All India financial institutions (AIFIs)

3.58 All-India Financial Institutions (AIFIs) now comprise five all-India development banks (AIDBs), two specialised financial institutions (SFIs) and six investment institutions. ICICI and UTI were part of the AIFIs till 2002-03. Following the merger of ICICI with ICICI Bank and repeal of UTI Act 1963 and reorganisation of UTI into two separate institutions, these two institutions no longer inhabit the operational domain of AIFIs. AIFIs are undergoing structural changes in their role and operations following the ongoing reforms in the financial sector. AIFIs, which are predominantly engaged in the business of project financing, are fast losing ground with the entry of commercial banks into project financing. The withdrawal of concessional sources of funds and imposition of restrictions on raising short-term funds of maturity less than one year had resulted in AIFIs raising high cost debt from the market. The cash flow got adversely affected as a result of these institutions borrowing for a relatively short term of 3-4 years and investing in long gestation projects. Analysis done by the RBI reveals that the share of loans in total project financing has been coming down over the years followed by a significant increase in the share of equity. Share of loans in project cost has come down from a level of 53.5 per cent in the period 1970-71 to 1974-75 to a level of 43.0 per cent in the period 1995-96 to 2000-01. During the same period, the share of equity witnessed a sharp increase from 28.5 per cent to 53.0 per cent. Thus, AIFIs have been facing the problem of reduced demand for project financing and increased competition from commercial banks.

3.59 As a considered response to the above developments and drawing upon international experience in similar circumstances, several AIFIs are gearing up to migrate to an acceptable and viable variant of commercial banking to gain a foothold in the emerging financial system. ICICI had opted for a reverse merger with ICICI Bank in March 2002. Government has drawn up a roadmap for corporatisation and conversion of IDBI into a commercial bank, albeit without forsaking its obligations as a financial institution. The enactment of IDBI (Transfer of Undertaking and Repeal) Act 2003 will enable IDBI's conversion into a commercial bank. The proposal for merging IFCI with Punjab National Bank, which received the approval of the Boards of both the institutions, is under consideration.

3.60 The focus of policy initiatives in 2003-04 relating to financial institutions remained on imparting operational flexibility and strengthening the prudential regulatory and supervisory framework. The RBI had issued final guidelines to financial institutions prescribing group-wise prudential norms for capital adequacy, large exposures and liquidity gaps on August 1, 2003. FIs were advised to frame fair practices code regarding applications for loans and their processing, loan appraisal and terms and conditions.

3.61 The declining trend in the sanctions and disbursements of AIFIs observed since 2001-02 was halted in 2003-04. Sanctions by AIFIs increased by 67.9 per cent from Rs.38,963 crore in 2002-03 to Rs.65,433 crore in 2003-04 as compared with a negative growth of 8.3 per cent in the previous year. Bulk of this increase in sanctions was accounted for by investment institutions. Disbursements increased by 25.0 per cent in 2003-04 compared with a negative growth of 10.4 per cent in 2002-03 (Table 3.11). While the growth of disbursements of development financial institutions (DFIs) continued to remain negative in 2003-04, disbursements by investment institutions registered an increase of 132.4 per cent in contrast to the negative growth of 27.9 per cent registered in the previous year.

Table 3.11 : Assistance by AIFIs

	2001-02	2002-03	2003-04
A. Sanctions			
1. DFIs	34220	33296	35954
2. Investment institutions	8247	5667	29479
Total	**42467**	**38963**	**65433**
B. Disbursements			
1. DFIs	26410	25490	23811
2. Investment institutions	10380	7488	17402
Total	**36789**	**32978**	**41213**

Notes:
1. **Excluding ICICI and UTI**
2. **Data are provisional and not adjusted for their institutional flows.**
3. **DFIs include All-India Development Banks and specialised financial institutions**