All-India financial institutions (AIFIs)

3.71 With the progressive blurring of functions between banks and financial institutions, the AIFIs are fast losing ground and adopting the business model of a bank to remain viable in the long run (Table 3.11). The merger of ICICI with ICICI bank on March 30, 2002 was the beginning of conversion of AIFIs into universal banks. Taking into account the changing operating environment following the initiation of economic reforms in the early 1990s, the Government decided to transform IDBI into a commercial bank without eschewing its traditional development finance obligations. The migration to the new business model of commercial banking, with its access to low cost, current/saving bank deposits is expected to enable it to overcome most of the limitations of the current model of development finance and also to diversify its client/asset base. In fulfilment of these objectives, the IDBI (Transfer of Undertaking and Repeal) Act, 2003 was enacted in December, 2003, which came into effect from July 2, 2004. The Act provides for repeal of the IDBI Act, corporatisation of IDBI, and its transformation into a commercial bank. IDBI was transformed into IDBI Limited on October 1, 2004, a company under the Companies Act, 1956 and a schedule bank (on October 11, 2004) under the RBI Act, 1934. In a parallel move, the Government approved IDBI's proposal to set up a Stressed Assets Stabilisation Fund (SASF), which provides for stressed assets of IDBI amounting to Rs. 9,000 crore to be transferred to SASF against an equivalent amount of 20 years' bond issued by the Government of India in favour of SASF on cash/budget neutral basis. On July 29, 2004, the proposal to merge IDBI Ltd and IDBI Bank was accorded in principle approval by the respective Boards. With the reverse merger of ICICI with ICICI Bank in 2002 and conversion of IDBI into a bank, the importance of AIFIs in the provision of project finance has come down considerably.

Table 3.11 : Assistance by AIFIs

	2001-02	2002-03	2003-04
A. Sanctions			
1. DFIs	33605	33648	36055
2. Investment institutions	8247	5667	29479
Total	**41851**	**39315**	**65534**
B. Disbursements			
1. DFIs	26423	25357	24463
2. Investment institutions	10380	7488	17402
Total	**36803**	**32845**	**41865**

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**

3.72 Taking into account the difficulties faced by AIFIs in the changed operating environment, the RBI constituted a Working Group on Development Financing Institutions with Shri N. Sadasivan as its Chairman. The Working Group submitted its report in May, 2004 suggesting a roadmap for development financing and the role of DFIs. The main recommendations made by the Working Group relate to conversion of DFIs, which are inherently unsustainable, into either a bank or an NBFC, strengthening of regulatory framework, raising of risk weightage of certain categories of investment from 20 per cent to 100 per cent and extension of certain relaxations for DFIs for converting into banks for a period of 3 to 5 years after their conversion.