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MANAGEMENT OF FINANCIAL INSTITUTIONS :
AN INQUIRY INTO THE EXTENT OF
PROFESSIONALISM IN IDBI, IFCI AND ICICI

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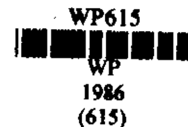

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MANAGEMENT OF FINANCIAL INSTITUTIONS : AN INQUIRY INTO THE EXTENT OF PROFESSIONALISM IN IDBI, IFCI AND ICICI

The developing countries have shown considerable concern for the economic development of their economies, specially during the last two decades of the post-World War II. The speed of development efforts of these countries has always been influenced by the availability of finance as well as its allocation among the alternative uses.

The role of allocating resources efficiently and effectively to various economic sectors in the developing countries has been assigned to development finance institutions (DFIs), or development banks (DBs). A DFI is a private or public institution, which provides promotional services and medium and long-term finance to public or private projects, which are development oriented and bankable [8]. 'There is perhaps no more useful single action which a government can take in the industrial development field than assisting in the establishment of an independently operated industrial development bank' [2]. Development banking, a mechanism through which DBs or DFIs operate, is the financial innovation of twentieth century. DFIs have to combine the twin roles of investment banking as well as development in one organisation. It therefore needs a different type of professional competency, than required for commercial or investment banking. At the time, when the concept of development

banking was first conceived, there were no ready-made managers available to perform the tasks of development banking. In most of the countries, the development bank managers came from the country's central bank, or commercial banks, or the government departments. They thus lacked appropriate experience and skills. It was by trial and error, sound judgement and the support of agencies such as World Bank that these managers could sail smoothly in the initial years of their lives. Now, after about three to four decades of their existence, development bank managers in various countries have been able to accumulate valuable experience of managing DFIs. They also benefit from the experience of each other, and they have been able to establish their distinct professional identity. There is no doubt in the fact that managerial competence is the single-most factor responsible for the success of a development bank. 'With competent management, a bank may be successful notwithstanding inadequacies in the original concept of the institution or shortcoming of its charter. But no bank, however well conceived, can overcome the handicap of poor management' [1].

The attainment of professionalism in management thus underlies the successful exploitation of the full potential of DFIs. 'Basic to all these questions (or internal organisation, staff, operating criteria and procedures) is the

question of operating management. It will be in the interest of all the parties to obtain for the bank the best professional management possible' [9]. Given the focus of DFIs, the following can be singled out the most important attributes of professionalism for the purpose of this study: (a) a lending strategy supported by adequate procedures, technical capabilities, sound judgement and structure for appraising and monitoring projects to ensure effective allocation of finance; (b) ability to plan for the mobilisation of resources to meet the financial needs of various sectors and thus to establish an organic link with sources of savings; (c) training of personnel for making skillful development managers available on continuous basis and improving the effectiveness of existing managers; and (d) designing suitable structure for organising the staff for performing various functions.

The purpose of this study is to assess the amount of professionalism in terms of abovementioned attributes in three all-India level development banks, viz. Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), and Industrial Finance Corporation of India (IFCI), and thus, to derive implications for developing policies and procedures for managing development banks.

PROJECT FINANCE

The project finance is the hard core activity of DFIs. Sufficient managerial skills and sound procedures should exist in performing this activity. At least, five phases of the project finance activity can be identified: (i) identification; (ii) appraisal - preliminary and full; (iii) approval - decision-making; (iv) legal implementation and disbursement; and (v) follow-up. A review of the procedures followed by all-India DFIs is given below. These procedures also indicate the responsibilities allocated to various departments/divisions of an institution.

Identification

Project identification is the most crucial phase of the project finance. Projects may be brought by clients to DFIs for financial assistance, or DFIs may themselves identify projects and induce potential entrepreneurs to take them up. The very nature of a development finance institution necessitates the need for searching investment opportunities and identifying people to exploit them. In case no one is found to undertake those opportunities, ideally DFI itself should exploit them.

It is a general experience that private DFIs do not initiate projects while the government-owned DFIs in a number of developing countries have been found identifying

as well as managing investment projects/enterprises in the absence of entrepreneurs. However, most DFIs, irrespective of their ownerships, play development role of facilitating and encouraging creation of enterprises. Through their surveys and research efforts, they suggest investment ideas to the existing or new entrepreneurs. Lower the level of economic development, more the need and importance of the DFIs' development role. When the investment climate is favourable in a country, there would be large flow of client-initiated projects, and DFI-initiated projects will be virtually absent. The developed countries amongst developing do face periodic lulls in the investment conditions. DFIs should be ready with investment ideas with attractive financing packages to stimulate investment activity during such period. DFIs can therefore create a separate division or department which may be properly equipped for developing projects. For example, Industrial and Mining Development Bank of Iran has a separate division to develop its own projects. There is a danger in considering the financing of projects developed by the staff of the DFI. DFI may get favourably biased in evaluating these projects. It is therefore essential to ensure that the self-initiated projects should be treated for evaluation in the same manner as the client-initiated projects.

In India, the three central development financial institutions - IDBI, ICICI and IFCI - do <u>not</u> initiate and manage their own projects. But they have very elaborate and sophisticated systems of encouraging promotion of enterprises. IDBI, for example, has an Industrial Promotion Division functioning under its Small Industries Development Department. In the sense that its activities will have the ultimate objective of promotion of industrial projects in predetermined geographical areas or by entrepreneurial segments and/or employing new processes/technologies, it may be said that the Division serves as a project promotion department. The main objectives of the division are: (a) supporting financial efforts aimed at developing industrially backward areas including No-Industry Districts; (b) providing financial support to institutions engaged in providing service to small and medium entrepreneurs for upgrading the skills of their personnel through training; (c) providing financial support to specialised institutions which are engaged in the work of entrepreneurship development and entrepreneur guidance as also supporting their programmes; (d) supporting efforts of voluntary agencies engaged in training and development of rural artisans, economically weaker sections and physically handicapped with a view to enable them take up small viable industrial profession or to upgrade their professional skills; (e) supporting novel ideas aimed at technology induction, upgradation and development; and

(f) supporting researches, studies, surveys etc. on industry. The division is concerned with all items of work which have a bearing on industrial promotion. It operates a fund - Technical Assistance Fund - out of which assistance is provided as grant, soft loan etc. for the division's various promotional activities. The functions of the division are confined to industrial promotional activities at the macro level.

IDBI's promotional efforts also aim at creating, wherever necessary, new organisations for industrial promotion work specially to cater to the promotional needs of industries at micro level. It is in line with this objective that IDBI has played a leading role in creating Technical Consultancy Organisation (TCOs) in most of the states along with other all-India development banks and state-level institutions. Besides taking up development programmes, TCOs are expected to cater to the various requirements of individual entrepreneurs such as provision of information about project opportunities, project profiles, consultancy service for preparing TERFs, feasibility studies for specific projects, project implementation services etc. IDBI coordinates the working of TCOs and provides them financial support for their various activities besides rendering assistance for upgradation of the skills of TCO personnel.

IFCI has a Business Development Division which is a wing of the Business Development and Policy Division. While the Business Development Wing does not 'promote' projects in the true sense, it makes efforts to attract applications for good projects. This is done by (a) writing to some of the parties who have been issued letters of intent, (b) guiding and counselling entrepreneurs, and (c) advising the Branches and Regional Offices of the policies in regard to financing of specific industries. In addition, all Branch and Regional Offices remain constantly in touch with various developmental agencies with a view to extending support to good projects.

Appraisal

The provision of capital to finance investment projects is the hard core activity of DFIs. The evaluation of those projects is their continuous, daily business. Project appraisal is not a routine job, rather it is a highly creative process. The task of a DFI is not simply to perform engineering of evaluation to say 'yes' or 'no' to the applicant. A professional approach to sound appraisal requires as rigorous examination of the proposal as the entrepreneur himself would have done. This examination will be much more than the computation of profitability and determining viability of the projects. It will not only encompass commercial, financial and economic evaluation, but will also

focus on the technology and social aspects as well as on the integrity and managerial capabilities of the proposer. 'Constructive bankers thus find themselves moulding, modifying, and advising on the proposals before them to minimise the risks of failure.... Although wise bankers recognise that their clients generally know much more about their business than they do, wise clients in turn recognize that they get much more than capital from their banker. At best, they get a constructive partner; at least, they get a second diagnostic opinion from one whose critical view can be trusted precisely because it is an outside opinion, not committed to the investment proposal in advance, and hence more likely to be objective. And, indeed, with the passage of time, the development bank itself develops a breadth of experience, which its clients can rarely match' [4].

DFIs should develop adequate procedures and systems for a sound appraisal of projects. A sound appraisal system will comprise of at least three steps: (a) distribution and receipt of application; (b) preliminary appraisal; and (c) full appraisal.

In India, IDBI, ICICI and IFCI have devised a common application form for project finance. They also provide potential clients a list of subjects that should be covered in a proposal. Broadly, the entrepreneurs are required to

furnish detailed information with regard to their past experience, credit-worthiness, full details of the project such as capacity to be installed, processes to be adopted, technical arrangements made, management set-up, availability of utilities, details of the cost of project, proposed means of financing, market and selling arrangements, along with projections of cost of production, profitability and cash flow for a period of 5-10 years. All-India DFIs have clients throughout in India, and they try to have a meeting with a client as soon as possible. To expedite meeting, IDBI, ICICI and IFCI have opened a number of Branch and Regional Offices all over the country. Unlike some DFIs in other developing countries, Indian DFIs do not have separate preliminary application form and full application form. They also do not differentiate between data requirement by the size of the loan sought or its purpose.

It would be desirable if a person other than specialist staff performs the function of distribution and receipt of application. DFIs' focus is on development. They direct funds to the priority areas. Therefore, at this stage (receipt of application), applications may be screened for their relationship to the country's development plans. The receiving officer may reject application if it is prima facie beyond the bank's areas of operation with respect to sector, or industry, size of the loan, purpose of th. loan or other set limits.

In IFCI, the Business Development Wing (BDW) receives and distributes application to the various appraisal wings. BDW makes the preliminary review of applications. At this stage, the screening is done from a broad policy angle, with reference to: (i) priority of the project with reference to government policies and guidelines; (ii) any interim policy decision that might have been taken by all-India DFIs in respect of specific industries; (iii) promoter's background; (iv) prima facie market for the products in question; and (v) availability of the government clearance etc. IDBI, ICICI and IFCI are responsible for direct financing of projects in India. They have together streamlined and standardized their evaluation procedures. For considering the applications and other issues, they hold Inter-Institutional Meetings (IIMs) and senior Executive Meetings (SEMs). For the preliminary acceptance of an application, IFCI considers it either at its Business Development and Policy Department (BDPD) or at the inter-institutional level. A summary of the application is considered at SEM held fortnightly. After the SEM accepts the application for full processing and if IFCI is designated as the lead institution, it sends application to its Appraisal Wing for full appraisal. Almost same procedure is followed by IDBI and ICICI.

In IDBI, applications are received by the Central Coordination Section of Project Finance Department and forwarded to the Group generally handling similar types of

projects. The Group Manager functions with officers with technical and financial background, both of whom report to him and take guidance from him. They prepare the first memo to be presented to the SEM to enable it to decide whether the project in general is worthy of financial assistance. If doubts are raised on the proposal in SEM, clarifications are sought from the promotors and the same are submitted to SEM for review. ICICI also makes a preliminary review of the application. It discusses the proposal in detail with the applicant.

The basic purpose for conducting preliminary appraisal is to determine whether the DFI should conduct a full appraisal of the project. As may be observed from the Indian practice, this appraisal may include consideration of government's and DFI's policy issues, rough assessment of feasibility and the applicant's background. Full appraisal involves substantial cost. Thus preliminary appraisal helps to eliminate applications unlikely to sustain successfully the scrutiny of a full examination.

The purpose of full appraisal is to obtain a thorough review of all aspects of the proposal based on the most accurate data obtainable. Effective appraisal of projects is basic for the foundation of a strong development. All-India DFIs have developed meticulous procedures for the project appraisal. They basically follow a team approach

in evaluating the applicants' proposals. The appraisal teams generally consist of technical and financial experts. In other countries, appraisal team also includes an economist. The economist helps to determine the long-range prospects of the industry. In India, industry prospects are determined by the Planning Commission and accordingly, government lays down its industrial policy and priorities. Also, India, a vast country, is still considered to be a seller's market. The omission of the economist in the appraisal team is thus understandable.

The appraisal team of IDBI identifies the critical factors in the project proposal and subjects them to close scrutiny in consultation with the promotors. Key assumptions are sought to be corroborated by processes such as comparison with similar projects, arm's length quotations from suppliers and competitors, letters of assurance from major potential customers, careful surveys of market, independent expert opinion, interviews of key personnel, visits to proposed sites etc. Assessments are made on the viability of the project from the point of view of technology, market, managerial resources, financial and social cost benefits.

IFCI has specialised appraisal divisions for chemical industry, engineering industry (including hotel industry), sugar and textiles (including jute). Each division has professionals with technical and financial backgrounds. The

appraisal divisions report to the Chief Technical Officer who in turn reports to the Chairman. Full appraisals are normally taken up the Head Office executives, although sometimes executives at Branches also handle appraisals. As stated earlier, appraisal is done by a team consisting of a technical officer and a financial officer. IFCI also has a market appraisal cell to which cases requiring special attention are referred to. IFCI also has industry-wise advisory committees in operation, to which proposals are referred, whenever felt necessary. At present, there are six such committees, one each for chemical process and allied industries, engineering, textiles, jute, sugar and hotels. Members of committees consist of IFCI's Chairman, directors, officers and outside experts. Thus, through these committees, valuable advice on projects is available. However, for development banks in many developing countries, it may be expensive to keep a number of outside experts on a permanent basis. IFCI as well as IDBI and ICICI use sophisticated DCF techniques and economic analysis to appraise the viability of projects.

ICICI has almost the same appraisal procedures as IDBI or IFCI. On the basis of data submitted by an applicant, ICICI's staff discusses the proposal in detail with the applicant, undertake independent inquiry and usually visit the plant or site [5]. ICICI also follows a team approach

in appraising proposals. The absent of an economist from the appraisal team is conspicuous in case of ICICI also.

Approval: Decision Making

Once an investment proposal has been appraised and cleared in the joint meeting of institutions, decision to commit funds has to be taken. The proposal is taken to the Boards of respective institutions for sanction of required financial assistance. Whenever considered necessary, institutions may refer the proposal to a Committee of Advisers before taking a final decision.

In IFCI, the delegation of powers regarding the sanction of proposals is as follows:

(Rs. in lakhs)

Sanctioning Authority	Nature of Facility		
	Loans	Underwriting/ direct subscription	Deferred payments/foreign currency loan guarantee
Chairman	100	50	200
Executive director	75	40	150
General manager	50	20	100
Regional authority	40	10	50

The power to sanction loans by chairman/executive director/general manager also includes power to sanction sub-

loans in foreign currencies consequent on variations in the exchange rates and/or changes in the source of procurement and/or any other valid reasons wherever necessary even though the rupee equivalent of enhanced amount of sub-loan may exceed the authority delegated to the chairman/executive director/ general manager as stated above. The increase in the rupee equivalent of sub-loan due to variation in the exchange rate is not required to be reported to the Board.

All-India DFIs have recently started a new scheme - Participation Certificate Scheme - in which projects costing upto Rs.10 crores are dealt with in their entirety by one of the institutions. The other institutions share the loan and underwriting assistance. This sharing of assistance is done through sale and purchase of "Participation Certificates". In IFCI, in respect of the projects under the Participation Certificate Scheme, chairman has been delegated the power to sanction IFCI's share of assistance and a report is made to the Board every month.

In IDBI, after a proposal has been cleared in the joint meeting of institutions, it may be referred to an Ad-hoc Group which may approve the project in toto or with modifications or may even recommend rejection. A detailed appraisal note covering all aspects with particular emphasis on the technical aspects is submitted to the Group by the IDBI officials. The appraisal report, suitably modified, on the

basis of decision taken at SEM/IIM, is referred to competent sanctioning authority. Sanctions of assistance upto specified amounts are approved by chairman/executive committee executive director as follows:

Loan upto Rs.25 lakhs	Executive director
Loan upto Rs.35 lakhs	Chairman
Loan upto Rs.10 crores under PFPCS (where lead institution has sanctioned the loan)	Chairman
Loan above Rs.35 lakhs in lead cases and above Rs.10 crores under PFPCS	Executive Committee
Cases where director of IDBI is interested	Board

After sanction, the letter of intent is issued by the Pre-sanction Wing of Project Finance Department. On receipt of the promotor's acceptance of the terms and conditions of sanction, the project case is transferred to the Post-Sanction Wing.

The procedures for project appraisal and sanction in all-India DFIs are so well streamlined now that the total processing time in majority of cases is less than 3 months. Table 1 gives an idea of the time-lag in sanctions under project finance scheme for IDBI. In 1984-85, there were 19 cases (7%) where more than 6 months were taken in sanctioning

TABLE 1: TIME-LAG IN SANCTIONS UNDER PROJECT FINANCE SCHEME (NEW AND EXPANSION PROJECTS)

Year (July-June)	No. of cases	Less than 3 months	3 to 6 months	6 months to 1 year	More than 1 year
1981-82	136	77%	18%	5%	-
1982-83	164	86%	14%	4%	2%
1983-84	169	62%	24%	12%	2%
1984-85	248	70%	23%	5%	2%

the assistance. It was due to delay on the part of promotors in furnishing complete information and in obtaining statutory clearances. IFCI and ICICI also have similar experiences.

Legal Implementation and Disbursement

Legal agreements form the basis of the relationship between DFI and the borrower for the entire period during which the loan remains outstanding. Legal department of the respective all-India DFIs takes care of the legal aspects involved in the financing of a project. It ensures that assisted concern fulfils the basic legal requirements, and that there are no restrictions, impediments or constraints under any law for the time being in force, more particularly under the Companies Act, FERA, MRTP Act etc. The documents required to be executed by the borrowers depend on the nature of facilities sanctioned, sector to which the concern belongs

and the stipulations made by the Board while sanctioning the assistance and as subsequently incorporated in the letter of intent and also in the loan agreement.

The legal process pertaining to documentation starts with the receipt of a copy of the letter of intent issued by the Project Department. On its receipt, it is the responsibility of the Legal Department to guide the borrower in passing a suitable resolution for accepting the terms and conditions of the letter of intent and for availment of bridge loan, if any.

After the borrower has complied with necessary pre-conditions, a formal document described as "Loan Agreement" is entered into between the DFI and the borrower setting out in detail the terms and conditions on which the assistance is sanctioned. The next important stage is regarding creation of stipulated security by borrower. This involves investigation of title of the borrower to its immovable properties. If the title is found to be marketable, necessary papers for creation of security (which is generally by way of "equitable mortgage") are prepared. After the security is created, Legal Department arranges to file necessary returns with the Registrar of Companies. If the borrower is not able to comply with security stipulations and other conditions immediately, DFIs grant interim or bridging finance in order to facilitate timely implementation of the

assisted projects. Bridging finance is usually granted upto 75-90 per cent of the sanctioned loan against hypothecation of movable assets and personal guarantee of promotors/ directors.

DFIs in India consider the loan agreement, which is a formal contract, as a basis of continuous relationship with the borrower. The borrower is required to approach them for various approvals etc., as a result of which a continuous dialogue is maintained. In the legal implementation of projects, DFIs face difficulties. It is reported, for example, by IDBI that in the matter of creation of security, very often it is necessary to obtain approvals of state governments and other authorities. These approvals take considerable time which delays creation of security. Further, in those cases where DFIs are required to enforce the securities for recovery of the loans, the present procedures are found to be very time consuming.

Once the regular/bridge loan agreement has been executed, the loan amount is disbursed taking into account the progress in implementation of the project, raising of matching contribution by promotors, compliance with various pre-disbursement conditions, etc. The function relating to documentation and disbursement is generally decentralised and is being dealt with the Regional/Branch Offices dealing with the case.

*In case of DFIs in India, it is noticeable that there exists a gap between sanctions and disbursement. For all-*India DFIs, for example, total sanction in 1985 amounted to Rs.4,468.2 crores, as against total disbursement of Rs.2,578.3 crores [6]. This gap arises on account of the long implementation period, exceeding a year in most of the projects for which assistance has been sanctioned.

Follow-up

The creative role of DFIs does not stop with the appraisal of project and sanctioning and disbursement of finance. It is after these phases that an intimate relationship between client and DFI develops when it effectively monitors project. The mechanical aspect of follow-up or monitoring is to ensure that funds are being spent as per the agreement between the client and the DFI. The creative aspect of follow-up is the development of a continuing relationship.

The process of follow-up starts with the submission of periodical reports by the client. These reports provide basis to review operational, financial and economic conditions of the project, which makes monitoring a challenging job of evaluating total operation, instead of a routine task. This helps the DFI to remain update about the events of the enterprise and its difficulties and to form opinion to arrive at

solutions to the difficulties. It should be realised that constructive follow-up is a delicate area which needs adequate attention of the DFI's top management. 'There is room, and need, for experimentation and innovation in the development of relations with clients, which permit a constructive contribution to broad management policy, with advice and support as needed, without creating a strain on, or interfering with, day-to-day operation'.

It is noteworthy that a DFI will lack requisite skills and wisdom at the time of its inception to constructively perform the tasks of appraisal and follow-up. But as it grows in experience, these tasks cannot be neglected. In India, for example, ICICI and IFCI created separate departments for follow-up only in early sixties, after many years of their coming into being.

The experience of all-India DFIs in handling follow-up function illustrates the approach which can be effectively tried elsewhere. In the opinion of ICICI's management the essential aim of follow-up is to nurture a partnership between ICICI and the company financed by it, to bring the project to successful frution and satisfactory level of operation [5]. ICICI requires regular periodic reports at both the planning and construction stages and, subsequently, in the production phases. Borrowers are also required to furnish <u>pro-forma</u> revenue accounts and balance sheets, when

needed. ICICI's officers also visit project sites and factories to keep in touch with the progress of the projects. After completion of the project, a detailed report has to be sent indicating deviation, if any, from the cost of the project and means of financing as originally agreed upon and ascribing reasons for the same.

IFCI also obtains information from the borrowers in the form of progress reports which are normally obtained for every quarter. Monthly progress reports may be obtained in cases where close monitoring is considered essential. The assisted concerns are also required to send copies of audited balance sheet and profit and loss statement as also the agenda papers submitted for Board meetings and the minutes thereof. In addition, data is also collected at the time of factory visits/inspections carried out from time to time. While the work relating to end-use supervision and follow-up is mainly handled in the Branch/Regional Offices, supervision of the same is also exercised from the follow-up department at Head Office. The follow-up department at Head Office as also field offices comprise both financial and technical officers, and inspection is normally carried out by a joint team of financial and technical officers. There is also constant dialogue with the management of the assisted concern, particularly in respect of lead cases. A unique feature in case of IFCI is that the problem cases are dealt

with by a specialised department, namely, Problem Cases Department.

In IDBI, the entire follow-up function is performed by the Follow-up Wing of Project Finance Department. The following specific follow-up functions are being undertaken: (a) receipt and study of quarterly/half yearly progress reports on the implementation of projects and in subsequent operations; (b) periodical inspection of the assisted units; (c) appointment of nominee directors on the Boards of assisted units and study of reports received from them on the affairs of the units; (d) discussion with the promoters or senior executives of the assisted units; and (e) analysis of the financial statements of the assisted units.

Two special features of monitoring and control function in the context of DFIs in India are the appointment of nominee directors and right to convert loan into equity. Nominee directors appointed on the Boards of assisted concerns are not to interfere in the day-to-day affairs of the assisted concern, but are expected to keep themselves fully acquainted with the affairs of the assisted concern and extend full cooperation to management. All-India DFIs also affect control over the assisted concerns through convertibility clause. Convertibility clause is applicable only to those cases where the aggregate financial assistance from the all-India

financial institutions exceeds Rs.5 crores. The extent to which and the price at which conversion option is to be exercised is determined generally while stipulating the conversion option. Normally, 20 per cent of loans/debentures may be subjected to conversion option.

We may state in summary that the phases of allocation function or lending decision of a DFI provide a framework for which procedures and policies in varied detailed may be developed. It may be suggested that these phases, requiring certain tasks to be handled, may be performed by adequate distribution of authorities and responsibilities to various sections. Because these phases are intimately linked with each other, they should be properly coordinated. The structure of a DFI will reflect the manner in which its managers are organised to perform the various phases of lending decision and other activities.

RESOURCE PLANNING

DFIs are the main purveyors of direct and indirect finance to the industry in developing countries. For example, in India, IDBI, IFCI and ICICI together sanctioned Rs.44,682 million and disbursed Rs.25,783 million during the year 1984-85. Since their inception, these institutions have sanctioned and disbursed respectively Rs.287,257 million

and Rs.144,151 million. In view of the massive financial requirements for the rapid industrial development, DFIs in developing countries are required to raise large amount of capital. In India, for example, during the Seventh Five Year Plan, a total investment of Rs.3,223,660 million is envisaged. It is also proposed to finance total investment by domestic savings of Rs.3,023,660 million and the new inflow of funds from abroad to the extent of Rs.200,000 million. DFIs should, therefore, play a key role in taping domestic savings as well as raising funds from abroad. It is noticeable that since the capital markets in the developing countries are not well developed, DFIs operate under considerable constraints to cater to the financial needs of the industry. To successfully meet the financial requirements of industry, DFIs must develop professional skills for mobilising resources by developing innovative financial instruments for attracting savings. Mobilisation of savings is an integral part of the development process. It needs emphasis to say that availability of financial resources is a strategic factor influencing the success of a DFI. A proper planning for resource mobilisation and use therefore becomes an essential activity of the top management of DFIs.

Resource planning indicates the uses and sources of finance of a DFI, it is a technique of matching inflows and outflows of funds. More importantly, it is a <u>process</u> of

identifying resource gap and devising ways and means of mobilising resources to fill the gap. Lending strategy, oriented towards the objective for which a DFI was created, will form the basis for resource allocation. Funds would generally be used for disbursal of financial assistance, obligation under guarantees, subscription to securities, servicing of loan obligations, payment of dividend etc. Government would be the major supplier of funds to a DFI at the time of its inception. It would provide funds either by way of equity, or interest-free loan, or loan at a highly concessional rate. In case of the private DFIs, individual organisation may also contribute towards the equity capital. In India, IDBI and IFCI were started with funds provided by the government and by the government-owned institutions. ICICI received equity capital from individual and institutional investors and concessional loan from World Bank and a long-term interest-free loan from the Government of India. As a DFI grows, it would generate funds from other sources. Profits and repayments from borrowers would constitute two important sources of finance in case of a matured DFI. It would as well mobilise funds in domestic and international capital markets.

The resources of all-India DFIs have shown tremendous expansion. Their resources are predominantly in the form of loans (See Table 2). However, there has been a noticeable

TABLE 2: MOBILISATION AND REQUIREMENT OF FUNDS: IDBI, ICICI AND IFCI

(Rs. in crores)

	IDBI			ICICI			IFCI		
	1982-83	1983-84	1984-85	1982-83	1983-84	1984-85	1982-83	1983-84	1984-85
MOBILISATION OF FUNDS									
1. External	935.2	1309.1	1199.5	237.9	250.5	372.4	135.2	171.3	244.4
of which borrowings									
(a) Government	15.8	39.2	18.0	0.6	0.3	0.4	0.8	0.6	0.9
(b) IDBI/RBI	353.9	452.3	334.0	9.5	-	25.0	14.0	-	-
(c) Bonds/debentures	522.5	540.7	710.2	137.5	152.0	175.0	110.0	159.8	197.0
(d) Foreign	5.0	6.1	14.3	82.9	97.2	146.5	9.7	4.2	40.4
2. Internal	883.1	1249.8	1526.9	196.2	232.3	297.7	126.2	151.1	186.7
REQUIREMENTS OF FUNDS	1877.7	2213.7	2625.9	443.9	496.4	648.4	269.6	319.3	406.9
of which									
(a) Disbursements	1494.5	1751.9	1986.3	282.7	335.3	394.4	196.4	224.5	272.9
(b) Repayments, including interest/ dividend	115.2	124.9	116.6	123.6	131.2	201.7	59.6	76.7	106.0

shift in the composition of the sources of loan. Earlier all-India DFIs were largely depended on the Government of India for loans. ICICI, however, was raising substantial loans in the form of foreign currency from World Bank and other international agencies. Recently, all-India DFIs are placing more reliance on market borrowings. IDBI, for example, has borrowed large sums of money from market after 1971. What is, however, noticeable is that the DFIs "market" constitutes public savings institution such as commercial banks, insurance companies, provident funds etc. These institutions combine the two functions of mobilising savings and distributing it in a single organisation while DFIs in India are merely distributing agencies aimed at allocating funds to preferred areas. This is a serious weak link in the development banking in India. DFIs in India have yet to develop attitude and professional skills in mobilising savings, although they seem to have demonstrated sound maturity as funds allocating agencies. There is an urgent need for a link between DFIs and sources of savings.

It may be stressed that all-India DFIs may not have mobilised savings directly, but they have indirect influence. Through their underwriting activities and purchase and sale of industrial securities, they have been able to stimulate capital markets. They have also been able to fill up gap in the Indian capital markets by encouraging

and creating a number of financial institutions and systems. ICICI, for example, has started merchant banking and leasing businesses. This is expected to contribute immensely to the growth of the capital markets.

In spite of the DFIs contribution in stimulating capital markets in the past, they will have to further sharpen their abilities of collecting savings directly. They will also have to be effective in using other sources of funds. DFIs are mostly doing risk lending by financing long-term requirements of funds. They should be able to recover their loans in time so that the funds so obtained can be recycled. As of today, three all-India level DFIs have been in existence for about two to four decades. They have accumulated a lot of experience in the field of development banking. They should have been, therefore, able to depend, to a very large extent, on the recycling of funds repaid by the borrowers. The overall recovery rate of IDBI, ICICI and IFCI, however, is quite low. In case of IDBI, the recovery rate is about 58 per cent, in IFCI about 68 per cent and in ICICI about 74 per cent. For smooth functioning of DFIs, the recovery of loans is very critical, and they will have to improve their procedures as well as skills to speed up the recovery rate. Low recovery rates are partly due to the selection of bad projects, which is a reflection on the quality of DFIs' project identification and appraisal systems, and partly due

to the deficiency in the financial system. DFIsiin India should identify real causes of low recovery and improve their systems accordingly. Yet another front which needs management attention is the judicious sale of investments. With the maturity of a DFI and the development of the capital markets sale of investment should become an important source of funds. The size of this source has been showing some growth, yet its overall percentage in the total financial requirements is insignificant. DFIs should convert their loan into equity once the company assumes a profitable stature. They should also invest in the shares of the existing companies instead of providing them with loans. These investments should be sold in small lots when market conditions are favourable.

DFIs in India can also adopt a policy of asking promotors to go to public market and underwrite their issues. The success of such a practice depend on the capital markets. In India, currently the capital market is witnessing a boom. Thus in case of established industrial companies, DFIs may insist on that they should go to public for raising funds. But to maintain the confidence of the people, DFIs can underwrite such issues. The success of the big capital issues of the order of about Rs.300 crores by a company like Reliance Industries Limited is certainly a favourable sign. Further, foreign markets may be a substantial source of raising funds

by DFIs. They are already doing so within the overall debt policy of the government. ICICI in this direction has been most successful. One reason for its success is its association with World Bank, KFW and the Overseas Development Agency of the United Kingdom. These agencies also have had an influence on the operational policies and procedures of ICICI. Foreign borrowings will have to be raised judiciously within the parameters of national policy as it could have adverse effect. One may witness the debt traps of Latin American countries like Brazil, Argentina and Mexico as a consequence of huge foreign borrowings. DFIs can also plan their strategy of raising money from public. There are evidences that all-India DFIs have moved in this direction. However, raising money from public market would be a costly affair for them. If substantial tax benefits are provided by the government, this can be an attractive source for mobilising resources by DFIs.

All-India DFIs have well developed procedures for resource planning, the way in which they understand it. Particularly IDBI and IFCI consider resource planning as a continuous exercise and normally do it on a perspective basis over a five year period, which coincides with the five-year plan periods of the country. They also prepare detailed annual plans. DFIs prepare and submit to government a comprehensive note along with the project source and uses of funds incorpora-

ting <u>inter-alia</u> the details of the fund requirements during the current year and the ensuing year to meet the requirement of funds for disbursement of assistance, repayment of its own borrowings etc. The national five-year plans are indicative of the pattern of industrial development covering the plan period. The industries' requirements of capital investment to achieve plan targets as well as past trends in the flow of DFIs' assistance form the basis for its long-term planning of resources. The main source of rupee funds of DFIs, apart from internal generation of funds and increase in paid-up capital, or repayments by borrowers, sale of investments, is borrowings. DFIs in India, have been borrowing from government, RBI and domestic market. IFCI and ICICI also borrow from IDBI.

The notes submitted to government, in effect, incorporates the estimated 'gap in rupee resourçes' which is to be filled-in by market borrowings. Similarly, the gap in foreign currency resources is also indicated separately. While preparing the projected source and uses of funds, the disbursement of assistance is estimated taking into account: (i) the commitment, i.e., the undisbursed loan on hand and the likely drawal of funds against the same, and (ii) the likely future sanctions based on the pending applications for financial assistance. The proposals submitted to the government are discussed in the Ministry of Finance as also in the Planning Commission where a view regarding the reallocations

of market borrowings by way of bonds to the DFIs in India is taken. DFIs have also been borrowing in a limited way by way of deposits from public on commercial terms.

As regards the foreign currency resources, it may be mentioned that DFIs have been obtaining foreign currency resources from various sources such as KFW, World Bank, etc. To meet the increasing needs of the foreign exchange requirements of the industrial projects, DFIs in India have recently started borrowing from the international capital markets.

In case of IDBI, the formulation of finance and operations budget are attended to in the research and planning department. The mobilisation of resources and their day-to-day management are undertaken in the resource management department (RMD) in coordination with the corporate accounts department, both of which function in the control of secretary and financial controller. Shortly before the end of each quarter, RMD makes a quick review of IDBI requirements of funds, and their availability for the subsequent quarter and reports the trend to the top management. In case any temporary shortfall in resource is anticipated to ways and means of advance from RBI. While the long-term foreign currency requirements of IDBI are projected on the basis of proposals cleared by licensing authorities and allocated to institutional sourees, estimates for short-term requirements are

made on the basis of commitment made by IDBI and proposal for foreign currency assistance pending with institutions. These requirements are submitted to the Finance Ministry which, after discussion in a joint meeting, decides on the quantum of external borrowing of IDBI. Based on the government approval, IDBI periodically enters international markets for raising borrowings in foreign currencies.

In case of IFCI, budget estimates are prepared for each financial year by March of the preceding year and submitted to the board. As per statutory requirement, the approval of IDBI is also obtained for the budgetory estimates. In IFCI, performance budgeting is also in use specifically in respect of disbursement and recoveries. The targets are set for each of the regional and branch offices and the actual performance is reviewed every month. As per the control systems, monthly reports are obtained from each of their regional or branch office as also from the divisions or head office covering all areas of work.

TRAINING

It is well-recognised now that DFIs have an innovative role to play in the industrial development of a country. With the age and experience, there is pressure on a DFI to professionally improve the quality of its role. Thus the significance of training for the effective realisation of a DFI's objectives is well established. In the initial stages, the

staff of DFIs came from a country's central bank or commercial banks. They had expertise in commercial or investment banking, but they were not well-versed with the functioning of a development bank. Over the years, as DFIs gained experience, their staff has acquired a distinct identity. This sense of a distinct professional identity has accentuated the need for training. 'The problem is no longer to persuade development banks of the need for training to improve technical and management skills; their demand for it increases steadily. The problem now is to provide adequate training appropriate to the current state of the art of development banking and to the diverse environment from which the demand comes, [4]. In the beginning when DFIs came into existence in various countries, external agencies, such as World Bank, provided main impetus for training. Now, after experience of several years, the training programmes in DFIs are required to be internally oriented.

A DFI need to consider three aspects of training: (a) objectives, (b) internal vs. external training, and (c) organisation for training. The experiences of all-India DFIs are quite insightful. They have a professional approach to training, and have been able to create a distinct identity for their staff by sharpening their skills in development banking. These institutions mostly have in-house training facilities, oriented towards their specific needs. They also

send their executives to outside training programmes for specialised training.

In India, DFIs training objectives have generally been the following:

1. New recruits at various levels are given different types of training to enable them to have a proper understanding of the institution's working in a short time as possible so that they may get into the working line as early as possible.

2. To improve the performance of existing personnel by giving them training to upgrade their professional knowledge as also to strengthen and refine their skills in various areas of work.

3. Training programmes are organised to help the staff to develop their professional capabilities so as to meet the banks future requirements of personnel at different levels within the organisation as far as possible.

4. To expose the personnel to new developments in the area of development banking and related subjects.

DFIs' training in India thus aims at familiarising the new entrants to the working conditions of the DFI, updating the skills and managerial abilities of the existing staff, preparing staff to assume higher responsibilities and exposing its executives to innovations in the sphere of developing banking and other areas. All-India DFIs seem to have made training a creative process.

In IFCI, two-third of the programmes are skill development programmes, and the rest are appreciation programmes. In addition, executives are nominated to external training programmes organised by reputed institutions within the country. Overseas courses organised by international institutions are also considered, and senior and junior executives are deputed to these programmes. During the year 1984-85, about 715 staff members participated in 39 in-house training programmes in IFCI. In addition 31 officers were deputed to external training programmes and 2 senior officers were deputed to training programme held abroad. IFCI also organised 8 meetings of State Advisory Committees which were attended by representatives of the State-level Institutions, banks, chambers of commerce, industry associations, representatives of industry cooperative sectors, economists, etc.

In IDBI, a lot of thrust is given to the human resources development through organised training. The present training efforts of IDBI consist of: (i) organising in-company training programmes for various categories of staff, (ii) deputing officers to relevant training programmes organised by other institutions in India, (iii) deputing a few officers for good programmes abroad, (iv) providing on-the-desk training to management trainees, (v) organising few international seminars in collaboration with the Economic Development Institute of the World Bank, and (vi) organising programmes

for the benefit of the officers of state-level institutions. IDBI's training activities are carried out by the training division at head office under the charge of a manager, who reports to DGM, Personnel. The manager is assisted by three deputy managers and necessary supporting staff. The training activities of IDBI got a boost after it was de-linked from RBI in 1976. Since 1978, it has been conducting in-company programmes. Training programmes are generally on topics related to development banking, project analysis, financial management, and behavioural aspects to improve operational efficiency and executive efficiency and executiveness of the personnel. During 1984-85, in all 38 programmes were organised in which 1195 staff members participated. Over two hundred staff members were deputed to outside programmes and seminars in India, while 23 were sent abroad for training. Three international programmes were also organised by IDBI.

In view of IDBI's responsibilities to develop the state-level institutions and to upgrade the skills of their personnel, the bank has been paying increasing attention in recent years to the development of their human resources. As many as 208 officers from these institutions attended the programmes organised during 1984-85. The bank has also been organising on request, programmes exclusively for the staff of individual organisations. The unique feature of

IDBI's training programmes is that short-term programmes with emphasis on behavioural aspects will be organised for class-IV staff also. It is expected that in the year 1985-86, about 600 staff members would participate in these programmes. Commercial banks are important links in the overall industrial financing in India as far as working capital finance is required. It is, therefore, inevitable that a clear-cut understanding between DFIs and commercial banks exists. To improve the quality of assistance provided by commercial banks, IDBI will also be organising programmes for their officers.

ICICI also places lot of emphasis on training. It had the advantage of professionalising its training since its inception as it was started with the efforts of World Bank. ICICI as well as other all-India DFIs have the distinction of organising training programmes for the officers of Asian and African DFIs. It is the high level of professionalism of all-India DFIs that they have been playing a leading role in training their executives as well as large number of executives from abroad.

STRUCTURE

All-India DFIs have highly structured organisations. IFCI, for example, has a Project Department divided into four divisions (representing various industries), and each

division has two wings: (1) Appraisal Wing, which undertakes detailed examination of projects from the technical, financial, commercial, economic and social aspects, and issues the letter of intent once the project has been sanctioned for financial assistance; (2) Operations Wing, which attends to the work of disbursement and follow-up. Operations Wing also undertakes legal implementation of projects with the opinion and advice of Legal Department. The policy issues of the project finance and promotional aspects are looked after by Business Development and Policy Division. This division also handles the reception and initial screening of the applications. For handling and rehabilitating sick cases, IFCI has a specialised department, that is, Problem Cases Department. IFCI also has a full fledged Training Cell to perform the functions of identification of training needs, conducting in-house training programmes, deputing people to outside training programmes and formulating and implementing training policy. In addition, departments/divisions/cells have been created to perform other activities/tasks. They include Foreign Currency Loan Department, Accounts Department, Economic Planning Department, Statistics Department, Internal Audit and Inspection Department, Public Relations Department, Board and Coordination Department, Nominee Directors Cell, Management and Productivity Services Department, Personnel and

Administration Department and Electronic Data Processing Cell. The various departments/divisions are headed by deputy general manager/assistant general manager/manager. IFCI has the following discipline-wise break-up of the officers at the time of the study:

	No.of officers
Financial	199
Technical	75
Legal	50
Economist/Statistician	14
Personnel	1
Training	1
Others	19

It is significant to note that IFCI has a large number of financial and technical officers, and very few economists. Thus financial and technical aspects are given a lot of importance in the evaluation of projects.

IDBI's Project Finance Department comprises six sections: (1) Pre-sanction Wing undertakes project appraisal; (2) Post-sanction Wing looks after disbursement, implementation and follow-up; (3) Policy Section makes policies and prepares various statistical returns for submission to the government etc; (4) PFD Accounts compiles fortnightly statements of disbursements; (5) Inter-institutional Coordination

Section coordinates the activities of all-India financial institutions; (6) Nominee Director Cell keeps records regarding the appointment etc. of nominee directors. The other departments of IDBI include Rehabilitation Finance Department, Research and Planning Department, Internal Audit Department, Secretary and Financial Controller in charge of Resource Management Department, Corporate Accounts Department and Board Division, Small Industries Development Department, Personnel Department, Electronic Data Processing Division, Organisation and Methods Division and Administration Department.

Organisation set-up of IDBI has been structured in such a manner that the various departments are interrelated and close linkages exist in them. For example, the Personnel Department which looks after the manpower requirements provides necessary complement of staff to the various departments keeping in view their special requirements. It also attends to the various personnel functions including human resources development with emphasis on training. The operational departments like Project Finance Department, Rehabilitation Department etc., though work independently, are related with Research and Planning Department for their policy matters, statistics, market studies etc., and with Resources Management Department with regard to the requirements of funds.

IDBI, after its being delinked from RBI in the year 1976, was reconstituted and the focus of its role was directed towards developmental and promotional aspects. The organisation set-up was changed again recently in view of the following developments: (a) the growth experienced by IDBI in the recent past; (b) the increasing variety and diversity of activities constituting its operations; (c) the additional responsibilities emerging from its rôle as the apex industrial finance institution; (d) the increasing complexity of the operating environment; (e) the diverse requirements of skills, functional knowledge and expertise to meet the new demands being made on it in terms of quality and quantity of work; and (f) the changing expectations and aspirations of the organisations IDBI served, the government and its own people. In order to facilitate and expedite the decision-making processes within the Bank, particularly in relation to appraisal, approval and disbursement of financial facilities, IDBI has delegated certain specific discretionary powers to executive directors, general managers, and other senior officials, decentralised its operations and upgraded eight of the twelve branches. The management of IDBI feels that the growth in business, government policies, technological development etc. could affect a change in the organisation structure of IDBI in future.

ICICI also has a highly structured organisation. It has a Project Department with engineers, financial analysts

and economists and an Accounting and Disbursement Department divided into Accounting and Disbursements Section. In addition, more functions have been upgraded to the department level.

IFCI, ICICI and IDBI are in existence respectively for 38 years, 31 years and 22 years. They have restructured their organisations many times over the years. A number of new departments have been created, although main focus has remained on the project finance. It is thus suggested that a DFI's organisation structure becomes more departmentalised with age.

It would be seen from the above description that as regards all-India DFIs hard core activity, viz., project finance, an integrated, group-oriented structure is followed. The various phases of the project finance (particularly the two most important phases - appraisal and follow-up) are performed under the same department. Also, a team approach is followed for conducting appraisal and follow-up functions. The three necessary components of full evaluation of a project are: financial, economic and technical. The appraisal and follow-up teams of all-India DFIs include financial analyst, technical expert and economist/market expert together. It may be reminded that many times, these teams do not include economist/market expert since Indian DFIs consider financial and technical analyses as more important.

The project finance function could be organised in an alternative way in which financial, economic and technical analyses may be considered as separate components, and a separate department may be created to perform each of the components. Thus three departments, instead of one under the team approach, will contribute to the project appraisal and follow-up. Each department works on the project separately, independent of each other, and produces its report. The three reports are then put together to arrive at a consolidated view. The Industrial Development Corporation of South Africa, for example, follows such approach. Yet a third approach could be to organise appraisal and follow-up together for each sector separately or according to the purpose of loan. For example, industrial and agricultural projects may be handled by two separate departments. IFCI seems to follow a combination of the first and third approaches. It has four industry divisions under the same department to perform appraisal and follow-up functions.

The choice of any one of the three approaches should be carefully made when establishing or reorienting a development bank's structure. Such a choice can play a positive part in increasing professionalism in a DFI. Although all-India DFIs have been reorienting their internal structure whenever they have felt need to do so, yet their organisations are structured around integrated operations and team approach. This seems to be delivering goods effectively. These three institutions can take pride in shaping policies, procedures and structures of

a number of DFIs in the developing economies. They have been training grounds for the development banking staff of various DFIs.

The greatest virtue of the integrated operations department and team approach is that each expert becomes familiar with the totality of project finance and as a consequence, his level of understanding of interdependent components of project appraisal and follow-up raises greatly. The quality of appraisal and follow-up improves significantly when a team approach is followed. When each components are organised and performed independent of each other, not only that appraisal and follow-up takes long time but also the expert do not understand each other well, and thus the final report lacks penetration and quality. The Indian experience indicates that team approach sharpens professionalism in performing appraisal and follow-up functions.

CONCLUSION

The development bank manager has gained a distinct identity after long years' of experience. He is now a full fledged professional. To further improve the quality of his performance, he should establish lending strategy given the country's development plans and environment, and orient his resource allocation function towards such strategy. He should establish sound policies and procedures for performing the five major phases of the project finance: identification, appraisal, sanction (approval), legal implementation and disbursement

and disbursement and follow-up. An organisation structure suitable to support these policies and procedures should also be designed. Although DFIs were started generally as allocating or distributing agencies, yet they should now actively undertake the function of collecting savings in view of the ever increasing massive financial needs of the developing countries. The development bank manager needs to develop skills to devise innovative financial instruments for mobilising savings and link DFI to the sources of savings. There is also need for a well-developed and self-sufficient internal training facilities to update and upgrade the knowledge of the existing staff with advances and innovations in the development banking and to train new staff to undertake the fast growing development banking activities.

On the basis of the experiences of all-India DFIs - IDBI, IFCI and ICICI - the model that seems to facilitate professionalism is one in which sophisticated policies, procedures and systems exist for identification, appraisal, approval, disbursement and follow-up of projects, and in which financial and technical experts combine to form teams to perform tasks of appraisal and follow-up of projects. With increasing competition, sellers' markets changing to buyers' markets and liberalisation in government policies in India, the need of including an economist and/or a marketing expert in the appraisal and follow-up teams will be felt. It is also indicated that projects are meticulously examined with the active involvement of the applicants.

Ad-hoc Groups or Advisory Committees comprising experts are also involved in the appraisal process for obtaining their unbiased, critical views on projects. Proposers are provided with detailed guidelines for their consideration before submitting their applications for financial assistance. They are also encouraged to discuss their projects informally with the staff of DFIs. This helps in eliminating the submission of less attractive projects; thus, both time and cost is saved. All-India DFIs are among the older institutions in the developing countries, and their size of operations has substantially expanded. With age and size increase in their functions has led their staff to grow, and they have created more specialised departmental structures. Training is an integral part of the development process. Also, as industrial development takes roots in the developing countries, the need for finances from DFIs increases substantially. This accentuates the need for an organic link between DFIs and sources of savings. All-India DFIs have yet to innovate in the sphere of savings mobilisation.

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