credit plans for all districts in the country which form the base for annual credit plans of all rural financial institutions.

In a nutshell, the functions of NABARD are to facilitate credit flow for agriculture and rural development, promote and support policies, practices and innovations conducive to rural development, strengthen rural credit delivery system through institutional development and supervise rural financial institutions such as cooperative banks and regional rural banks.

NABARD operates throughout the country through its 31 regional offices and one sub office; located in the capital of all the states/union territories and one sub-office at Port Blair. It has 423 district offices across the country and one special cell at Srinagar. It has also set up five training centres.

NABARD has four subsidiaries, viz., NABKISAN Finance Services Ltd., Mumbai; NABARD Financial Services Ltd., Bengaluru (NABFINS); Agri-Business Finance Ltd., Hyderabad (ABFL); NABARD Consultancy Services Ltd., New Delhi (NABCONS).

### Promotion and Development

NABARD is actively involved in institutional development of client organizations, capacity building in partner institutions, supporting experimentation with new models and practices in development and credit delivery, dissemination of innovative products and ideas, supporting research and development, assisting the RBI/the GOI in formulation of policies relating to rural credit, promotion of rural non-farm sector, promotion of Kisan Credit Card (KCC) scheme, promotion of micro-credit innovations and consultancy services.

## Refinance

NABARD's mission is accelerated capital formation to promote sustainable and equitable agriculture and rural prosperity with refinance as a lever.

The institutions eligible for refinance are state cooperative agricultural and rural development banks (SCARBs), regional rural banks (RRBs), state cooperative banks (SCBs), commercial banks (CBs) state agricultural development finance companies (ADFCs), and primary urban cooperative banks.

NABARD extends refinance for both the farm and the non-farm sector. Long-term investment for the farm sector includes investment on agriculture and allied activities such as minor irrigation, farm mechanization, land development, soil conservation, dairy, sheep rearing, poultry, piggery, plantation/ horticulture, forestry, fishery, storage and market yards, biogas and other alternate sources of energy, and soon. Non-farm sector includes investment activities of artisans, small-scale industries tiny sector, village and cottage industries, handicrafts, handlooms, and others. NABARD extends automatic refinance facility for refinance limit upto ₹20 lakh. NABARD's special focus is on the removal of regional/sectoral imbalance and hence if gives preference to the needs of north-eastern states in terms of allocation of resources, quantity of refinances, and so on. Besides this, its focus is on hi-tech and export-oriented projects. It has issued guidelines for formation of hi-tech and export-oriented projects in farm and non-farm sectors. It also undertakes consultancy work for projects. It has set up ADFCs in Andhra Pradesh, Tamil Nadu, and Karnataka for financing hi-tech/commercial ventures. NABARD is the chief promoter of these ADFCs with a holding of 26 per cent equity.

NABARD provides short-term refinance for various types of production/marketing/procurement activities. NABARD provides refinance facilities to the following parties:

- SCBs and RRBs for financing seasonal agricultural operations (SAOs), which include ploughing and preparing land for sowing and weeding, and labour for all operations in the fields for raising and harvesting the crops.

**Types of Refinance Facilities**

| *Agency* | *Credit Facilities* |
|---|---|
| Commercial Banks | • Long-term Credit for Investment Purposes.<br>• Financing the Working Capital Requirements of Weavers' Cooperative Societies (WCS) and State Handloom Development Corporations. |
| Short-term Cooperative Structure (State Cooperative Banks. District Central Cooperative Banks, Primary Agricultural Credit Societies) | • Short-term (Crop and Other Loans).<br>• Medium-term (Conversion) Loans.<br>• Term Loans for Investment Purposes.<br>• Financing WCS for Production and Marketing Purposes.<br>• Financing State Handloom Development Corporations for Working Capital by State Cooperative Banks. |
| Long-term Cooperative Structure (State Cooperative Agriculture and Rural Development Banks, Primary Cooperative Agriculture and Rural Development Banks) | • Term Loans for Investment Purposes. |
| Regional Rural Banks (RRBs) | • Short Term (Crop and Other Loans)<br>• Term Loans for Investment Purposes |
| State Governments | • Long-term Loans for Equity Participation in Cooperatives.<br>• Rural Infrastructure Development Fund (RIDF) Loans for Infrastructure Projects |
| Non-governmental Organizations (NGOs) and Informal Credit Delivery System | • Revolving Fund Assistance for Various Micro-credit Delivery Innovations and Promotional Projects Under 'Credit and Financial Services Fund' (CFSF) and 'Rural Promotion Corpus Fund' (RPCF) Respectively. |

- SCBs and CBs for financing the requirements of Primary Weavers' Cooperative Societies (PWCS), Apex Regional Weavers Societies, and State Handloom Development Corporations (SHDCs) to benefit the weavers outside the cooperative fold.
- RRBs for financing artisans and village/cottage/tiny sector industries as also for financing persons, belonging to the weaker sections and engaged in trade/business/service.
- SCBs on behalf of District Central Cooperative Banks (DCCBs) for (a) financing farmers to hold on to their produce till they get remuneration price of their produce (b) procurement, stocking, and wholesale distribution by apex societies and retail distribution of fertilizers to farmers.

Other refinance facilities include conversion assistance in case of natural calamity, long-term loans to state governments, financing of state handicrafts development corporations, and financing of industrial cooperative societies and forest labour cooperative societies and forest labour cooperative societies.

NABARD also extends refinance to banks for financing government-sponsored programmes such as Swarnajayanti Gram Swarozgar Yojana, Prime Minister's Rozgar Yojana, action plans of SC/ST development corporations, and for development of non-conventional energy sources.

## Credit

Credit is a crucial factor in the development of the agricultural and rural sector. NABARD provides short-term, medium-term investment and direct credit. It grants medium-term conversion loans (on account of crop loss due to natural calamities) to cooperatives and RRBs to enable them to convert the short-term loans of farmers into medium-term loans. It also provides medium-term (non-schematic) loans for agriculture and allied activities to cooperatives and RRBs. Investment credit helps in asset creation. Capital formation through investment enables technological upgradation resulting in increased productivity and profitability. NABARD provides refinance support to SCARDBs/SCBs/RRBs/CBs/schedule primary urban cooperative banks/non-banking financial companies/North East Development Finance Corporation Limited (NEDFI) against their investment credit in the rural sector. The major areas for refinance are farm mechanization, minor irrigation, plantation, horticulture, animal husbandry, storage/market yards, fisheries, post, harvest management, food/agro processing, non-farm sector including rural industries, microfinance, purchase of land for small and marginal farmers, and rural housing and disbursements under poverty alleviation programmes. Hi-tech projects and agri export zones are identified as a thrust area and NABARD helps in techno-financial appraisal of such projects besides refinancing.

## Direct Credit

- Loans to state governments under Section 27 of the NABARD Act, 1981, for share capital contribution to cooperative credit institutions which would increase their capacity to leverage larger resources.
- Loans under the Rural Infrastructure Development Fund (RIDF) for completion of incomplete and new rural infrastructure projects to state Governments and panchayati raj institutions.
- Co-financing of hi-tech/export export-oriented agriculture projects involving large outlays/innovative projects with commercial banks thereby sharing the credit risks with them.
- Bulk lending/Revolving Fund Assistance (RFA) for micro-finance activities and promotional projects to non-governmental organizations (NGOs), self-help group (SHG) federations and credit unions which undertake financial intermediation for on-lending to SHGs or poor individuals.

NABARD, in order to facilitate credit flow, undertakes credit planning which involves preparation of district-wise credit plans and state focus paper for every state annually which indicate exploitable potential under agriculture and allied activities available for development through bank credit, monitoring the flow of ground level credit, and issuing policy and operational guidelines to rural financial institutions (RFIs). Further, it renders financial services such as refinancing RFIs for their financing for investment and production in rural areas, granting loans to state governments for strengthening cooperatives, supporting micro-credit innovations of NGOs, and monitoring and evaluation of financed projects.

## Rural Infrastructure Development Fund

The development of a strong rural infrastructure is a prerequisite for increasing productivity of land, capital, and labour, improving the quality of life, and reducing vulnerability of rural power. Rural infrastructure includes irrigation structures, rural lands, bridges, water supply, sanitation, rural energy, rural market yards, education, health, communication, and information technology. Investment in rural infrastructure creates new economic opportunities and activities, generates additional employment and income, and facilitates and improves delivery of other rural services.

Investment in rural infrastructure declined in the eighth five-year plan period. The state governments failed to develop and maintain rural infrastructure due to resource crunch. Moreover, the commercial banks which were to channelize at least 18 per cent of their total lending to agriculture were unable to fulfill the commitment. To provide loans to state governments for the creation of rural infrastructure at reasonable rates, RIDF was set up in 1995–96 under the initiative of the central government. The scheme was operationalized by NABARD.

Under the scheme, the central government through budgetary outlays/contribute and commercial banks by way of deposits in relation to their shortfall in agriculture/priority lending to the corpus fund of RIDF.

RIDF was set up with an initial amount of ₹2,000 crore, (RIDF I). The Tranche-I was made up of contributions by way of deposits from scheduled commercial banks operating in India to the extent of shortfall in their agriculture lending, subject to a maximum of 1.5 per cent of the net bank credit. In the years 1996–97 and 1997–98, the union budgets allocated ₹2,500 crore. In the subsequent branches, this amount was raised to ₹3,000 crore in 1998–99, ₹3,500 crore 1999–2000, ₹4,500 crore in 2000–01, ₹5,000 crore in 2001–02, ₹5,500 crore in 2002–03 and 2003–04, ₹8,000 crore in 2004–05 and 2005– 06, ₹10,000 crore in 2006–07, ₹12,000 crore in 2007–08, ₹14,000 crore in 2008–09 and 2009–10, ₹16,000 crore in 2010–11, ₹18,000 crore in 2011–12, ₹20,000 crore in 2012–13 and 2013–14, ₹25,000 crore in 2014–15 and 2015–16. With the allocation of ₹25,000 crore for 2016–17 under RIDF XXII, the cumulative allocation has reached ₹2,67,500 crore, including ₹18,500 crore for funding rural roads under Bharat Nirman. ln order to encourage commercial banks to directly lend to priority sector, interest rates earned by commercial banks on RIDF deposits are kept inversely related to the shortfall in lending to agriculture. Further, credit risk weights for both direct priority sector lending and RIDF deposits had been fixed at 100 per cent.

RIDF is used to finance incomplete or ongoing projects in minor, medium, and major irrigation along with flood protection, watershed management, and soil conservation. It also includes activities such as construction of rural roads and bridges, harvesting of rain water and construction of terminal rural markets, fish jetties and cold storage, primary school buildings, primary health centres, village *haats, anganwadi* centres, *shishushiksha kendras,* forest management, mini hydel and system improvement projects under power sector, rural drinking water supply, and citizens' information centres under the IT sector.

RIDF now covers 36 activities, which can be classitied under the following three broad categories:

(i) Agriculture and related sectors which are eligible for loans upto 95 per cent of project cost.
(ii) Social sectors, where loans can be upto 90 per cent of project cost in all other States.
(iii) Rural connectivity where loans are extended upto 90 per cent of project cost in north-eastern and hilly states, and 80 per cent of project cost in all other States.

The scope of RIDF was progressively widened to allow lending to gram panchayats, SHGs and other eligible organizations for implementing village level infrastructure projects.

The implementation of sanctioned projects is closely monitored by NABARD. The period of loan is seven years with a moratorium of two years. The interest rates are linked to the bank rate.

Now the eligible institutions are state governments/union territories, state owned corporations/state government undertakings, state government sponsored/supported organisations, panchayat raj institutions/Self Help Groups (SHGs)/NGOs [provided the projects are submitted through the nodal department of state government (i.e., finance department)].

## Economic Impact of RIDF Projects

- Creation of additional irrigation potential of 274.93 lakh hectares, rural connectivity through 420 thousand km rural road network and 1,015 thousand metres of rural bridges.
- Agri-related projects including irrigation generated 182.58 lakh jobs of recurring employment and 42,244 lakh man-days of non-recurring employment under irrigation.
- Hydel-power projects generated 229 MW of power in rural areas. Other power projects have helped in reduction of transmission and distribution losses amounting to 22,341 lakh units in a year by bringing about system improvements.

## Thrust Areas of NABARD

### *1. Farm Sector*

- **Watershed Development Fund:** Watershed development programme includes the improvement of productivity of land, ground water recharge and conservation of soil and moisture. The Government of India set up the Watershed Development Fund (WDF) with NABARD in 1999–2000 with a corpus of ₹200 crore contributed equally by the Government of India and NABARD. This fund is utilized to implement participatory watershed projects in 100 districts of 14 states. The corpus of the fund was augmented to ₹1,125.21 crore as on March 31, 2009. The projects are implemented in two phases, *viz*., Capacity Building Phase (CBP) and Full Implementation Phase (FIP). The watershed development programme is a sustainable development programme which aims to improve water conservation, irrigation facility, afforestation, agro forestry, micro irrigation, and land use pattern leading to increased agricultural productivity in drought prone and desert prone areas, which ultimately results in increased income for farmers. So far, 1,177 watershed projects have been successfully implemented by NABARD in 19 states. An area of 18.38 lakh hectares has been treated with various soil and water conservation measures. The actual project implementation is taken up by village level community organizations, such as Village Watershed Committees (VWCs), Panchayats or corresponding institutional arrangements .
- **Tribal Development Fund (TDF):** It was created in 2004 with an initial corpus of ₹50 crore, for developing the tribal dominated areas through the wadi concept. It also includes taking-up micro-enterprises by the landless, women empowerment, community health, training and capacity building, and building people's organizations. Since its inception, the programme has benefited around 4.85 lakh families across 27 states. With the intention of ensuring sustainability of the interventions made, the programme is carried out with active partaking (shramdhan) of the local folk. Small and marginal farmers of the scheduled tribe community and other socio-economically weak sectors owning not more than five acres of land are eligible to participate in the programme.
- **Farm Innovation and Promotion Fund (FIPF):** It was set up with a corpus of ₹5 crore in 2005 to promote innovative and feasible concepts/projects in agriculture and allied activities, development of marketable prototypes, technology patenting, extension support, marketing, etc. Projects financed include commodity exchange, rainfed rabi cropping, ultra-high density, orcharding in guava, village farm development, protected vegetable cultivation in villages, and efficient use of carbon and plant nutrients under dryland agriculture. Financial assistance was extended to pilot projects on augmenting productivity, for imparting training and capacity building, extension services and community development. 5016 new farmers' clubs were promoted during the year. A project on promotion of basmati and traditional scented rice varieties was launched in collaboration with ICAR-IARI in 11 states. Pilot projects on value chain management of onion, tomato and potato are being successfully implemented in Nasik, Maharashtra; Karnal, Haryana; and Hooghly in West Bengal. 23 projects were sanctioned in 10 states of the country benefiting 12,087 tribal families.
- **Pilot Project for Integrated Development (PPID) of Backward Blocks:** It was launched in 2003 and the project aimed at enabling integrated development through credit and convergence of development programmes in these blocks. The duration of PPID I was restricted to three years only.
- **Capacity Building for Adoption of Technology (CAT) scheme:** NABARD undertakes sensitization of farmers to facilitate them in adopting new/innovative methods of farming through exposure visits and training.
- **Village Development Programme (VDP):** It was introduced in 2007 and envisages developing five villages in each of the PPID blocks. A village development committee comprising mainly of progressive villagers takes care of plan preparation, implementation, monitoring, etc.
- **Farmers Technology Transfer Fund (FTTF):** It was operationalized from April 1, 2008 with a corpus of ₹25 crore with the aim of promoting technology transfer for enhancing production and productivity in agriculture and farm-related activities.
- **Farmers' Club (FC):** This programme aims to organize farmers around a common agenda to facilitate access to credit, technology, markets, and extension services. NABARD extends uniform support of ₹10,000 for three years to commercial banks, RRBs, co-operative banks, and grassroot level organizations (NGOs, PRIs, KVKs, Post Offices, etc.) for promoting and nurturing of FCs. The promoting agency takes steps to make the clubs self-sustaining over a period of three to five years, when funding support by institutional agencies will be withdrawn.
- **Commodity Futures Trading:** In order to enable the farming community to reap the benefits of commodity futures trading, NABARD in collaboration with the Forward Market Commission

(FMC) has undertaken the responsibility of organizing exposure workshops for skill upgradation of farmers to ensure their participation in the market.

- **Government Projects:** NABARD also discharges the functions of implementing/project coordinating agency for various area specific projects of the government of India.
    a. *Kutch drought proofing project* NABARD has been implementing this project since 2005 through community-based organizations and NGOs.
    b. *Cattle development projects* NABARD is the co-ordinating agency and facilitator for channelizing funds, ensuring its utilization, project supervision, and monitoring.
    c. *Special project on livelihood based development* under implementation since 2006–07. The project aims to cover 11,500 BPL families in each district at an approved cost of ₹14.97 crore for Sultanpur and ₹14.90 crore for Rae Bareli. NABARD is the project holder on behalf of MoRD while BAIF and Dr. Reddy Foundation (DRF) are implementing it.
    d. *Dairy and poultry venture capital fund* The programme is under implementation since 2005–06. Assistance is extended as interest free loan upto 50 per cent of the outlay for identified components under dairy and poultry sectors. NABARD is the nodal agency for operationalizing the scheme and administering the Fund.
- **Externally Aided Projects:** NABARD receives assistance from KfW, Germany and disburses assistance under the KfW-supported externally aided projects, which are in various stages of implementation. The following are the on-going projects.
    a. *The KFW-NABARD-V-Adivasi development programme in Gujarat*. This programme has been under implementation since 1994–95 in Valsad and Dangs districts through BAIF Development Research Foundation, Pune. The in-built credit programme is being implemented through Gram Vikas Mandals (GVM) since 1998–99.
    b. *The KfW-NABARD-IX-Adivasi development programme in Maharashtra*. The successful wadi model of Gujarat is being replicated in Nasik and Thane districts of Maharshtra. The programme with a project period of 10 years (2000–2010) aims to support 13,000 tribal families by developing wadis on their marginally productive lands. A bilateral aid agreement between the Indian and German government
    c. NABARD anchors four programmes, *viz*.: (i) Participatory Watershed Development Programme under Watershed Development Fund (EDF) in 15 States; (ii) Prime Minister's Relief package for distressed districts in four States; (iii) Integrated Watershed Development Programmes (IWDP) in Bihar; and (iv) Indo-German Watershed Development Programme (IGWDP) in Maharashtra, Andhra Pradesh, Gujarat and Rajasthan. These four programmes cover an area of around 17.8 lakh ha. The central theme and the methodology governing all these programmes is the successful partnership based on strong commitment by State and local agencies, community leaders and local people at all the stages of implementation of the programme. The difference is only about the source of funding.
    d. *Indo-German Watershed Development Programme (IGWDP):* This programme is a bilateral aid agreement between the Indian and German governments and is being implemented since 1992 in Maharashtra through NGOs and village-level community-based organizations with an objective to develop micro-watersheds for achieving sustainable production system through people's participation. This programme has two phases: Phase I—capacity building phase and Phase II—full implementation phase. Phase I and Phase II are complete. Phase II is an integrated programme for the regeneration of natural resources through the rehabilitation of watersheds to be implemented by Village Watershed Committees (VWCs) in association with NGOs. Phase III involves a commitment of Rs 140 crore from kfw, Germany. In addition to Maharashtra, IGWDP has been extended to three states, *viz*., Andhra Pradesh, Gujarat and Rajasthan

### Impact of the Programme

- Improvement in availability of drinking water.
- Rise in groundwater recharge, leading to increased irrigation, production, and productivity.
- Improved local employment reducing distress migration.
- Indirect impact: Improved quality of life, housing, and health.
- Formation and credit linkage of large number of women.

KfW, Germany has committed to provide grant assistance of ₹51.52 crore to selected projects executed by NGOs, exclusively towards investment financing and consultation costs for the rehabilitation of watersheds in Gujarat. It has also committed grant assistance of ₹61.60 crore under the Indo-German

Watershed Development Programme in Rajasthan for watershed development in five districts (Banswara, Chittorgarh, Dungarpur, Pratapgarh, and Udaipur).

- **Umbrella Programme on Natural Resource Management (UPNRM):** It is the new loan-cum-grant based programme being piloted by NABARD from 2007–08 under Indo-German collaboration. It envisages a shift from: (i) project-based to programme based funding; and (ii) grant-based to loan-based funding in the NRM sector.

### *2. Non-farm Sector*

The non-farm sector includes investment activities of artisans, small-scale industries, village and tiny industries, handicrafts, handlooms, and others. The rural non farm sector (RNFS) has a lot of employment generation potential in rural areas. NABARD provides refinance as well as promotional support for the development of this sector. Promotional support is provided to establish replicable models for generating/enhancing opportunities for employment and income generation in a sustainable, demonstrative and cost effective manner by providing grant/revolving fund assistance, etc. to NGOs, voluntary associations, trusts and other promotional organizations.

- **Rural Innovation Fund (RIF):** This fund was constituted in 2005 to provide support for innovative projects in farm, non-farm, and micro-finance sectors with potential to generate employment opportunities.
- **Swarojgar credit card scheme:** NABARD, in consultation with the GOI and the RBI, formulated in August 2003 the Swarojgar Credit Card (SCC) scheme for the benefit of small borrowers to take care of their investment and working capital requirements. As on March 31, 2013, the banking sector had issued 13.96 lakh SCC involving an aggregate credit limit of ₹5813.95 crore.
- **District Rural Industries Project (DRIP):** This project was introduced in 1993–94 in five select districts with the objective of creating sustainable employment opportunities in rural areas through enhanced credit flow to RNFS with promotional measures in a coordinated manner. Encouraged by the success of this project, NABARD extended the project to 80 districts across the country. The emphasis of NABARD is on credit intensification efforts through credit plus approach, cluster development, credit delivery innovation, development of emerging and high growth sub-sectors, and credit related promotional programmes. Training of officers of primary lending institutions (PLIs) and other partner agencies has been a thrust area under DRIP.
- **Scheme for strengthening of Rural haats:** It was introduced in 1999 in DRIP districts, and was extended to all districts, village bazaar boards, SHG, NGO and to PRI/PACS, The ceiling under the scheme was increased from ₹3 lakh to ₹5 lakh and coverage extended to include permanent structure/s as per local requirements.
- **Cluster programme for rural industries:** The Government of India has launched the National programme for Rural Industrialization (NPRI) for development of rural clusters. NABARD has approved development of 81 rural clusters in a phased manner during the 5-year period (2006–10). NABARD's role is that of a facilitator coordinating with participating agencies and preparing action plans with active involvement of the government, development agencies, banks, and artisans. The broad sectors identified for development on priority basis under the programme are agriculture and allied activities, cashew processing, food processing, rural SME, handicrafts and handlooms, marketing and trading, and adequate supply of quality raw material, agri/rural touism, and rural community.
- **Rural Entrepreneurship Development Programme (REDP) and Skill Development Programme (SDP):** This programme was introduced in the early 1990s to support rural unemployed youth in setting up their own business. NABARD extends grant assistance to agencies with professional competence for conducting entrepreneurship development programmes for unemployed rural youth. Till March 2009, 11,905 REDPs/SDPs were supported benefiting over 3 lakh youth.

### *3. Other Schemes*

- **Kisan Credit Card (KCC) Scheme:** This scheme was started in August 1998 to grant credit to farmers. The scheme aims at provision of adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible and cost effective manner. In addition to short-term loans for agriculture purposes, loans for consumption needs are also granted.

  Loans disbursed under KCCs have been brought under Rashtriya Krishi Bima Yojana of the General Insurance Corporation. KCC holders are also being provided personal accident insurance cover of ₹50,000 for death and ₹25,000 for disability. Banks extend crop loans only through KCC.

Cooperative banks accounted for the largest share of cards (44 per cent) followed by commercial banks (42 per cent) and RRBs (14 per cent). NABARD initiated a pilot project linking the KCC to the farmer's mobile phone which significantly reduces transaction cost. A farmer may not have a mobile phone, but his KCC account is linked to the biometric authentication (hands and fingers) of Aadhaar or NPR, so that the KCC account holder is able to transact business almost anywhere. During 2012, NABARD launched a very successful pilot with Pallavan Gramin Bank, sponsored by Indian Bank, that leveraged the deep penetration of mobile telephony in villages, linking mobile numbers of the farmers to their Kisan Credit Cards, enabling them to order and pay for their seeds, fertilizers and other inputs from the comfort of their homes and save substantially on time, transportation costs and the risk of handling cash. Even for banks and input dealers, handling cash was removed, thus reducing even their transaction costs. A study by IIBF showed that farmers not only saved costs but even got price discounts. The short term component of the KCC limit is in the nature of revolving cash credit facility with no restriction on the number of debits and credits. Besides the mandatory crop insurance, the KCC holder has the option to take benefit of any type of assets insurance, accident insurance (including PAIS), and health insurance (wherever product is available) and have premium paid through his KCC account. Premium has to be borne by farmers/bank according to the terms of the scheme.

The Government of India has set up a target of converting three crore Kisan Credit Cards into RuPay Cards.

- **Agricultural debt waiver and debt relief scheme, 2008:** This scheme was announced in the Union Budget 2008–09 to restructure the indebtedness of farmers and remove difficulties faced by farming communities, especially small and marginal farmers. NABARD implemented the scheme as nodal agency for co-operative banks and RRBs. About 193 lakh farmer-borrowers of cooperative banks and RRBs are estimated to have benefitted under the Scheme.
- **Capital Investment Subsidy Schemes:** Since 2000–01, NABARD is the nodal agency to oversee implementation of the various Capital Investment Subsidy (CIS) schemes of the government of India through administering subsidy and monitoring the progress with bankers and GoI. During 2008–09, four CIS schemes, *viz*., (i) construction of cold storages, onion godowns and rural godowns; (ii) development/strengthening of agriculture marketing infrastructure, grading and standardization; (iii) establishing Agri-Clinic and Agri-Business Centres (ACABC) by agriculture graduates; and (iv) supporting bankable projects for commercial production of organic inputs like bio-fertilizer, vermiculture hatchery and composting units of fruit and vegetable wastes, etc., under National Project on Organic Farming (NPOF) were implemented.
- **Women empowerment:** NABARD has formulated different programmes for development of women and credit flow to women.
- **Gender sensitization programmes:** NABARD has been conducting gender sensitization meets/workshops for various levels of bankers at the district and state level. These programmes create awareness among bankers regarding gender concerns in credit and, thereby help to accelerate banking facilities and credit flow to women.
- **Women development cells:** NABARD set up, in 1995, a scheme providing grant support for setting up of Women Development Cells (WDCs) in RRBs and cooperative banks. The objective of the scheme is to strengthen the institutional capabilities in addressing gender issues in credit and supportiveness.
- **Assistance to Rural Women in Rural Non-Farm Development (ARWIND):** This scheme has been formulated with the objective of entrepreneurial development among rural women. Under this scheme, assistance is available for setting up of units for rural women entrepreneurs, common facility centres, setting up of mother units, and organizing women. NABARD provides 100 per cent refinance to banks under this scheme.
- **Assistance for Marketing of Non-Farm Products of Rural Women (MAHIMA):** This scheme was introduced in 1997, for supporting various initiatives for promoting marketing of items produced by women. Women are given assistance relating to marketing activities, such as market survey, technology upgradation, branding, labelling, packaging, publicity, setting up of showrooms/sale outlets in NABARD provides 100 per cent refinance to banks under this scheme.
- **Development of Women through Area Programme (DEWTA):** This programme aims to address various needs of women, identified by women themselves in respect of skill, upgradation, and capacity building.
- **Other development initiatives:** NABARD has taken various initiatives to develop the north-eastern region, provide environmental promotional assistance to NGOs and other research organizations, promote cultivation of medicinal and aromatic plants, finance agriculture graduates for setting up agri-clinics and agribusiness centres, develop backward blocks, and extend refinance for rural housing.

## Participation in New Ventures

**Agriculture Insurance Company of India Limited (AICI):** A well designed institutional arrangement such as insurance has to be put in place to avoid risks in agriculture covering all farmers and crops. AICI was set up on December 20, 2002 under the Companies Act, 1956 with an authorized and paid-up capital of ₹1500 crore and ₹200 crore respectively. NABARD's contribution in the equity is 30 per cent while the contribution from GIC is 35 per cent and the four public sector insurance companies have contributed 8.75 per cent each.

The pilot scheme on Seed Crop Insurance, which was implemented through GIC, is now transferred to AICI.

## Amendments to the NABARD Act, 1981

Comprehensive amendments to the NABARD Act, 1981, were made to provide operational flexibility to the bank in meeting the changing requirements of the rural sector. These amendments were made effective from February 1, 2001. The amendments relate to explicit reference to NABARD as a development bank, enhancement of capital limit from ₹500 crore to ₹5,000 crore, allowing holding of private equity upto 49 per cent with a minimum of 51 per cent by the Government of India and the RBI, flexibility in resource mobilization and credit-delivery by the bank, introduction of new products, and setting up of subsidiaries.

## NABARD as a Consultant

NABARD has recently (2003) set up its own consulting wing called NABCON for loan seekers. The new wing is established to provide information, technical guidance, critical ideas and consultancy services to entrepreneurs, banks, cooperatives, government and non-government organizations. The bank's wing in India as well as in the international level has on date projects worth about USD 200 million under consultancy, or in active consideration.

## NABARD as a Supervisor

NABARD was set up under the aegis of the RBI for supervision and refinance of rural cooperatives. It has constituted a board of supervision as an advisory committee to the board of directors of NABARD. NABARD inspects State Cooperative Banks (StCBs) and District Central Cooperative Banks (DCCBs) in terms of the powers vested under Section 35 (6) of the Banking. Regulation Act, 1949 (AACS) and Regional rural banks (RRBs) under Section 35 (6) of the B. R. Act, 1949. NABARD also conducts voluntary inspection of State Co-operative Agriculture and Rural Development Banks (SCARDBs) and Apex Co-operative Societies and Federations having borrowings outstanding from it. NABARD's supervisory role is comprehensive and holistic, encompassing inspections (on-site and off-site), portfolio studies, monitoring, guiding, and facilitating functions, besides the basic objective of ensuring conformity with banking regulations and prudential norms. Statutory inspections of all StCBs, DCCBs, and RRBs not complying with minimum capital requirements of Banking Regulation Act, 1949 (AACS)/RBI Act, 1934 and voluntary inspections of all SCARDBs continue are conducted annually. Statutory inspections of DCCBs and RRBs with positive net worth and voluntary inspections of Apex Co-operative Societies/Federations are conducted once in two years.

## Institutional Development

- NABARD has identified strengthening of rural financial institutions (RFIs), which deliver credit to the agriculture and rural sector, as a thrust area so that adequate and timely credit is made available. NABARD helps RFIs to prepare development action plans and also monitor the implementation of these plans. It has helped in implementing the recapitalization plan of the GOI for RRBs. It has setup the Cooperative Development Fund to support various development activities such as computerization and human resistance development.
- National Commodity and Derivatives Exchange Limited (NCDEX): NCDEX, jointly floated by NABARD, LIC, NSE, ICICI Bank, PNB, and CRISIL, commenced trading on December 15, 2003. The authorized share capital of the company is ₹30 crore and issued share capital is ₹22 crore. NABARD has contributed ₹4.39 crore to the equity. This company provides a platform for price discovery, information regarding price trends, and hedging risk for various agricultural products thus enabling farmers to plan their production and appropriately market their products.
- Agric export zones: NABARD extends refinance facility to all banking institutions for financing farmers in agric export zones. It also organizes state level meets of different stakeholders of AEZs

and district level workshops for facilitating better interface among entrepreneurs and farmers at the grassroot level.

## Conclusion

NABARD has played a key role as an apex-level development finance institution committed to rural prosperity. Its performance has been satisfactory in all areas of its operations. It has introduced new schemes and chalked out new strategies for better achievements in future.

In terms of financial indicators-its balance sheet is now closer to the ₹2 lakh crore mark and the post tax operating surplus at ₹1,635 crore showed an increase of 28% over the previous year 2011-12.

NABARD has been accredited as the National Implementing Entity by the Adaptation Fund Board of the United Nations Framework Convention on Climate Change (UNFCCC) for taking up Climate Change initiatives in the country. NABARD is the only agency from India and 12th in the world to be so accredited, which will allow NABARD is the only agency from India and 12th in the world to be so accredited, which will allow NABARD to directly access funds from the Adaptation Fund Board for its own programs as also for its channel partners.

NABARD, during its thirty years of existence, has grown in stature-from being just a refinancing institution to an institution which 'thinks' about development; researches, designs and creates new products and programs; grooms varied partners; and 'inclusive' in nature. The activities of NABARD today range from formation of financial capital to building social capital, from infrastructure finance to micro-finance. It also combines the role of a supervisor, a credit planner and a policy maker.

## KEY TERMS

Development Banks    Micro-finance    Universal Banking

## SUMMARY

1. Development banks are financial agencies that provide medium-and long-term financial assistance and act as catalytic agents in promoting balanced development of the country. They are engaged in promotion and development of industry, agriculture, and other key sectors. They also provide development services that can aid in the accelerated growth of an economy.
2. The concept of development banking originated during the post Second World War period. The International Bank for Reconstruction and Development (IBRD) known as the World Bank and the International Monetary Fund (IMF) are examples of development banks at the international level.
3. To fill in the gaps in the banking system and capital markets, a new institutional machinery was devised—the setting up of specialized financial institutions.
4. The country is being served by 57 financial institutions, comprising 11 institutions at the national level and 46 institutions at the state level. These financial institutions have a wide network of branches.
5. DFIs are in the process of converting themselves into universal banks. ICICI has become a universal bank by a reverse merger with its subsidiary ICICI Bank. IDBI has transformed itself into a universal bank.
6. Universal banking is a one-stop shop of financial products and services. Universal banks provide a complete range of corporate financial solutions under one roof—everything from term finance, working capital, project advisory services, and treasury consultancy.
7. Industrial Finance Corporation of India Limited (IFCI), India's first DFI, was established on July 1, 1948, under the Industrial Finance Corporation Act as a statutory corporation. It was set up to provide institutional credit to medium and large industries. Since 1998–99, the assistance sanctioned and disbursed by IFCI has declined. IFCI started reporting losses from 1999. IFCI was the worst hit by the NPA problem. IFCI has been turned around into a profit-making company and is now looking for a strategic tie-up. IFCI Ltd is now being regulated as a systemically important non-deposit taking NBFC.
8. The Industrial Development Bank of India (IDBI) was established in 1964 by parliament as a wholly owned subsidiary of the RBI. In 1976, the bank's ownership was transferred to the Government of India. It was accorded the status of the principal financial institution for coordinating the working of institutions at national and state levels engaged in financing, promoting, and developing industries. IDBI was merged with its private banking arm, IDBI Bank, in 2003–04.
9. The Small Industries Development Bank of India (SIDBI) was set up in 1990 under an act of parliament—the SIDBI Act, 1989. The charter establishing SIDBI envisaged SIDBI to be 'the principal financial institution for the promotion, financing and development of industries in the small-scale sector and to coordinate the functions of other institutions engaged in similar activities.' SIDBI offers a chain of financial products covering micro-finance, business, incubation, venture capital, project finance, assistance for technology development and marketing of small scale industries products, export finance, bills finance, factoring, and guarantees for loans. SIDBI also provides support services such as training, market information, and advice for enhancing the inherent strength of small scale units. SIDBI is among top 30 development banks of the world.
10. Infrastructure Development Finance Company Limited (IDFC) was set up on the recommendations of the Expert Group on Commercialization of Infrastructure Projects. IDFC was set up to facilitate the flow of private finance to commercially viable infrastructure projects. Initially, IDFC focused on power, roads, ports, and telecommunications. Now it has broadened this focus to the framework of energy, telecommunications and information technology, integrated transportation, urban infrastructure, and food and agri-business infrastructure.
11. The Export Import Bank of India is wholly owned by the Government of India and was set up for the purpose of financing, facilitating, and promoting foreign trade in India. EXIM Bank is the principal financial institution in the country for coordinating working of institutions engaged in financing exports and imports.

12. NABARD is an apex institution set up for providing and regulating credit and other facilities for the 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 with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto. The functions of NABARD are to facilitate credit flow for agriculture and rural development, promote and support policies, practices and innovations conducive to rural development, strengthen rural credit delivery system through institutional development, and supervise rural financial institutions such as cooperative banks and regional rural banks. NABARD extends refinance for both farm and non-farm sector. To provide loans to state governments for the creation of rural infrastructure at reasonable rates, RIDF was set up in 1995–96 under the initiative of the central government. The scheme is operationalized by NABARD. NABARD promoted the idea of organizing thrift and credit groups among the NGOs as an add-on activity and encouraged linking them with banks. Micro-finance is defined as the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semiurban or urban areas for enabling them to raise their income levels and improve living standards. Self help Group–Bank Programme was launched by NABARD in February 1992 with the support of the RBI. The programme aimed at promoting and financing 500 SHGs across the entire country. It also operates various schemes such as Kisan Credit Card, Watershed Development Scheme, Scheme for Financing Farmers, Women Empowerment, and Rural Entrepreneurship Development Programme (REDP).

## REVIEW QUESTIONS

1. State the objectives of development financial institutions.
2. What is universal banking? How has ICICI transformed into a universal bank?
3. What are the different products and services offered by EXIM Bank?
4. 'IDFC has emerged as a company supporting infrastructure projects.' How?
5. Give a brief profile of IFCI and SIDBI.
6. What is the role of NABARD in rural credit?

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