

I

INTRODUCTION

1.1 The Financial Institutions¹ in India have made phenomenal disbursements of funds towards industrialisation since their inception. The Table below is an indicator of the total sanctions and disbursements under all schemes upto end 1984.

TABLE 1.101ASSISTANCE SANCTIONED AND DISBURSED BY AFIs

(Rs. crores)

	Sanctions			Disbursements		
	1982-83	1983-84	Cumulative upto end March 1984	1982-83	1983-84	Cumulative upto end March 1984
IDBI	1317.9	1776.9	8290.3	1040.1	1285.4	6248.1
IFCI	230.2	330.0	1993.5	196.1	224.1	1432.2
ICICI	348.6	438.5	2627.7	271.1	295.0	1966.0
LIC	136.5	166.8	1077.5	86.6	140.9	816.2
UTI	127.5	165.8	686.0	71.7	139.3	511.6
GIC	92.7	108.5	426.0	44.7	84.5	289.5
IRCI	57.9	64.9	266.0	36.1	38.2	184.9
SFCs	611.6	642.9	3567.4	404.0	434.0	2470.8
SIDCs	296.7	359.2	1704.5	208.0	222.5	1096.2
Total	3219.6	4053.5	20638.9	2358.4	2864.3	15015.5

AFI = All India Financial Institution

Source : Report on Development Banking India, 1983-84,
IDBI, Bombay, Page 6

1 By 'Financial Institutions' we mean the All Indian Financial Institutions dealing with Project Finance. These are IDBI, ICICI, IFCI, LIC, GIC & UTI. Three of these are in the field of development banking, whereas the last three invest the funds on the basis of Appraisal by

1.2 Bulk of these amounts were disbursed by way of Project Finance through equity subscription and Term loans. 60% of the total amount was sanctioned in the period 1977-84 indicating the tremendous impact that the Financial Institutions have had on industry in the recent past.

1.3 Hence, it was found appropriate to carry out a study with a view to exploring the appraisal and administration methodology and related systems of Financial Institutions in order to develop certain postulates about behaviour, particularly in respect of the financial decision making policies adopted in appraisal and their effectiveness in the administration of these projects.

1.4 The research presented here is basically an investigative survey. The study was carried out from the Agenda papers of the Board Meetings of the Financial Institutions wherein proposals were sanctioned. Secondary sources such as published statistics from the Institutions were also used. Since the All India Institutional assistance to projects is not an isolated source of finance for projects, we have had to study the practices of state level Institutions who come together along with the financial Institutions whilst assisting a project.

1.5 No hypothesis was laid down since the study is investigative. As an end product of this research we have been able to identify some variables and postulates for further research. A basic finding of the study is that aggregation of figures tends to ignore peculiarities at the individual project level and the

the first three and after the sharing arrangements have been worked out.

impressive growth in investment does not necessarily provide insights into its effectiveness in terms of the quality of appraisal or otherwise of norms, correct and timely monitoring, methodologies adopted, scope and exercise of Institutional control, repayments, project implementation and overruns, managerial failure and return on institutional portfolio.

1.6 While it was our attempt to cover the areas mentioned above, the vastness of the topics set their own constraints in terms of knowledge base, data availability and time. Our attempt has been to utilise the data & knowledge within the available time to identify variables in the above areas both statistically and descriptively.

To briefly sum up, the report is broken up into five parts :

- Part I - Introduction and Research Methodology
- Part II - Policies and Procedures of Project Appraisal
- Part III - Problems in Project Administration and Implementation
- Part IV - Special areas of Administration and Appraisal
- Part V - Summary & Conclusion

Each part is further subdivided into chapters. The structuring of these chapters primarily follows the Research Questions.

1.7 Apart from the introduction, Part I comprises two other chapters, namely Research Frame and Sample. The chapter on Research Frame deals with the establishment of gaps in the available literature on this subject followed by the Research Questions and the resultant data sources required. The chapter on the Sample outlines the overall research methodology and the total universe of project proposals. The various samples drawn are explained and their end-uses specified.

1.8 Part II comprises five chapters. This part is completely based upon the findings of the study pertaining to the appraisals carried out by the All India Financial Institutions. The first chapter details the mix of the projects in our sample and summarises the formal & informal policies and norms. The second chapter deals with the presentation of proposals where we have made certain suggestions towards an universal format. This chapter also highlights the nature of investment in the projects by identifying those elements of project cost considered eligible for funding. The third chapter deals with the trends observed in the means of financing the project cost both from the view of the Promotor & the Institutions. The fourth chapter identifies the Key Appraisal criteria that have been observed in the proposals, their trends and issues in their methodology. The last chapter of this part makes suggestions regarding empirically tested models for use in appraisal.

1.9 In part III there are three chapters. The first deals with Overruns and identifies their causes. By a method of scoring we have been able to determine a few critical frontiers of any project.

The second chapter deals with those cases that have turned Sick and need rehabilitation and the Institutional approach to them. Each case being different we have had to rely heavily on specific illustrations. The last chapter in this part is a summary of our perceptions of Monitoring and Aftercare, the Institutional experience so far and the problems associated with monitoring. We have also briefly touched upon the Institutional role in takeovers, mergers and changes in management including the Institutional nominee 'Manager'.

1.10 Part IV has four chapters. The first is the Institutional attitude towards large Houses. The second deals with the concept of Consortium Finance and the various conditions & stipulations laid down in project loans and thier effectiveness. The third chapter is an attempt at the conceptualisation of the criteria behind the Interest Rate Policy of Development Banks. The last chapter highlights the role of state level Institutions in project finance based on our samples.

1.11 The last part gives the summary of our findings along with the limitations of this study. As an end-product of this research we have come up with certain hypotheses and postulates for further research.