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Report No. P-6544-IN

MEMORANDUM AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A PROPOSED LOAN

IN THE AMOUNT EQUIVALENT TO US$350 MILLION

TO INDIA

A PROPOSED LOAN

IN THE AMOUNT EQUIVALENT TO US$150 MILLION

TO THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

AND A PROPOSED SINGLE CURRENCY LOAN

IN THE AMOUNT OF US$200 MILLION

TO THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

FOR A

FINANCIAL SECTOR DEVELOPMENT PROJECT

FEBRUARY 24, 1995

CURRENCY EQUIVALENTS
(As of January 15, 1995)

Currency Unit = Rupee (Re/Rs)
US$1.00 = Rs 31.37
Re 1.00 = US$0.032

MEASURF

1 crore = 10 million

DEFINITION

Basis Point: one hundredth of one percent

GOVERNMENT FISCAL YEAR

April 1 to March 31

ABBREVIATIONS

BF	-	Backstop Facility
CRR	-	Cash Reserve Ratio
DBOD	-	RBI's Department of Banking Operations and Development
EB	-	Eligible Banks and Financial Institutions participating in the Backstop Facility
GOI	-	Government of India
IDBI	-	Industrial Development Bank of India
MOU	-	Memorandum of Understanding
ODA	-	Overseas Development Administration
PB	-	Participating Bank (Capital Restructuring)
RBI	-	Reserve Bank of India
SCL	-	Single Currency Loan
SLR	-	Statutory Liquidity Ratio

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

LOAN AND PROJECT SUMMARY

Borrowers: India and the Industrial Development Bank of India (IDBI).

Guarantor: India (for the loans to IDBI).

Beneficiaries: Borrowers and depositors at participating banks; companies and exporters requiring term credit in foreign exchange.

Amount and Terms: US$700 million equivalent consisting of:

(a) a US$350 million currency pool loan to India for capital restructuring at the Bank's standard variable rate, repayable over 20 years with five years of grace;

(b) a US$150 million currency pool loan to IDBI for bank modernization and institutional development at the Bank's standard variable rate, repayable over ten years with three years of grace; and

(c) a US$200 million single currency loan (SCL) to IDBI in US dollars for a Backstop Facility at the Bank's LIBOR-based variable lending rate, repayable over 14 years with eight years of grace.

Onlending Arrangements:

(a) **Recapitalization Loan**. A US$350 million equivalent loan to GOI would be onlent to participating commercial banks for their recapitalization as subordinated loans. These loans would be repayable over 12 years with a grace period of up to five years, would be denominated in rupees, and would carry a floating interest rate linked to GOI's 364-day treasury bill plus a margin of 50 basis points. GOI would bear the currency and interest rate risk. Up to one-half of subordinated loan funds designated for recapitalization would be provided after the relevant commercial banks adopt and start implementation of satisfactory business plans, and the remaining funds would be made available following issuance of equity to private shareholders. Participating banks (PBs) would in turn onlend the proceeds of Bank loan to eligible sub-borrowers at prevailing market rates.

(b) **Modernization Loan**. A World Bank US$150 million equivalent loan to IDBI guaranteed by India would be onlent to PBs for implementing their modernization and institutional development plans.

Subloans would be repayable over ten years with grace periods of up to three years and would be charged variable market lending rates.

(c) **Backstop Facility (BF) Loan.** A World Bank US$200 million SCL to IDBI, guaranteed by India and to be disbursed only in case of a BF drawdown, would support the establishment of the BF. In the event that the benchmark interest rate spread widens beyond a stipulated amount, EBs would be entitled to drawdown loans from the BF up to the amount of the commitment they had previously bought. In case of drawdowns, BF loans would be at a floating rate of interest, based on US dollar six-month LIBOR plus a spread set at the time each backstop commitment is made, and would have maturities of up to seven years. Subloans exten .d by EBs to eligible firms would be based on market-determined prices.

Financing Plan:

	Local	Foreign	Total
	-----(US$ million)-----		
IBRD	384.4	315.6	700.0
GOI	618.4	0.0	618.4
Participating Banks	199.7	16.0	215.7
TOTALS	**1,202.5**	**331.6**	**1,534.1**

Rate of Return: Not applicable.

Poverty Category: Not applicable.

Staff Appraisal Report: 13740-IN

MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO INDIA, AND A LOAN AND SINGLE CURRENCY LOAN TO THE INDUSTRIAL DEVELOPMENT BANK OF INDIA FOR A FINANCIAL SECTOR DEVELOPMENT PROJECT

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1. I submit for your approval the following memorandum and recommendation on a proposed US$350 million currency pool loan to India for capital restructuring at the Bank's standard variable rate, repayable over 20 years with five years of grace; a US$150 million currency pool loan to IDBI for bank modernization and institutional development at the Bank's standard variable rate, repayable over ten years with three years of grace; and a US$200 million single currency loan (SCL) in US Dollars to IDBI for a Backstop Facility at the Bank's LIBOR-based variable lending rate, repayable over 14 years with eight years of grace.

Background

2. In the four decades after its independence, India pursued a *dirigiste* approach to economic development, which involved tight control of industrial investment, a highly protective trade regime with a multiplicity of discretionary import licenses, high tariffs and numerous quantitative restrictions, and establishment of a large number of public enterprises by the central and state governments, often with monopolistic positions in many core sectors. Faced with a balance of payments crisis of unprecedented proportions and severe macroeconomic imbalances, the government that came into power in June 1991 initiated a program of bold stabilization and structural reforms aimed at promoting rapid and sustainable growth in income and employment, coupled with more effective and efficient public interventions to reduce poverty and raise human capital performance. These initiatives have stimulated a reassessment of the nature of public and private interaction to ensure social equity while at the same time reaping the benefits of broad-based private-led growth and closer integration into the world economy. In a country with a large number of poor people divided along ethnic, linguistic and religious lines, managing such a transition has been an arduous task, involving as much political skill as economic sagacity.

3. India's economy has reacted favorably to the reform program. Inflation fell to 10% as of December 1994 from 17% in August 1991. External accounts benefited substantially from reforms: Export growth reached 20% in 1993/94 in current dollars. Import growth being stagnant, the current account deficit declined from 3.5% of GDP at the beginning of the reform program to 0.3% in 1993/94. For 1994/95, export growth is expected to be 18% and the current account deficit, under 1%. After growing relatively modestly over the last three years, GDP is expected to grow by over 5% in the current year based on strong recovery in industrial output and continued good agricultural production. Progress on the structural front has bolstered foreign investors' confidence in the Indian economy and has resulted in a large increase in capital inflows from US$150 million in 1991/92 to about US$5 billion in 1993/94, contributing to a large accumulation of foreign exchange reserves which reached US$19 billion as of end-November 1994 (equivalent to nine months of imports).

4. Until the recent reforms begun in 1991, financial services were among the most controlled and regulated of all economic activities in India. GOI nationalized the largest Indian commercial banks in two rounds--14 in 1969 and six in 1980--to extend banking services to all parts of the country and channelling resources to the public and socially designated sectors. In the capital markets, pricing of corporate capital issues was controlled by GOI, and the insurance and mutual fund industries were the exclusive purview of the public sector. Commercial banks were subject to a complex set of interest rate restrictions, high cash reserve requirements, high mandatory holding of government securities, directed lending, and detailed and restrictive norms governing credit operations. Social and fiscal objectives evolved to dominate interest rate determination and credit allocation. In the face of persistent fiscal deficits, interest rates on government debt were deliberately kept low to alleviate the debt service burden. Under these circumstances, marketing of government debt involved imposition of mandatory investment in government securities through the stipulation of the Statutory Liquidity Ratio (SLR) on commercial banks and other captive financial institutions. With interest rates serving primarily as a fiscal tool, monetary management depended on quantitative credit controls, sector-specific rediscount facilities, and a high Cash Reserve Ratio (CRR) requirement. The combination of SLR and CRR imposed a marginal pre-emption of 28% of bank deposits in the early 1950s, increasing to 63.5% by 1991. In addition, banks were required to allocate a large proportion of their lending to designated priority sectors, comprising agriculture, small-scale industries, and weaker sectors of society, with a large proportion at concessional rates.

5. The liberalization of India's financial system has been one of the main components of GOI's economic reform policy. GOI established a high-level committee in August 1991 to consider all relevant aspects of the structure, organization, functions and procedures of the financial system. This committee's report was presented in Parliament in December 1991 and was followed by several other specialized committee reports which dealt with more specialized aspects of financial sector reform. These have provided the basis for GOI's program of financial sector reform with the following key components:

(a) **liberalization of financial policies** in pace with GOI's program of fiscal and balance of payments adjustment;

(b) **restoration of health to banking institutions** through introduction of international standards of prudential regulations for asset classification, income recognition, provisioning requirements and adoption of Basle Accord capital adequacy norms for commercial banks and term lending institutions, establishing an improved legal mechanism for the recovery of non-performing loans, and recapitalization of public sector banks;

(c) **reinvigoration of competition in financial service industries** through entry of the private sector in the banking and mutual fund industries, opening India's capital markets (with the exception of government securities market) to foreign investment, allowing large and reputable Indian corporations to tap Euro-issues markets and lowering/removing various administrative barriers to competition in the term lending market;

(d) **broadening the ownership of public sector banks** by permitting them to issue equity (up to 49% of their paid-up capital) in the capital market, enhancing managerial autonomy in line with increased private shareholder representation on boards of banks, and transforming these banks into competitive and commercially-oriented business enterprises;

(e) **development of an active government securities market** involving regular auctioning of treasury bills and long-dated securities, and secondary trading in the newly established National Stock Exchange as a basis for better management of monetary policy and development of a deep and liquid debt market; and

(f) **initiating reform of the rural credit system** as an important part of India's overall strategy of moving to a market-oriented financial system.

6. Over the past three years, GOI's comprehensive program of financial liberalization has been implemented in pace with its program of fiscal adjustment and macroeconomic stabilization. The success achieved in stabilizing the economy has provided a favorable macroeconomic context within which important reforms have been implemented including reduction in reserve requirements on commercial banks, deregulation of lending rates, stimulated competition in financial markets, increased bank freedom to allocate credit according to market signals, and improved management of public debt through regular auctioning of government paper. As banks' accounts have been disclosed, bank performance and managerial competence have become objects of market scrutiny and public debate. These reforms have helped to establish a sound framework for strengthening banking institutions, broadening financial markets, and strengthening regulatory and supervisory frameworks to ensure the soundness of the system.

7. **Rationale for Bank Involvement and Country Assistance Strategy**. The Bank's strategy for India, presented in the Country Assistance Strategy of May 1994, emphasizes support for the economic reform program started in 1991. It recognizes the need to encourage broad-based private sector-led growth and the increasing role of private market financing flows to fuel this growth. The strategy also recognizes that accommodating foreign private capital inflows on the scale that has recently been experienced in India will require a more stable long-term financial sector framework to channel these flows toward productive investment, which would expand India's export base and enhance its international competitiveness.

8. While the Bank had funded numerous operations to date through financial institutions for India's industrial, agricultural, and housing sectors, the past dialogue on financial sector issues focused on onlending interest rates, exchange rate risk, credit line performance and overall institutional performance. The broader issues of the reform of the overall financial system, the health of banking institutions and the adequacy of the regulatory and supervisory framework were introduced more explicitly in the dialogue when GOI requested the Bank's assistance for

its program of financial sector reforms in November 1991. Discussions with GOI continued in that context until March 1994 when the case for supporting GOI's financial reforms through an investment operation was justified. In response to GOI's request for Bank assistance, the proposed operation was conceived as a sector investment project to support India's financial liberalization and modernization efforts. The proposed project would be the first in which the Bank would assist India to implement fundamental reforms and modernization of its banking sector. Its strong policy orientation would foster a sound sectoral policy framework within which the scope of the Bank's future support for India's financial sector would be expected to extend to include the modernization of the payment system and capital markets as well as reform of the rural credit system. The project would also improve the environment for future IFC activities in India, which have increased significantly as trade and financial sector reforms have begun opening the economy and liberalizing financial markets.

9. **Project Objectives.** The project aims to foster greater market orientation, allocative efficiency, technical competence, and competition in India's financial system and contribute to meeting the long-term financing needs of its investors as a means of stimulating economic growth. It would assist GOI to sustain financial liberalization, institutional development of public sector commercial banks and integration into the global capital markets. It would facilitate expansion of private equity ownership in public sector commercial banks and development of term foreign currency lending.

10. **Project Description.** The project would comprise the following three components:

(a) **Capital Restructuring** (US$1,157.2 million).[1/] The project would facilitate private equity ownership in six public sector commercial banks by making the shares of these participating banks (PBs)[2/] more attractive to potential private sector investors in India's capital markets. Public commercial banks that commit to plans to increase private equity through public offerings would be entitled to subordinated loans from GOI to strengthen their capital base to the extent required to fulfill newly-established capital adequacy norms (8%) from the Reserve Bank of India. Each PB and Reserve Bank of India (RBI) have signed business plans which contain measures geared to increase the banks' efficiency in terms of numbers of staff, credit allocation procedures, profitability targets, and managerial autonomy in conducting day-to-day business.

To ensure that the project's objectives for private participation in bank equity and board membership are fulfilled, the Bank would follow a graduated approach in support of the recapitalization process for the PBs. GOI would make capital contributions to the PBs through subordinated loans which would be relent by PBs

1/ Base costs.

2/ PBs are the Allahabad Bank, Bank of India, Dena Bank, Indian Bank, Indian Overseas Bank and Syndicate Bank.

to sub-borrowers under terms and conditions satisfactory to the Bank, including that subprojects shall comply with subproject criteria, including environmental standards, acceptable to the Bank. Following this capital contribution which would allow the PBs to reach the required capital adequacy ratio by March 31, 1996, the Bank's contribution to maintain this ratio under the project would be phased in the following manner: Up to US$150 million would be disbursed against eligible subloans as PBs meet the required profit target set under agreed business plans. Further disbursements would be subject to the favorable outcome of a review of progress attained in reaching the private equity and board participation targets set under the project. After this review, annual assessment of both sets of targets would determine the pace of disbursements.

(b) **Bank Modernization and Institutional Development** (US$197.7 million). Initiatives supported under the project would enhance the efficiency and profitability of the six PBs by extending automation and computerization of banking operations and by encouraging modern banking practices. In addition to equipment requirements, the project would fund specialist services and training to facilitate this modernization effort.

(c) **Backstop Facility** (US$200.0 million). The Backstop Facility (BF) would assist eligible financial institutions and banks in India (EBs) to meet rapidly expanding demand for US dollar term loans sourced with private funds. It would assist in meeting such demand from small- and medium-sized companies with foreign exchange earnings and exporters whose direct access to offshore markets is hampered by high issue costs. The BF would provide a medium-term liquidity assurance at a market-related price to EBs by offering them the option to borrow funds from the BF under specified terms and conditions. GOI would provide the BF on the basis of full cost recovery for the Facility from EBs. Under the BF EBs would extend medium- to long-term foreign currency loans to eligible firms and would fund such loans through market borrowings such as certificates of deposit and notes. Conditions under which EBs would access the Facility for drawdown of funds would reflect the widening of a benchmark interest rate spread reflecting market disruptions.

Banks and financial institutions would be eligible to obtain commitments only if they: (a) have at least the AA domestic credit rating provided by at least two Indian credit rating agencies; (b) comply with RBI's capital adequacy guidelines; and (c) comply with RBI exposure concentration limits regarding credit extended to specific industries, individual companies and group companies. If the credit rating of an EB deteriorates after the commitment but does not fall below the specific threshold level of BBB, the commitment would remain valid. If its credit rating deteriorates below BBB, the bank would be disqualified from further drawdowns from the BF. Based on current information, it is anticipated that several premier Indian banks and financial institutions as well as foreign banks would meet the above-stipulated eligibility criteria.

The eligibility criteria established for the SCL pilot program are satisfied for the BF component of the project. IDBI has a need for a US dollar SCL to match repayment revenues from US dollar loans to EBs onlending in dollars to exporters and Indian corporations that have a need for term dollar loans to match their dollar revenues. EBs and their sub-borrowers are autonomous entities that are expected by GOI to meet their debt service obligations to IDBI without reliance on the Government guarantee and to manage the foreign currency composition of their assets and liabilities.

11. **Project Costs**. Total project costs are estimated at US$1,534.1 million, including US$24.5 million in duties and taxes. Of this total, 22% (US$331.7 million) are foreign exchange costs. Incremental recurrent costs, equivalent to US$35.1 million or 2% of base costs, would include incremental staffing at PBs to implement bank modernization as well as the running costs of banks' automation/computerization systems. The proposed Bank loans totalling US$700 million equivalent would finance 46.3% of project costs, net of taxes, or 45.6% of total project costs, including taxes. The Bank loans would finance 95% of the direct and indirect foreign exchange costs of the project and 33% of local costs, net of taxes and duties. PBs would bear 5% of foreign exchange costs of the project for computerization initiatives (running costs). PBs would finance the US$24.5 million of estimated taxes and duties of the project. PBs would cover estimated additional recurrent expenses (incremental staff (US$1.2 million) and computer running costs (US$39.1 million)) associated with bank modernization. Retroactive financing for US$70.0 million equivalent would be provided for eligible subloans under the Capital Restructuring component disbursed after April 1, 1994. The breakdown of costs and financing is shown in Schedule A. The proposed procurement arrangements and the disbursement schedule are given in Schedule B. A timetable of key project processing events and the status of Bank Group operations are given in Schedules C and D, respectively. The Staff Appraisal Report (No. 13740-IN) is being distributed separately.

12. **Project Implementation**. RBI would be the project implementing agency and its Department of Banking Operations and Development (DBOD) of RBI would be responsible for overall coordination. DBOD is the principal unit within RBI charged with bank supervision and regulation. **Capital Restructuring**: GOI would be the Borrower. Each PB would strengthen its capital base to meet future capital adequacy norms through an appropriate mix of subordinated debt, public issuance of shares, and retained earnings. Subordinated debt would be issued by GOI in the form of negotiable, unsecured promissory notes that would be callable after five years from the date of issue and could not be converted into equity of issuing banks. Public issuance of shares would be undertaken by the management of each PB, after receiving the necessary approval of its board of directors, clearance from GOI and consultation with the RBI, at a scale and in accordance with a schedule satisfactory to the Bank. PBs would onlend the proceeds of subordinated loans to creditworthy borrowers as subloans at prevailing market rates and maturities for financing subprojects. **Modernization and Institutional Development**:

The Borrower and Pass-Through Agent for this component would be IDBI, and RBI would coordinate and supervise its implementation. PBs would be required under the project to prepare and implement annual business plans containing agreed changes in their capital structures, institutional development programs, profitability improvements, schedules for issuing equity to private shareholders, and programs of computerization/communication improvements. Each annual plan would also contain revised programs for human resource development, designed with the assistance of specialists funded under the project. **Backstop Facility**: Implementation of the BF would be managed by RBI, drawing upon its existing bank supervision system with appropriate modifications and in collaboration with external auditors to monitor EBs' servicing of drawdown loans. The Manager would determine the eligibility of banks to participate according to the established criteria and monitor the credit rating standings of EBs. IDBI would be the Pass-Through Agent for the BF, entrusted with: (a) making payment to EBs in the event of a drawdown of the Facility under specified conditions, and (b) collecting any fees relating to the subscription to the BF by EBs. Payments to EBs would be made by IDBI only after receiving specific instructions from RBI as BF Manager.

13. **ODA Assistance**. The Government of the United Kingdom through the Overseas Development Administration (ODA) is considering a proposal to provide grant funds to finance a separate technical assistance initiative with the Reserve Bank of India (RBI) to strengthen its regulatory and supervisory functions. This effort would be complementary to the project because it would build a modern and efficient bank supervision and surveillance system in RBI and thereby facilitate the transition from direct intervention in financial intermediation. ODA would finance activities supporting RBI's efforts to develop its off-site monitoring system. It would also assist RBI in implementing planning activities, acquisition of technical equipment for data processing and training of its staff to improve its overall monitoring capacity.

Agreements Reached

14. **Capital Restructuring Loan**. During negotiations, the following agreements were reached with GOI that: (a) GOI shall onlend proceeds of the Capital Restructuring Loan to PBs as subordinated loans, and GOI shall enter into a Subordinated Loan Agreement with each PB on terms and conditions satisfactory to the Bank; (b) proceeds of the Loan will be onlent to PBs under satisfactory terms and conditions; (c) GOI will not be entitled to withdraw from the Bank loan over 50% of each subordinated loan unless the respective PB has issued equity consistent with the PB's Business Plan; (d) proceeds of subordinated loans would be relent by PBs as subloans to sub-borrowers under satisfactory terms and conditions; (e) each PB shall issue equity shares to shareholders other than GOI through a public offering at satisfactory levels and according with a satisfactory schedule; (f) the board of directors of each PB shall include the maximum number of directors representing private shareholders permissible under applicable laws; (g) GOI will ensure that the number of shares owned by GOI in the total number of equity shares in each PB is not increased from the level prevailing as of March 31, 1995, except to comply with legislative requirement and for two specific PBs to enable their compliance with capital adequacy norms; and (h) GOI will carry out a review of progress of implementation of this component with RBI and the Bank when US$150 million equivalent of the Loan amount is

disbursed. A condition of disbursement for each PB would be that GOI would provide to the Bank a legal opinion that it has entered into a satisfactory Subordinated Loan Agreement with the respective PB.

15. The following agreements were reached with RBI that: (a) RBI shall enter into a Performance Agreement (also known as Memorandum of Understanding) with each PB annually with terms and conditions satisfactory to the Bank; (b) each PB shall adopt and carry out an annual Business Plan each year in respect of the forthcoming financial year, with scope and content satisfactory to the Bank; (c) RBI shall take prompt action satisfactory to the Bank to ensure the continued safety and soundness of each PB in the event that the Tier I risk-adjusted capital adequacy ratio of each PB falls below 4%, and RBI shall take prompt remedial action satisfactory to the Bank in the event the net worth of any PB becomes negative; (d) RBI shall provide to the Bank by June 30 of each year starting in 1995 an independent audit of the loan portfolio of each PB through auditors satisfactory to the Bank and with scope satisfactory to the Bank; and (e) RBI will carry out a review of project implementation with GOI and the Bank when US$150 million equivalent of the amount of the Loan is disbursed.

16. **Modernization and Institutional Development Loan.** Agreement was reached that: (a) RBI and IDBI will enter into a Pass-Through Agreement, on terms and conditions satisfactory to the Bank; (b) RBI shall ensure that the modernization and institutional development component of the project is carried out by PBs in accordance with a modernization and institutional development plan for each PB satisfactory to the Bank; and (c) IDBI shall onlend the proceeds of the Loan to each PB under a modernization and institutional development subsidiary loan agreement, with terms and conditions satisfactory to the Bank. A condition of effectiveness would be that RBI and IDBI have entered into a Pass-Through Agreement for the modernization and institutional development component. Conditions of disbursement for each PB would be: (i) that each PB have entered into a satisfactory modernization and institutional development subsidiary loan agreement with IDBI; (ii) receipt by the Bank of a satisfactory modernization and institutional development plan for the respective PB; and (iii) receipt by the Bank of a long-form audit satisfactory to the Bank of the respective PB.

17. **Backstop Facility Loan.** During negotiations, agreement was reached that RBI and IDBI would enter into a Pass-Through Agreement with terms and conditions satisfactory to the Bank. Additionally, agreement was reached with RBI that: (a) it would issue Operating Guidelines for the BF prior to the first BF commitment; (b) commitments issued do not result in an aggregate amount of commitments outstanding to EBs in excess of the aggregate amount of the Facility and do not exceed the maximum exposure of US$35 million per EB; (c) EBs participating in the BF shall at all times meet eligibility criteria satisfactory to the Bank, and if any EB no longer meets such criteria it would be promptly excluded from participation in the Facility; (d) it shall issue commitments to EBs with satisfactory terms and conditions; (e) RBI shall receive and review requests from EBs for withdrawal of the proceeds of the Loan based on the commitments issued by the BF, and where RBI is satisfied that such EBs are entitled to make such withdrawal, issue instructions to IDBI pursuant to the Pass-Through Agreement between RBI and IDBI; (f) it will provide to IDBI, GOI and the Bank annual reports on the status of the BF; (g) EBs shall be

allowed to borrow in the domestic foreign currency market and make loans in a manner consistent with prudential norms without being required to fully match the maturities and currencies of their assets and liabilities; (h) interest rates on foreign currency loans covered by the BF would be market-determined; and (i) Indian investors eligible to invest in foreign currency under applicable regulations shall be permitted to do so in any debt instrument issued by banks and financial institutions registered in India.

18. Agreement was reached with IDBI that: (a) IDBI will enter into Facility Draw Down Agreements with EBs determined by RBI to be eligible to participate in the BF on satisfactory terms and conditions, including payment of Facility Fees by EBs to IDBI; (b) IDBI will provide backstop loans to EBs at maturities of up to a maximum of seven years, at a spread to be determined by market conditions; (c) EBs shall withdraw proceeds of backstop loans against subloans made to sub-borrowers on market terms, and subprojects shall comply with agreed eligibility criteria, including satisfactory environmental standards; and (d) IDBI shall provide annual reports to the Bank on the status and implementation of Facility Draw Down Agreements, receipts of Facility Fees and payments of interest and principal under BF loans. A condition of effectiveness would be the receipt of a legal opinion that RBI and IDBI have entered into a satisfactory Pass-Through Agreement. A condition of disbursement for each EB would be the signing of a satisfactory Facility Draw Down Agreement by IDBI and the EB.

19. **All Three Loans.** Agreement was also reached that GOI, RBI and IDBI shall carry out a mid-term review of the project by September 30, 1997 and that project accounts would be satisfactorily maintained and audited annually.

20. **Environmental Aspects.** All subprojects financed under the project would be in compliance with India's environmental laws, including the Water (Prevention and Control of Pollution) Act of 1974, the Air (Prevention and Control of Pollution) Act of 1981, the Environmental (Protection) Act of 1986, and their enabling notifications. Confirmation of compliance would be required at various stages from the Central and/or State Pollution Control Boards, a process which is consistent with the Bank's environmental assessment standards.

21. **Benefits.** The proposed project would: (a) help bring about a greater degree of market orientation, allocative efficiency, technical competence and competition in the financial system as a whole; (b) foster modern banking practices and services; and (c) facilitate sourcing of private funds and access to foreign currency finance to meet long-term investment financing needs. The expansion of private sector ownership of public sector banks and the associated change in the composition of their boards of directors would enhance management autonomy within the existing regulatory framework and would reorient banks' business goals and strategies towards achievement of profitability, improved customer services, and higher efficiency. The reinvigoration of competition in financial markets brought about by deregulation of interest rates and entry of new private banks would reinforce such tendencies, with tangible economic benefits in terms of narrower interest rate spreads and lower cost of capital. In addition, enhanced access to foreign currency term finance through the BF would reinforce the prospect for sustainable export expansion and private capital flows. Efficiency and profitability in banking

operations would be encouraged by system-wide adoption of automation and modern banking practices. The SCL terms for the BF would also help to reduce currency and interest rate risk for IDBI, EBs and sub-borrowers.

22. **Risks.** In view of the fact that the PBs and other financial institutions have a large core of highly qualified staff and interested management, the technical risk, associated with the project would be minimal. The main risks relate to: (a) PBs' adjustment to the new environment of intensified competition; (b) their ability to restore profitability sufficiently within the project period to be able to reinvest retained profits as required by the five-year financial projections and to tap the capital market to maintain the required 8% CAR level as of March 1996 until the end of the project's life; (c) adverse macroeconomic developments that would erode the quality of banks' portfolios; and (d) adverse external developments that would reduce the supply of external funds to domestic financial institutions.

(a) **Intensified Competition.** Intensified competition in the financial markets would sharpen the differentiation between strong and weak institutions through a narrowing of interest rate margins and widening of borrowers' funding menus. Increased competitive pressures would also set in motion a process of selectivity based on market considerations that would entail reallocation of credit to new borrowers and areas, possibly at the cost of old vested interests. This could generate political demand for resorting to government interference in credit allocation, determination of interest rates, and protection of weak banking institutions. The potential to offer subsidies to such politically sensitive sectors as agriculture and small-scale industry has strong political appeal. This risk is reduced by GOI's commitment to expand private sector ownership in public sector banks and subject weak banks to a more stringent supervisory and monitoring treatment. In addition, through its technical assistance initiatives to strengthen PBs' efficiency, the project would enhance the banks' ability to withstand healthy competitive pressures.

(b) **Restoring Profitability.** The capital restructuring component would finance the banks' capital requirements to achieve the Basle CAR standards of 8% by March 1996. From the PBs five-year financial projections it is clear that success of the recapitalization exercise will depend strongly on the banks' ability to achieve profitability levels that would permit them to maintain their equity levels through: (i) reinvestment of retained earnings, and (ii) issuing of shares in the capital market. Achievement of the envisaged profitability targets will depend on the banks' capacity to reduce the burden of still large non-performing loans on their balance sheets and to avoid bad lending practices that would lead to similar portfolio problems in the future. PBs' past track record in these two areas has not been promising. However, this risk is mitigated by the following factors: (A) over the past year, PBs have intensified their loan recovery efforts through innovative approaches, including designating special branches as "recovery cells", enhancing line-management accountability, and settlement of non-performing accounts through negotiated compromises. Such efforts, reinforced by GOI actions to strengthen the legal framework for loan recovery and the strength of the ongoing industrial recovery, are expected to improve banks' profits and capital base in the next 2-3 years. The technical assistance provided under the project to increase operational efficiency and reduce funding costs would help restore profitability, and the ODA-supported Technical assistance to RBI will permit better supervision standards that would minimize the risk of extreme increases in portfolio non-performing assets. (B) Over the past two years, legislation approved by GOI has allowed private sector participation in the equity of PBs up to 49%, with concomitant participation of private shareholders in their boards of directors. This should yield better management practices and stronger autonomy in the business practices of the banks. (C) As long as India's economic growth remains robust, marginal loans will be safer, leading to healthier overall portfolio levels in response to improved performance of the country's real sectors. (D) In the case that a bank fails to reach envisaged profit targets, the project has in place sufficient safeguards to trigger appropriate policy actions in order to promote an orderly downsizing of the bank's activities without undermining the stability of the banking system.

(c) **Adverse Macroeconomic Developments.** A central objective of the proposed project is to restore banks' profitability and their attractiveness to private investors. However, adverse macroeconomic developments--such as a prolonged economic slowdown--could weaken the banks' balance sheets and erode their profitability. Also, macroeconomic policies that maintain high real interest rates would similarly hamper the banks' ability to attain the profit levels envisaged. Finally, a sharp adjustment of the rupee could weaken the general financial condition of banks' borrowers, including the clients of the PBs, and would increase the rupee equivalent of foreign currency-denominated liabilities and reduce the profitability of the overall banking system.

While such developments are difficult to predict, their likelihood is considered small. Although fiscal deficits continue to be at relatively high levels, some progress has been achieved and GOI continues to make further fiscal deficit reduction a central plank of its fiscal adjustment program. This makes it unlikely that GOI will suddenly need to adopt contractionary macroeconomic policies--which in other adjusting economies have been at the origin of prolonged recessions and heavy costs to the banking system. GOI has never committed itself to a fixed nominal exchange rate, and is continuously monitoring the status of the real exchange rate level to avoid a major overvaluation; therefore, a sharp one-time adjustment of the nominal exchange rate is not expected to be the likely policy response to a change in market. However, none of the banks participating in the project have large foreign currency-denominated liabilities, and would therefore be minimally affected by an exchange rate adjustment. GOI has managed capital flows prudently, and the nature of inflows (foreign institutional investors, overseas issues of equity shares in Indian firms) is such that they are costly to reverse. Foreign investors are not allowed to invest in government debt instruments.

(d) **Reduced Access to Short-Term External Resources.** A key objective of the BF is to develop commercial banks' capacity to meet exporters' long term financing needs in foreign exchange through recourse to international money markets. Negative country risk assessments would reduce Indian banks' access to international money markets and thus reduce their capacity to meet exporters' demand for foreign currency-denominated loans through this source. However, over the last three years, all external indicators (e.g., export growth rates, current account deficit and external debt as shares of GDP, debt service ratios, and foreign exchange reserves) have improved significantly. In December 1994, Moody's Investors Service increased India's credit rating to investment grade.

Recommendation

23. On the basis of the above agreements, I am satisfied that the proposed loans comply with the Articles of Agreement of the Bank, and recommend that the Executive Directors approve the proposed loans.

Ernest Stern
Acting President

Attachments

Washington, D. C.

Schedule A
Page 1 of 1

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Estimated Costs and Financing Plan

Estimated Costs

Project Component	Local	Foreign	Total	Foreign Exchange
	(US$ million)			(%)
Capital Restructuring	1,157.2	0.0	1,157.2	0
Bank Modernization	84.6	113.1	197.7	57
Backstop Facility	0.0	200.0	200.0	100
Total Baseline Costs	1,241.8	313.1	1,554.9	20
Physical Contingencies	8.3	11.3	19.6	58
Price & Foreign Exchange Contingencies a/	-47.8	7.4	-40.4	
TOTAL PROJECT COSTS b/	1,202.3	331.8	1,534.1	22

a/ The foreign exchange contingency adjusts for projected changes in the value of the Indian rupee vis-a-vis the US dollar. It is assumed that because of the large capital inflows India is currently experiencing, there will be some real exchange rate appreciation in the early phase of the project, when a large share of disbursements are concentrated.

b/ Includes US$24.5 million equivalent in taxes and duties.

Financing Plan

	Local	Foreign	Total
	(US$ million)		
IBRD	384.4	315.6	700.0
GOI	618.4	0.0	618.4
Participating Banks	199.7	16.0	215.7
Totals	1,202.5	331.6	1,534.1

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Procurement Arrangements and Disbursements

Amounts and Methods of Procurement

Project Element	Procurement Method				Total Cost
	ICB	LCB	Other	NBF	US$ million
	---------(US$ million)---------				
Capitalization/Backstop Facility Sub-Projects	70.00 70.00		1,237.00 480.00		1,307.00 550.00
Modernization					
Site Preparation Works			11.63 9.80		11.63 9.80
Goods and Equipment					
Computers	78.50 65.63	0.80 0.60	5.40 3.70		84.70 69.93
Communication Equipment	22.00 17.27	0.90 0.70			22.90 17.97
ATMs/POSs	18.00 14.11		0.30 0.21		18.30 14.32
Software			12.60 8.04		12.60 8.04
Misc Equipment/Books	14.00 10.99	4.70 3.53	7.09 4.54		25.79 19.06
Subtotal	132.50 108.00	6.40 4.83	25.39 16.49		164.29 129.32
Consultancies & Training					
Policy Support			2.90 2.90		2.90 2.90
Implementation Support			3.30 3.30		3.30 3.30
Capacity-Building			4.68 4.68		4.68 4.68
Subtotal			10.88 10.88		10.88 10.88
Miscellaneous					
Incremental Salaries				1.20	1.20
Incremental Operating Costs				39.10	39.10
Subtotal				40.30	40.30
Total	202.50 178.00	6.40 4.83	1,284.90 517.17	40.30 0.00	1,534.10 700.00

Notes: Other methods include force account, prudent shopping, engagement of consultants and training.
NBF: Not Bank-financed.
Underlined amounts would be IBRD-financed.

Schedule B
Page 2 of 2

Summary Disbursement Schedule

Category	Amount Allocated	Percent Financed	
	--(US$ million)--	Foreign	Local
Recapitalization Subloans	350.00	NA	100
Backstop Facility Subloans	200.00	100	NA
Works	9.80	85	85
Goods, Equipment, Materials	116.20	100	60
Consultants' Services & Training	14.00	100	100
Unallocated	10.00		
Total	**700.00**		

Estimated IBRD Disbursements

	FY95	FY96	FY97	FY98	FY99	FY00	FY01
	----------------(US$ million)----------------						
Annual	75.0	128.8	99.7	84.5	54.7	40.6	16.7
Cumulative	75.0	203.8	303.5	388.0	442.7	483.3	500.0

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Timetable of Key Processing Events

Time taken to prepare:	Twelve months
Project prepared by:	Ministry of Finance, Reserve Bank of India, Participating Banks, IDBI and ICICI, with Bank assistance.
First Bank Mission:	May 1994
Appraisal Mission:	July/August 1994
Negotiations:	February 1995
Planned Date of Effectiveness:	March 1995

Note: This report is based on findings of a World Bank appraisal mission that visited India in August/September 1994. The mission consisted of Messrs./Mmes. Mansoor Dailami (Mission Leader and Task Manager), Paul Beckerman (SA2RS); Diana McNaughton (FSD); Ramasastry Ambarish (FODD3); Vikas Sahasrabudhe (PMDTR); Patchamuthu Illangovan (ASTEN); Donald Carlson, King Lowe, and Stanley Silverberg (consultants). A subsequent post-appraisal mission, consisting of Luis Ernesto Derbez (mission leader), Mansoor Dailami (SA2RS), Paul Beckerman (SA2RS); William Nickel (SA2AG); Mohan Gopal (LEGSA); Odo Habeck (FSD); and Rohil Hafeez (SASVP), visited India in January 1995.

SCHEDULE D

PAGE 1 of 4

THE STATUS OF BANK GROUP OPERATIONS IN INDIA
A. STATEMENT OF BANK LOANS AND IDA CREDITS

(As of December 31, 1994)

Loan/ Credit #	FY of Approval	Purpose	US$ Million (net of cancellations) IBRD 1/	IDA 1/	Undisbursed 2/
1/	133 Loans/		10324.9		
	194 Credits fully disbursed/cancelled			14070.4	
1356-IN	1983	Upper Indravati Hydro Power	-	170.00	9.37
SF-12-IN	1984	Tamil Nadu Water Supply	-	36.50	2.81
1454-IN	1984	Tamil Nadu Water Supply	-	36.50	6.78
1483-IN	1984	Upper Ganga Irrigation	-	105.43	9.55
2582-IN	1985	Kerala Power	126.00	-	43.21
1643-IN	1986	Gujarat Urban	-	50.34	17.35
1621-IN	1986	Maharashtra Composite Irrigation	-	128.82	85.63
1631-IN	1986	National Agricultural Research II	-	57.21	12.49
1750-IN	1987	Bombay Water Supply & Sewerage III	-	145.00	60.40
2769-IN	1987	Bombay Water Supply & Sewerage III	20.00	-	20.00
2796-IN	1987	Coal Mining & Quality Improvement	322.78	-	24.47
1757-IN	1987	Gujarat Rural Roads	-	96.75	32.41
2846-IN	1987	Madras Water Supply	53.00	-	22.09
1754-IN	1987	National Agric. Extension III	-	66.62	10.40
2844-IN	1987	National Capital Power	373.00	-	77.55
1770-IN	1987	National Water Management	-	114.00	14.55
2785-IN	1987	Oil India Petroleum	140.00	-	4.29
2845-IN	1987	Talcher Thermal	367.00	-	161.83
1780-IN	1987	Uttar Pradesh Urban Development	-	120.95	49.84
1931-IN	1988	Bombay & Madras Population	-	57.00	25.54
2928-IN	1988	Indus. Fin. & Tech. Asst.	334.37	-	9.60
2893-IN	1988	National Dairy II	200.00	-	132.27
2935-IN	1988	Railway Modernization III	252.50	-	9.40
1923-IN	1988	Tamil Nadu Urban Dev.	-	254.73	97.92
3093-IN	1989	Electronics Industry Dev.	8.00	-	7.50
3058-IN	1989	Export Development	120.00	-	8.92
3096-IN	1989	Maharashtra Power	354.00	-	238.65
3024-IN	1989	Nathpa Jhakri Power	485.00	-	378.72
1952-IN	1989	National Seeds III	-	147.24	55.02
2022-IN	1989	National Sericulture	-	133.35	63.03
2057-IN	1989	Nat'l. Family Welfare Trng.	-	72.76	40.54
3044-IN	1989	Petroleum Transport	50.00	-	8.76
2994-IN	1989	States Roads	115.00	-	79.74
2010-IN	1989	Upper Krishna Irrigation II	-	160.00	47.08
3050-IN	1989	Upper Krishna Irrigation II	45.00	-	45.00
2008-IN	1989	Vocational Training	-	163.85	104.87
3196-IN	1990	Cement Industry Restructuring	293.18	-	96.32
2115-IN	1990	Hyderabad Water Supply	-	79.90	51.85
2064-IN	1990	Industrial Technology Development	-	55.00	45.19
3119-IN	1990	Industrial Technology Development	135.00	-	49.59
3237-IN	1990	Northern Region Transmission	485.00	-	440.10
2133-IN	1990	Population Training VII	-	63.96	35.43
3239-IN	1990	Private Power Utilities I (TEC)	98.00	-	21.77
2076-IN	1990	Punjab Irrigation/Drainage	-	145.28	107.37
2158-IN	1990	Tamil Nadu Integrated Nutrition II	-	67.52	43.29
2130-IN	1990	Technician Education I	-	210.74	141.87
2100-IN	1990	Watershed Development (Hills)	-	75.00	55.84
2131-IN	1990	Watershed Development (Plains)	-	55.00	47.09
3325-IN	1991	Dam Safety	23.00	-	23.00
2241-IN	1991	Dam Safety	-	130.00	121.51
3364-IN	1991	Gas Flaring Reduction	450.00	-	21.49
2173-IN	1991	ICDS I (Orissa & Andhra Pradesh)	-	74.35	50.91
3334-IN	1991	Industrial Pollution Control	124.00	-	59.84
2252-IN	1991	Industrial Pollution Control	-	31.60	31.81
2234-IN	1991	Maharashtra Rural Water Supply	-	109.90	86.97
3258-IN	1991	Petrochemicals II	12.00	-	10.24
3259-IN	1991	Petrochemicals II	203.00	-	111.95
3344-IN	1991	Private Power Utilities II (BSES)	200.00	-	50.30
2215-IN	1991	Tamil Nadu Agricultural Development	-	92.80	61.64

SCHEDULE D

PAGE 2 of 4

Loan/ Credit #	FY of Approval	Purpose	US$ Million (net of cancellations) IBRD	IDA 1/	Undisbursed 2/
3300-IN	1991	Tamil Nadu Agricultural Development	20.00	-	20.00
2223-IN	1991	Technician Education II	-	255.73	214.72
2300-IN	1992	Child Survival and Safe Motherhood	-	214.50	137.35
2394-IN	1992	Family Welfare (Urban Slums)	-	79.00	79.62
2328-IN	1992	Maharashtra Forestry	-	124.00	113.96
2350-IN	1992	National AIDS Control	-	84.00	68.26
3436-IN	1992	Power Utilities Efficiency	265.00	-	249.61
3498-IN	1992	Second Maharashtra Power	350.00	-	313.70
3470-IN	1992	Second National Highway	153.00	-	153.00
2365-IN	1992	Second National Highway	-	153.00	155.97
2329-IN	1992	Shrimp and Fish Culture	-	85.00	85.49
2341-IN	1992	West Bengal Forestry	-	34.00	24.68
2433-IN	1993	Agricultural Development Rajasthan	-	106.00	93.92
2439-IN	1993	Bihar Plateau Development	-	117.00	108.20
2450-IN	1993	Jharia Mine Fire Control	-	12.00	11.95
2483-IN	1993	Karnataka Rural Water Supply	-	92.00	90.43
2528-IN	1993	National Leprosy Elimination	-	85.00	83.83
3632-IN	1993	NTPC Power Generation	400.00	-	400.00
3630-IN	1993	Power Finance Corporation	20.00	-	20.00
3577-IN	1993	Powergrid System Development	350.00	-	323.13
3544-IN	1993	Renewable Resources Development	75.00	-	8.84
2449-IN	1993	Renewable Resources Development	-	115.00	115.15
2409-IN	1993	Rubber	-	92.00	88.79
2470-IN	1993	Second Integrated Child Dev.	-	194.00	195.42
2509-IN	1993	Uttar Pradesh Basic Education	-	165.00	154.81
2510-IN	1993	Uttar Pradesh Sodic Lands Reclam.	-	54.70	53.36
2572-IN	1994	Forestry Research Education	-	47.00	45.84
2573-IN	1994	Andhra Pradesh Forestry	-	77.40	76.46
2592-IN	1994	Water Resources Consolidation (Haryana)	-	258.00	263.36
2594-IN	1994	Maharashtra Emergency Earthquake	-	246.00	229.77
2611-IN	1994	Blindness Control *	-	117.80	123.60
2630-IN	1994	Population IX (Family Welfare)	-	88.60	87.88
3753-IN	1994	Container Transport Logistics *	94.00	-	94.00
3779-IN	1995	Industrial Pollution Prevention *	93.00	-	93.00
3780-IN	1995	Industrial Pollution Prevention *	50.00	-	50.00
2645-IN	1995	Industrial Pollution Prevention *	-	25.00	25.65
2661-IN	1995	District Primary Education *	-	260.30	260.81
2663-IN	1995	A.P. District Heatlh *	-	133.00	131.42
	Total		17583.70	20693.55	8628.93
	of which has been repaid		4925.6	1272.6	
			12658.09	19420.95	
	Total now outstanding				
	Amount Sold		133.8		
	of which has been repaid		133.8		
	Total now held by Bank and IDA				
	Total undisbursed (excluding *)		3644.9	3934.3	

1/ IDA Credit amounts for SDR-denominated Credits are expressed in terms of their US dollar equivalents, as established at the time of Credit negotiations and as subsequently presented to the Board.

2/ Undisbursed amounts for SDR-denominated IDA Credits are derived as the undisbursed balance expressed in SDR equivalents (in turn derived as the difference between the original principal expressed in SDRs (based on the exchange rate as established at the time of Credit negotiations) and the cumulative disbursements converted to SDR equivalents at the exchange rates prevailing at the respective dates of disbursements less cancellations expressed in SDR equivalents converted to US dollar equivalents at the SDR/US dollar exchange rate in effect on December 31, 1994.

* Not yet effective.

Source: Statement of Loans & Credits (LOALA) of December 31, 1994.

B. STATEMENT OF IFC INVESTMENTS

(as of December 31, 1994)

Fiscal Year	Company	Amount (US$ million) Loan	Equity	Total
1959	Republic Forge Company Ltd.	1.50	--	1.50
1959	Kirloskar Oil Engines Ltd.	0.85	--	0.85
1960	Assam Sillimanite Ltd.	1.36	--	1.36
1961	K.S.B. Pumps Ltd.	0.21	--	0.21
1963-66	Precision Bearings India Ltd.	0.65	0.38	1.03
1964	Fort Gloster Industries Ltd.	0.81	0.40	1.21
1964	Lakshmi Machine Works Ltd.	0.96	0.35	1.31
1964-75-79/90	Mahindra Ugine Steel Co. Ltd.	11.81	2.66	14.47
1967	Indian Explosives Ltd.	8.60	2.86	11.46
1967	Jayshree Chemicals Ltd.	1.05	0.10	1.15
1969-70	Zuari Agro-Chemicals Ltd.	15.15	3.76	18.91
1977-87	Escorts Limited	15.55	--	15.55
1978-87/91/93	Housing Development Finance Corp.	106.32	4.05	110.37
1980/82/87/89	Deepak Fertilizer and Petrochemicals Corporation Ltd.	7.50	4.23	11.73
1981-82	Nagarjuna Coated Tubes Ltd.	1.50	0.24	1.74
1981-82	Nagarjuna Steels Limited	2.88	0.24	3.12
1981-86-89-92-94	Tata Iron and Steel Company Ltd.	132.14	24.49	156.63
1981-90-93-94	Mahindra & Mahindra Ltd.	29.71	9.68	39.39
1982	Ashok Leyland Limited	28.00	--	28.00
1982	Coromandel Fertilizers Limited	15.88	--	15.88
1982	The Bombay Dyeing and Manufacturing Co. Ltd.	18.80	--	18.80
1982-87	ITW Signode	2.99	1.01	4.00
1982-87	The Indian Rayon Corp. Ltd.	14.57	--	14.57
1983	Bharat Forge Company Ltd.	15.90	--	15.90
1984-86	The Gwalior Rayon Silk Manufacturing (Weaving) Co. Ltd.	15.95	--	15.95
1985	Bajaj Auto Ltd.	23.93	--	23.93
1985	Modi Cement	13.05	--	13.05
1985-86/90-91-94	India Lease Development Ltd.	8.50	1.08	9.58
1985/91	Bihar Sponge	15.24	0.68	15.92
1986	Bajaj Tempo Limited	30.54	--	30.54
1986-93/94	India Equipment Leasing Ltd.	5.50	0.44	5.94
1986	Larsen and Toubro Ltd.	21.78	--	21.78
1986-87-88-92-93	The Great Eastern Shipping Company Ltd.	41.25	13.89	55.14
1986-87-91	Export-Import Bank of India	14.34	--	14.34
1987	Gujarat Fusion Glass Ltd.	7.52	1.70	9.22
1987	Gujarat Narmada Valley Fertilizer	38.07	--	38.07
1987	Hero Honda Motors Ltd.	7.74	--	7.74
1987	Hindustan Motors Ltd.	39.14	--	39.14
1987	The Gujarat Rural Housing Finance Corp.	--	0.19	0.19
1987	Wimco Limited	4.70	--	4.70
1987/89-90/92/93	Titan Watches Limited	22.02	1.15	23.17
1988/94	Invel Transmissions Ltd.	--	1.40	1.40
1989	Ahmedabad Electricity Company, Ltd.	20.83	--	20.83
1989	WTI Advanced Technology	--	0.20	0.20
1989-90	Keltron Telephone Instruments, Ltd.	--	0.56	0.56
1989-92	Gujarat State Fertilizer	40.46	--	40.46
1989-95	JSB India Securities Firms	2.39	0.37	2.76
1990	UCAL Fuel Systems Ltd.	--	0.63	0.63
1990-91/94	Tata Electric	111.88	18.75	130.63
1991	ATIC Industries Export Finance	0.28	--	0.28
1991	Bombay Electric	68.00	--	68.00
1991	CESC Ltd.	83.63	--	83.63
1991	Export Finance - AFDC	0.35	--	0.35
1991	Herdilla Oxides and Electronics Ltd.	--	0.29	0.29
1991-94	Indust. Credit & Investment Corp. of India	--	25.85	25.85
1991-93-95	Infrastructure Leasing & Financial Services	40.00	4.92	44.92
1991	TDICI Development Finance Companies	--	2.05	2.05
1993	TRIVENI	--	1.30	1.30
1991	Varun Transport, Storage & Communications	17.04	3.06	20.10
1992	Arvind Mills	22.13	19.16	41.29

Fiscal Year	Company	Loan	Equity	Total
		Amount (US$ million)		
1991	INDUS VC MGMT	--	0.01	0.01
1991	Block KG-OS-IV	--	8.20	8.20
1991	INDUS VCF	--	1.01	1.01
1992	Kotak Mahindra	0.66	--	0.66
1992	Nippon Denro	40.00	5.77	45.77
1992	SKF Bearings	11.50	--	11.50
1992-94	Creditcapital VF	--	1.11	1.11
1993	NICCO-UCO	3.00	0.25	3.25
1993	20th CENTURY	16.00	0.80	16.80
1993	Info Tech Fund	--	0.64	0.64
1993	CRDCAP Asset Management	--	0.32	0.32
1993	Taurus Starshare	--	7.17	7.17
1994	Gujarat Ambuja	35.14	8.23	43.37
1993-94	Indo Rama Spinning & Weaving	35.00	9.84	44.84
1994	Centurion Growth	--	2.39	2.39
1994	TCAMC	--	0.16	0.16
1994	DLF Cement	39.36	--	39.36
1994	Global Trust Commercial Banks	--	3.19	3.19
1994	Chowgule	--	4.58	4.58
1994	Centurion Bank	--	3.87	3.87
1994	GESCO Transport & Communications	--	2.15	2.15
1994	ISIC Brokerage	--	0.32	0.32
1994-95	Prism Cement	30.00	5.01	35.01
	TOTAL GROSS COMMITMENTS	1361.61	217.14	1578.75
Less:	Cancellation, Terminations, Exchange Adjustments, Repayments, Writeoffs and Sales	753.71	84.82	838.54
	Total Commitments Now Held by IFC	607.85	132.30	740.16
	Undisbursed	73.93	9.39	83.32
	Total Outstanding	533.94	122.92	656.86

Source: IFC Statement of Investments as of Dec-mber 31, 1994.