All India Financial Institutions (AIFIs)

3.43 Next to banks, AIFIs constitute the most important source of funds for the commercial sector. As a result of a series of reforms undertaken in the 1990s, the operating environment has changed considerably for the Financial Institutions (FIs). With progress in the deregulation of the financial sector, efforts have been made to tighten prudential and supervisory norms in order to limit and manage risk, increase transparency and enhance the technological infrastructure in respect of financial institutions. The major policy initiatives, including those taken by leading AIFIs, during the year under review, included the following:

- In order to bring parity in the NPA norms for banks and FIs, the overdue period for treatment of an asset as NPA has been reduced to 180 days with effect from the year ending March 31, 2002 in respect of interest and / or instalment of principal from "365 days or more" in respect of principal and "more than 180 days" in respect of interest.
- Though the 90 day NPA norm for overdue period shall be adopted by banks from the year ending March 31,2004, the same has not been extended to FIs.
- Both banks and FIs should not take to income account interest on government guaranteed advances ,which have become NPAs, unless the interest has actually been realised.
- Guidelines were issued for settlement (through the forum of Lok Adalats) of small accounts in the doubtful and loss classes of up to Rs. 5 lakh in respect of both suit filed and non-suit filed categories. The settlement formula has been made flexible and left to the discretion of the Boards of Directors of FIs, subject to certain essential parameters .
- With effect from June 30, 2001 FIs as also banks, primary dealers (PDs) and satellite dealers (SDs) have been asked to make fresh investments and hold Commercial Paper (CP) only in dematerialised form; they were also required to convert outstanding investment in CP in scrip form into dematerialised form by October 31,2001.
- At present, select FIs, insurance companies and mutual funds are allowed to lend directly in the call money market. In order to phase out their participation in the call money market, the following measures have been taken or announced:-
  - Stage I: With effect from May 5, 2001 lending by non-banks has been restricted to an average up to 85 per cent of average dailycall money lending in a reporting fortnight during 2000-01.
  - Stage II: With effect from the date of operationalisation of Clearing Corporation of India Ltd. (CCIL), this lending limit will stand reduced to 70 per cent.
  - Stage III: With effect from three months after Stage II, the lending limit will get reduced to 40 per cent.
  - Stage IV: With effect from three months after stage III , the lending limit will get reduced to 10 per cent. After Stage IV, non-banks will be disallowed to lend in the call money market with effect from a date to be notified by the RBI.
- Taking into account the recommendations of the Expert Committee constituted to formulate a medium to long term strategic plan for Industrial Finance Corporation of India (IFCI), and the systemic problems, Government of India subscribed Rs.400 crore through 20 year convertible bonds to improve the capital adequacy ratio of IFCI. In addition, major shareholders of IFCI., viz., Industrial Development Bank of India (IDBI), State Bank of India (SBI) and Life Insurance Corporation of India (LIC) agreed to extend assistance of Rs.200 crore each to shore up the capital adequacy ratio.
- IDBI launched the Equity Support Scheme to extend equity support to facilitate early financial closure of deserving assisted projects which are unable to tap the capital market.

- IDBI commenced secondary market operations in the equity market to improve profitability.

- Industrial Credit and Investment Corporation of India (ICICI) expanded its corporate finance business by introducing long-term financing for captive/sole suppliers of large companies, where the financing was made contract-centric rather than client-centric.

- Small Industries Development Bank of India (SIDBI) in association with the Government of India launched a Credit Guarantee Fund for Small Industries (CGFSI) facilitating collateral-free and third-party guarantee-free facilities to new and existing units in the SSI sector.

- To promote the IT industry, SIDBI promoted National Venture Fund for Software and IT Industries (NFSIT).

- IFCI has continued its efforts to reduce NPAs by expediting cases pending with the Board of Industrial and Financial Reconstruction (BIFR) and arriving at one time settlements. As part of risk management, IFCI decided to restrict total exposure to a s ingle company to a maximum of Rs.100 crore.

3.44 Reflecting the marked slowdown in industrial investment, during the period April-December 2001 sanctions by AIFIs declined by 32.1 per cent as compared with an increase of 18.3 per cent in the corresponding period last year. Disbursements declined by 16.9 per cent compared with an increase of 16.1 per cent during the same period. Table 3.10 presents the trends in the amount sanctioned and disbursed by AIFIs.

TABLE 3.10
Assistance by AIFIs

(Rs. crore)

		April-March		April-December	
		1999-2000	**2000-01**	**2000-01**	**2001-02**
A.	**Sanctions**				
(a)	DFIs*	85,390	1,00,048	71,610	50,758
(b)	Investment Institutions	15,865	17,900	12,627	6,477
	AIFIs (a+b)	1,01,255	1,17,948	84,237	57,235
B.	**Disbursements**				
(a)	DFIs*	54,790	60,104	40,802	33,445
(b)	Investment Institutions	12,766	12,694	9,085	8,000
	AIFIs (a+b)	67,556	72,798	49,887	41,445

*Includes specialised financial institutions
Note:- Figures are provisional and not adjusted for inter-institutional flows.