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STAFF APPRAISAL REPORT

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

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Country Operations, Industry & Finance Division
South Asia Country Department II

CURRENCY EQUIVALENTS

(As of January 15, 1995)

Currency Unit = Rupee (Re/Rs)

US$1.00 = Rs 31.37

Re 1.00 = US$0.032

MEASURE

1 crore = 10 million

DEFINITION

Basis Point: one hundredth of one percent

GOVERNMENT FISCAL YEAR

April 1 to March 31

ABBREVIATIONS AND ACRONYMS

ALM	-	Asset-Liability Management
BF	-	Backstop Facility
CAR	-	Capital Adequacy Ratio
CAS	-	Country Assistance Strategy
CRISIL	-	Credit Rating Information Services of India
CRR	-	Cash Reserve Ratio
DBOD	-	Department of Banking Operations and Development (RBI)
EB	-	Eligible Bank or Financial Institution participating in the Backstop Facility
DFI	-	Development Finance Institutions
DOS	-	Department of Supervision (RBI)
GDP	-	Gross Domestic Product
GDR	-	Global Depository Receipt
GOI	-	Government of India
HRD	-	Human Resource Development
ICB	-	International Competitive Bidding
ICICI	-	Industrial Credit & Investment Corporation of India
IDBI	-	Industrial Development Bank of India
IFC	-	International Finance Corporation
IFCI	-	Industrial Finance Corporation of India
IMF	-	International Monetary Fund
LCB	-	Local Competitive Bidding
LIBOR	-	London Inter-Bank Borrowing Rate
MIS	-	Management Information System
MTR	-	Mid-term Review
OD	-	Operational Directive
PB	-	Participating Bank
POS	-	Point of Sales
RBI	-	Reserve Bank of India
SBI	-	State Bank of India
SCL	-	Single Currency Loan
SEBI	-	Security Exchange Board of India
SFA	-	Subsidiary Finance Agreements
SLR	-	Statutory Liquidity Ratio
TM	-	Treasury Management
UTI	-	Unit Trust of India

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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. The Division Chief is Luis Ernesto Derbez and Director, Heinz Vergin.

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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) lent 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.

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 the Government of India (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.

Project Description: The project would consist of the following three components:

(a) **Capital restructuring** under the project would support selected nationalized commercial banks which commit to plans for increasing private equity through public offerings and modernization initiatives. Such support would be through subordinated loans from GOI to strengthen their capital base as required by capital adequacy norms.

(b) The project would support a **modernization and institutional development** program focused on building financial strength and long-term competitiveness in a more liberalized business and banking environment. It would foster actions in the following areas: (i) strategic

planning, (ii) automation and computerization of payment and accounting functions, (iii) human resource development, (iv) organizational improvements, and (v) enhanced capability in the areas of asset-liability, credit and treasury management.

(c) The **Backstop Facility** (BF) would assist eligible Indian banks and financial institutions in India (EBs) to source private funds to meet rapidly expanding demand for foreign currency term loans. 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 at a market-related price representing a market perception of systemic disruption.

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 participating commercial banks 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 Loan**. A World Bank US$200 million SCL to IDBI, guaranteed by India, would support the establishment of the BF. In the event that a benchmark interest rate spread widens beyond a stipulated amount, EBs would be entitled to drawdown loans from the BF at a floating rate of interest equal to 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 extended by eligible

banks to eligible firms would be priced with a market-determined margin.

Rate of Return: Not applicable.

Poverty Category: Not applicable.

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) facilitate sourcing of private funds and access to foreign currency finance to meet long-term investment financing needs; and (c) foster modern banking practices and services. 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, eligible banks and sub-borrowers.

Risks: Main project risks relate to: (a) the ability of PBs to restore profitability and health sufficiently within the project period to be able to maintain the required capital adequacy ratio, (b) their ability to adjust successfully to the new environment of intensified competition, (c) adverse macroeconomic developments that would erode the quality of banks' portfolios; and (d) adverse external developments that would negatively affect the supply of external funds to domestic financial institutions. The first risk is mitigated by the facts that PBs have intensified their loan recovery efforts over the past year and that GOI has taken meaningful actions to strengthen the loan recovery legal framework, and increase the banks' ability to operate under greater autonomy rules and with more commercially oriented credit criteria. The second risk would be reduced by GOI's commitment to expand private sector ownership in public sector banks and subject the banks to more stringent supervision and exposure to market forces. The third and fourth risks are considered small at present because of sustained improvements in macroeconomic conditions, particularly in India's external accounts.

Estimated Project Costs:

Project Component	Local	Foreign	Total
	-----(US$ million)-----		
Capital Restructuring	1,157.2	0.0	1,157.2
Bank Modernization	84.6	113.1	197.7
Backstop Facility	0.0	200.0	200.0
Total Baseline Costs	1,241.8	313.1	1,554.9
Physical Contingencies	8.3	11.3	19.6
Price & Foreign Exchange Contingencies	-47.8	7.4	-40.4
TOTAL PROJECT COSTS[1]	**1,202.3**	**331.8**	**1,534.1**

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**

Estimated Loan Disbursements:[2]

	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

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[1] Including taxes and duties of US$24.5 million equivalent.

[2] Excludes projections for BF-related disbursements.

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

I. BACKGROUND

1.1 India's financial system is undergoing significant change as a result of the overall liberalization measures carried out since July 1991. Initiatives aimed at developing a healthy, efficient and market-oriented financial system have already resulted in interest rate deregulation, development of market instruments for pricing public debt and bank loans, upgrading of India's regulatory and accounting standards to international norms, greater freedom to banking institutions to allocate credit in accordance with market signals, and adjustment of monetary policies and exchange rate management for an increasingly liberalized and open economic environment.

1.2 The key elements of the financial reform agenda have been articulated in several official statements, and have been debated in the press and Parliament for securing approval for necessary legislative changes, gaining the consent of bank employee unions to extend modern technology and automation in banks, and pacing judiciously the sequencing of financial policy reform with broader macroeconomic stabilization efforts. The Government of India's (GOI) strategy emphasizes permitting private ownership in public sector banks up to a 49% ceiling, market discipline through reinvigorating competition and opening international capital markets to Indian corporate borrowers either directly or indirectly through intermediation of India's financial institutions, and market-based incentive methods of credit delivery to small farmers, village artisans, small-scale industries, and women entrepreneurs. This strategy also fosters greater efficiency and bank responsiveness to client needs through the adoption of technological and operational innovations and institutional development.

1.3 A Financial Sector Development Project is proposed to support the initial phase of India's financial liberalization program. The project would consist of three components: capital restructuring of eligible banks; bank modernization and institutional development; and promoting the expansion of foreign currency term lending. The project would be the Bank's first for India's financial sector. It would also be the first for India that seeks, through the proposed Backstop Facility, to catalyze and improve the ability of the financial institutions and banks to raise foreign currency funds through market-based instruments in the domestic foreign exchange market. The project is consistent with the Bank's assistance strategy to India presented to the Board in May 1994 which recognizes the increasing role of private market financing flows and the need for supporting a broad-based private sector-led growth.

II. ECONOMIC DEVELOPMENTS AND PROSPECTS

2.1 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.

2.2 Structural reforms concentrated on trade and payments regimes, the tax system, and investment regime. Trade and payments regimes have been liberalized significantly. The rupee has been made convertible at the market rate on the current account, and India acquired Article VIII status in the IMF with effect from August 20, 1994. Quantitative controls and licensing of both imports and exports have been reduced substantially. Most intermediate and capital goods are now imported freely and the average tariff rate has been reduced gradually from 87% in 1991 to 33% in 1994. Progress has also been made to simplify and rationalize the tax system. New measures include: reduction of corporate tax rates from 45 and 50% to a unified 40%; simplification of the central excise tax system by a shift from specific to ad valorem taxes, a reduction in the number of rates and exemptions, and the extension of the scope of the modified VAT; and broadening the tax base. The environment for private sector development has improved significantly since 1991: The number of sectors reserved for public enterprises has been sharply reduced; prior government approval for investment, largely abolished; foreign investment, significantly liberalized; and control on prices and distribution of some key commodities, eliminated. As a result, key sectors of the economy such as mining and infrastructure (including power, telecommunications, air transport, and banking) are now open to private investors.

2.3 The fiscal deficit has been reduced, although not to the extent expected. After a reduction from 8.4% of GDP in 1990/91 to 5.7% in 1992/93, the central government deficit increased again to 7.3% of GDP in 1993/94. Tax revenue shortfalls due to weak growth of industry and imports were partly responsible for the fiscal slippage, but expenditure overruns had also a strong impact on increased deficit. A target deficit of 6% of GDP for FY95, predicated on the basis of buoyant tax revenues resulting from a strong industrial recovery and GOI's efforts to contain expenditures, may be slightly missed. With interest payments claiming over one-half of central government fiscal revenues, major efforts are needed to consolidate fiscal adjustment because the sourcing of financing the fiscal deficit is shifting from low-cost forced financing through the Reserve Bank of India (RBI) and the banking sector towards market borrowing. Recent estimates indicate that to keep the central government's debt at the current level relative to GDP, the fiscal deficit will have to decline further beyond the 6% target set for 1994/95--a difficult task under current conditions in the country.

2.4 Despite the uneven performance in the public sector deficit, 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). Managing such large capital inflows requires maintaining a delicate balance of macroeconomic policy mixes in the short-run while putting in place a stable financial framework to channel resources to productive investment and export expansion for the long-run. In the face of GOI's policy of keeping the nominal exchange rate stable, accommodating such capital inflows has contributed to an excessive domestic monetary expansion and to a real appreciation of the rupee, which if left unattended may have adverse implications for

export growth in the future. Fully aware of this problem, GOI has incorporated into its macroeconomic program measures to slow down capital inflows and control their negative impact in the economy. As a result, the pace of capital inflows has fallen in recent months. As production and demand for foreign exchange recover and financial sector reforms help reduce interest rate differentials between India and the rest of the world, pressure on the competitiveness of the rupee from capital inflows is expected to decline.

2.5 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.

III. THE FINANCIAL SECTOR REFORM PROGRAM

Description of Financial Institutions[3]

3.1 India's financial system is one of the largest in the world with a broad variety of banking, financial and capital market institutions and instruments. The combination of a high domestic savings rate (averaging 24% of GDP in the 1990-94 period) and the country's success in lowering inflation led to a high rate of resource mobilization. Financial assets in the form of bank deposits and corporate securities held by Indian residents now amount to 108% of GDP, up from 19% in the early 1970s (Table 3.1).

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[3] A detailed description of key institutional and infrastructural features of India's financial system is provided in Annex I.

Table 3.1: Composition of India's Financial Assets: End-July 1994

	Rs billion	% of GDP
Money (M3):	4620	57.6
Currency	962	12.0
Current and Saving Deposits	680	8.5
Term Deposits	2978	37.1
Short-term Debt	251	3.1
Treasury bills	209	2.6
Commercial Paper	42	0.5
Long-term Debt a/	2679	33.4
GOI debt	2160	26.9
Corporate Debt	220	2.7
State Government's debt	299	3.7
Equity	4862	60.6
held by:		
mutual Funds,	1070	13.3
directly by Investors	3792	47.2

a/ As of end March 1994.
Sources: Reserve Bank of India and CMIE.

3.2 Established in 1934, RBI is the central bank of the country. It performs the traditional central banking roles of note issue and banker to the government and commercial banks. It formulates and implements monetary and credit policy, manages the foreign exchange market, and regulates and supervises all commercial banks, financial institutions and non-bank finance companies. Its prudential regulations include: minimum capital requirements, qualifications for directors, limits on loan concentration and insider borrowing, and guidelines for asset classification and income recognition. RBI has powers to levy fines and penalties for non-compliance and also intervene in the management of a bank if serious problems arise. It also provides deposit insurance to small depositors through a subsidiary, the Deposit Insurance and Credit Guarantee Corporation.

3.3 The banking system consists of a network of 81 commercial banks, 169 regional rural banks and 180 central and state cooperative banks. Since nationalization in 1969 and 1980, the commercial banking sector has been dominated by public sector banks (currently 27) which account for nearly 83% of deposits and 92% of bank branches. Their widespread network of 45,000 branches enables them to raise deposits countrywide to service an asset base of Rs 3,520 billion (US$112.2 billion), or 50% of GDP as of March 1993, including an investment portfolio of Rs 1,009 billion, or 14.3% of GDP. With the recent entry of four new private domestic and two foreign banks, private commercial banks currently in operation consist of 28 Indian and 26 foreign banks, each accounting for about 6% of total assets.

3.4 Other financial institutions include: (a) three term-lending institutions (Industrial Credit and Investment Corporation of India (ICICI), Industrial Development Bank of India (IDBI), and Industrial Financial Corporation of India (IFCI)) at the national level; (b) 18 state finance corporations; (c) specialized institutions providing financial assistance to exporters, agriculture,

housing, tourism, small-scale industry and venture capital; and (d) non-bank finance companies, comprising leasing, housing-finance, and hire-purchase finance companies. The three important all-India term-lending institutions (ICICI, IDBI and IFCI), with total assets of US$19 billion as of end-March 1994, dominate India's term lending market. They provide medium- and long-term financial assistance to the private corporate sector for new projects, as well as the expansion and modernization of ongoing operations either directly or through consortium arrangements with commercial banks. These institutions had traditionally funded themselves through issuance of government-guaranteed domestic bonds and foreign lines of credit from multilateral and bilateral sources. However, compelled by the recent adjustment program, they have started tapping local and foreign financial markets. ICICI and IFCI have private shareholdings of 48% and 30%, respectively, and the IDBI Act was amended in October 1994 to authorize it to raise private equity capital from the market.

Table 3.2: Indicators of banking sector size and employment

	Assets (Rs billion)	Assets (% of total)	Branches	Employees (000's)
Scheduled Commercial Banks *	4037	100.0	46281	930
A. State Bank of India Group	1285	31.8	12586	304
B. Nationalized Banks	2235	55.4	30315	576
C. Private Banks	516	12.8	3380	50
a. Domestic	190	4.7	3240	37
b. Foreign	326	8.1	140	13
Term Lending Institutions **	594	100.0	37	5
D. Industrial Credit and Investment Corporation of India	151	25.4	8	1
E. Industrial Development Bank of India	346	58.2	36	3
F. Industrial Finance Corporation of India	97	16.4	17	1
Regional Rural Banks *	99	100.0	14543	70

* As of March 31, 1993.
** As of March 31, 1994.
Source: Balance Sheets of respective institutions.

Historical Perspective and Key Problems

3.5 Until the recent reforms begun in 1991, financial services were among the most controlled and regulated of all economic activities in India. 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 (para 3.12).

3.6 GOI nationalized the largest Indian commercial banks in two rounds--14 in 1969 and six in 1980. Nationalization achieved many of GOI's initial goals, including extending banking services to all parts of the country and channelling resources to the public and socially designated sectors. However, it proved costly to the banking industry: First, the potential to impart subsidies through credit allocation to sectors such as agriculture and small-scale industries without explicit budgetary support had a strong populist appeal in India's democratic system, and over time became an important source of bureaucratic interference as well as micro-management. Second, the emphasis on meeting social objectives tended to divert supervisory attention away from asset quality and provided a rationalization for bad lending by bank management. Third, nationalization prompted a strong bank employee union movement that resisted introduction of modern communication and computer technologies with the result that Indian banks have lagged behind in the adoption of the technological innovations which have swept the financial service industry worldwide. These shortcomings have had an adverse impact on the quality of customer services of banks, their efficiency and financial health. The transition to a broad-based, private sector-led path begun in July 1991 has exposed the financial system's overall weaknesses as regards providing resources at internationally competitive rates, contributing to industrial restructuring, and financing the massive infrastructural investment needs of India.

GOI's Financial Reform Program

3.7 The liberalization of India's financial system has been one of the main components of GOI's economic reform policy launched in July 1991. GOI established a high-level committee (the Narasimham 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, which over the past three years has been debated in the press, deliberated in Parliament and articulated in several official statements. The adopted strategy has 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.

Considerable progress has been achieved in all the above areas, as summarized below.

3.8 **Deregulating Interest Rates**. Over the past three years RBI has simplified administrative controls on the interest rate structure. It has reduced the multiplicity of bank lending rates, removed most restrictions on banks' issuance of certificates of deposit (a minimum denomination remains), and freed interest rates on debentures and most public sector bonds (other than tax-free bonds). With its Credit Policy Statement of October 1994, RBI has also removed the minimum lending rate applicable to commercial bank advances exceeding Rs 200,000 (US$6,400). This is a major step in interest rate liberalization that will enhance competition in the banking sector and foster new risk-hedging instruments such as floating rate notes, note issuance facilities and revolving underwriting facilities in Indian financial markets. The key remaining administrative interest rate restriction is the ceiling on term deposits for maturities of 46 days and beyond. In pacing the timing for the lifting of this ceiling, GOI is conscious of the need to first improve banks' financial soundness, internal controls, asset-liability management capabilities and communication systems to ensure that complete deregulation of deposit rates does not endanger the stability of the banking system.

3.9 **Liberalizing Credit Norms**. Along with the measures adopted to deregulate interest rates, steps have been taken to liberalize credit norms governing major areas of bank operations. Indian banks were subject to cumbersome sector-specific credit norms and obligatory consortium arrangements for loans exceeding a certain magnitude. In its successive credit policy statements over the past two years, RBI has announced several important measures, including raising the loan size above which consortium lending is mandatory, liberalizing selective credit controls applicable to sensitive agricultural commodities, allowing banks more leeway to decide levels of collateral and other requirements for particular loans, and removing the limit on banks' purchases of bonds of

public sector undertakings. These reforms have removed many impediments to competition in the commercial banking industry and should serve to increase lending efficiency.

3.10 **Reducing the Statutory Liquidity Ratio (SLR)**. Envisaged initially as a prudential measure, commercial banks in India are required to invest a proportion of their demand and time liabilities in approved central and state government guaranteed debt securities. The yields on such investments were until recently below those available on comparable market instruments. The management of the central government fiscal deficit since 1991, in conjunction with GOI's increasing reliance on market borrowing, has provided the scope for a reduction in the SLR from 38.5% in 1991 to the current level of 31.5%. GOI has announced publicly that the SLR would be reduced to 25% by March 1996, but due to unforeseeable monetary policy exigencies, it considers it inadvisable to commit publicly to precise intermediate targets. However, as yields on government bonds have improved and have been brought to market levels, the burden on banks' profitability from the imposition of the SLR has been totally eased, with the consequence that commercial banks in 1993/94 increased sharply their investments in government and other securities as part of their overall efforts to meet capital adequacy norms.

3.11 **Reducing the Cash Reserves Ratio (CRR)**. GOI intends to increase the flexibility and effectiveness of the CRR as a tool of monetary policy. To that end it has reduced the CRR on incremental deposits from 25% in 1991 to 15% at present and intends to phase out its remuneration. The medium-term goal is to enhance the efficacy, independence, and operation of monetary policy by: (a) phasing out monetization of the fiscal deficit by RBI via ad-hoc treasury bills over a period of three years; and (b) reducing the CRR significantly to a level consistent with reliance on open market operations as the basic day-to-day instrument of monetary control. In implementing this policy, the Finance Minister proposed in the 1994-95 Union Budget to limit GOI's recourse to RBI financing through ad-hoc treasury bills over 1994/95 to Rs 60 billion, representing two-thirds of 1% of GDP. To ensure strict adherence to this limit, RBI has been empowered to sell the ad-hoc treasury bills issued by GOI, should these exceed Rs 90 billion (1% of GDP) for more than ten consecutive working days any time during the year. This arrangement has recently been codified in a signed agreement between the Ministry of Finance and RBI. This agreement would increase the scope for reducing the CRR, improving the conduct of monetary policy and enhancing the autonomy of RBI.

3.12 **Rationalizing Priority Sector Lending Schemes**. A policy of priority sector lending requirements emerged in the late-1960s as part of efforts to meet the credit needs of agriculture, small-scale industries, and the weaker sections of the population such as the scheduled caste/tribes, women and minorities. Over the years the lending target to the priority sectors has been raised from 33% to the current statutory level of 40% of net bank credit, with guidelines set for sectoral and group allocations. Priority sector lending expanded further in 1980 with the Integrated Rural Development Programme (IRDP), a nationwide program of poverty alleviation and promotion of self-employment for the poor. With considerable progress already achieved in reducing concessionality through narrowing of interest rate differentials between priority sector borrowers and others, GOI's strategy for rationalizing priority sector lending is now geared to enhance banks' discretion in selecting more creditworthy borrowers and application of tightened prudential norms to all loans, including priority sector loans. In addition, GOI is developing more cost-effective mechanisms of credit delivery, possibly including informal self-help groups, to reach weaker sections of society, particularly in the rural areas. Developing a workable approach to meet the credit needs of India's

rural economy on a financially sustainable basis hinges on reforming India's massive rural credit system (paras 3.29-3.30).

3.13 **Introducing New Regulatory Norms.** While the health of India's public sector commercial banks deteriorated over time, such decline had until recently been masked by lax regulatory and accounting norms. The previous asset classification norms under which loans were classified into eight health codes ranging from 1 (best) to 8 (worst) involved a significant degree of subjectivity and suffered from two major shortcomings: (a) income was recognized on an accrual basis rather than on actual recovery of cash; and (b) banks were not required to make sufficient provision for non-performing loans. To address such shortcomings and bring India's bank regulatory framework closer to international standards, RBI issued new guidelines in April 1992 for income recognition, asset classification and provisioning requirements and adopted the Basle Accord capital adequacy standards. Banks are now required to classify assets into four categories (standard, substandard, doubtful and lost), cease accruing interest income on non-performing loans and make prudential provisions against probable future losses. These norms have been tightened progressively over the past two years. Before these changes, a loan could be overdue for as long as four quarters (as of March 1993) and three quarters (as of March 1994) before being classified as substandard. For the current fiscal year ending March 1995, a loan can be overdue for only 180 days before being so classified, which is consistent with international practice. In terms of provisioning, banks must provide 10% against substandard loans, 20-50% against the unsecured portions of doubtful loans, and 100% against loss loans. The application of these norms brought to light the financial weakness of many public sector banks in India. For the public sector banks as a whole, non-performing loans amounted to 23.4% of the total loan portfolio, or 11.7% of total assets as of end-March 1993. The banks' March 1993 financial statements showed capital adequacy averaging 2.5% (ranging from -9.6 to 7%), and gross profits in relation to total assets ranging from -2.4 to 1.8%.

3.14 Complementing the tightening of regulatory norms, RBI is taking steps to improve its capacity to monitor the new standards by adding off-site inspection activities to its current mix of techniques. Until now, RBI had emphasized on-site inspection as the means to carry on banking supervision and although its inspection procedures and methodologies were well developed, on-site inspection activities tended to be wide-ranging, requiring banks to submit many complex "returns" for analysis by RBI's experts. Since actual data submission was largely manual and actual processing within the RBI not fully rationalized, access to basic information about the banks' portfolio remained limited with the result that it reduced the quality of the supervision performed by banking authorities, inspectors and other interested persons. To resolve this problem, RBI has defined a three-year program to improve its banking supervision capacity. Priorities within this program are: (a) to develop a highly automated off-site monitoring capability, not only for commercial banks but also for non-bank financial intermediaries and All-India (Development) Financial Institutions; (b) to improve substantially the efficiency and effectiveness of on-site inspection, largely through effective use of off-site supervision. As part of planned activities, RBI has defined: (i) procedures by which commercial banks communicate the data to the Department of Bank Supervision (DOS); (ii) improvements in DOS's capacity to process, store and evaluate the data received; and (iii) training of supervision staff to enable them to make effective use of computer technology and better portfolio evaluation. These activities will be supported an ODA-funded program to improve RBI's supervisory function (para 5.2).

Medium-Term Strategy for Bank Restructuring

3.15 The recognition of the poor financial situation of India's public banks, as revealed in 1992/93, provided the impetus for GOI's re-examination of the role of public sector banks in India's financial system and highlighted the need to adopt a medium-term strategy to restore health and soundness to the banking system. Acknowledging that the losses revealed in public sector banks' accounts stemmed from a combination of past restrictive policies, organizational and management shortcomings, and inadequate supervision, GOI's reform program has included actions to reduce and eventually eliminate such problems. For a long time both bank managers and regulatory authorities focused excessively on quantitative indicators, such as growth of total lending and sectoral deployment of credit, rather than on credit quality and the capacity of borrowers to service loans. As regards smaller borrowers, repayment discipline suffered because of politically motivated loan waivers. The recovery of large loans was impeded by court delays in debt recovery suits, the cumbersome process of corporate restructuring and closure, and willful defaults. Incorporating lessons learned from a large number of bank rescue efforts carried out in both developed and developing countries since the mid-1980s, India's emerging strategy contains the following key elements:

3.16 **Rehabilitating Weak Banks**. Five of the 20 nationalized banks were classified as "weak" banks, requiring special attention and having the greatest need of restructuring. RBI entered into specific agreements with these banks to curb their expenses and improve their operating efficiency. The banks were asked to: rationalize their organizational structure by reducing unnecessary layers of management, cease acquiring buildings and incurring new capital expenditures; stop recruiting new personnel except for specialists in computerization and other key areas; and, apart from certain existing commitments, stop opening new offices and cleanse their asset portfolios by fully provisioning against lost portfolio accounts. These banks vary significantly in size, location, and nature of underlying problems. Therefore, a turn-around program has to be tailor-made to each specific case. One small bank, the New Bank of India, was merged with the Punjab National Bank in 1993, a bank with an established track-record of success. To deal with the other four banks, RBI appointed a group of consultants in November 1994 to review their operations and suggest turn-around strategies within three months. This study will determine whether the banks can be turned around effectively and allowed to retain their independent identities, or should be merged or made subsidiaries of other banks.

3.17 **Improving Recovery of Non-Performing Loans**. Recognizing that weakness in the legal framework has been a major cause of delay in recovery of bank loans, GOI has adopted a number of measures to enhance the effectiveness of the law to improve debt recovery, including speedy resolution of the large number of pending suits against defaulters. A major step was Parliament's adoption of the Recovery of Debts Due to Banks and Financial Institutions Act (1993) establishing special tribunals for expeditious adjudication and recovery of debts. Such tribunals have already been established in Bombay, Calcutta, and Delhi and are expected to begin operations during calendar year 1995. In addition, GOI is planning further steps, including monitoring of recovery actions against top defaulters, establishing a credit information system, and streamlining laws governing the creation and enforcement of mortgages. In reinforcing actions taken to strengthen the legal apparatus, GOI is urging banks to intensify their own recovery efforts by advising their line managers that their recovery performance will henceforth take on a far heavier weight in their performance evaluations. To reinforce this message, GOI has indicated to all public commercial

banks that the current infusion of capital (paras 5.8-5.11), will be the last one obtained from budget sources, and that a fundamental element in the capacity of banks to expand their business will lie in their ability to increase their profitability ratio, which will, at least in the initial two years of the program, strongly depend on their ability to increase their non-performing asset recovery levels.

3.18 **Raising Profitability**. International experience indicates that improvements in managerial autonomy and the cleaning up of bank balance sheets and restoring them to health has proved more successful and enduring when it is combined with banks' own efforts to improve profitability through increasing operational efficiency. Analysis of banks' profitability in India demonstrates the importance of loan portfolio quality, operating efficiency and management quality. To improve earnings sufficiently so that banks can provide most of their future capital needs, loan quality will have to improve dramatically. The percentage of future loans that becomes non-performing will have to decline to less than 5%, which will require important behavioral changes by bank management and bank supervisors, which is expected to come in part from the increase in equity participation from non-government sources and the representation of private sector investors in the banks' boards of directors (para 5.12). With respect to operating efficiency, future control of expenses, better use of personnel, and strengthening of internal controls through computerization and automation will be essential.

3.19 **Infusing Government Capital**. To improve the banks' capital/asset situation, GOI has provided considerable budgetary support over the past year to nationalized banks for which it has been the sole shareholder. GOI injected Rs 57 billion (US$1.82 billion) in January 1994 in the form of 12-year bonds yielding 10% annual interest. As a condition of release of funds, GOI reached agreement with the banks' managements on performance criteria for the year ending March 1994. The proposed budget for 1994/95 provides an additional Rs 56 billion in assistance for nationalized banks, of which a total of Rs 38.8 billion was allocated to 13 banks in December 1994. In view of the fact that banks' financial performance improved in 1994, the remaining part of the budgetary appropriation has not been allocated.

3.20 The program has started to yield results. As of March 1994, overall financial statements indicated a considerable improvement in the banks' financial health. Gross profits (i.e., before provisions) improved due to a combination of factors: (a) the banks' cost of funds fell faster than lending rates over the year; (b) portfolio investment yields rose as the banks increased the proportion of newer, higher-yielding term securities in their portfolios; and (c) recovery and upgrading of non-performing assets were successful. Some of the better performing banks--notably Canara Bank and Oriental Bank of Commerce--ended March 1994 with capital adequacy in excess of 8%.

3.21 **Promoting Competition**. Reinvigorating competition among banks constitutes a key element of GOI policy to raise efficiency and improve bank performance. In January 1993 RBI announced guidelines for entry of new commercial banks. These were intended to ensure that new entrants are well-capitalized, technically competent and technologically advanced, and that there would be no adverse consequences from practices such as concentrations of credit or cross-holding with industrial groups. RBI has so far issued 11 licenses for setting up banks, and four have already started operations (one with equity investment of 9.87% from IFC). Two others are in an advanced stage of operations start-up. These new banks are expected to have widely-held private sector equity ownership and to meet the capital adequacy norm of 8% from their inception. Approval has also

been given to four new foreign banks to set up operations in India, and existing foreign banks have been allowed to expand their branch networks. In addition, foreign banks have recently been allowed to have equity participation of up to 20% in the equity of new private banks.

3.22 GOI also opened the mutual fund industry to domestic and foreign participation, and in 1992 allowed domestic companies in good standing to tap international capital markets. Private mutual funds began operations in 1993/94 and managed to mobilize about 13% of total funds mobilized by all mutual funds in the same year. More than 30 large Indian corporations have raised over US$3 billion through issuance of Global Depository Receipts (GDRs) and foreign currency convertible bonds in offshore markets since September 1992.

Broadening the Ownership Base of Public Sector Banks

3.23 **Expanding Private Equity**. Considerable progress has been achieved over the past three years in expanding private sector ownership and management participation in public sector banks. The Banking Regulation Act (1949) and the Banking Companies (Acquisition) Acts (1970 and 1980) were amended in May 1994 to allow private equity participation in the capital of nationalized commercial banks up to 49% of their paid-up capital as part of their recapitalization and restructuring efforts. Amendments to the State Bank of India (SBI) Act and the SBI General Regulation Act to facilitate public issue of shares by SBI were promulgated in October 1993. The IFCI Act (1948) was repealed and IFCI converted into a public limited company in July 1993. Following this conversion, IFCI successfully made an initial public offering in December 1993 that introduced 38% private ownership in its equity. The IDBI Act (1964) was amended authorizing it to raise capital in the market. The Banking Regulation Act (1949) was amended in January 1994 to raise the ceiling on the exercise of voting rights of individual shareholders in private commercial banks from 1 to 10% of total voting rights of all shareholders.

3.24 **Enhancing Managerial Autonomy and Governance of Banks**. To reinforce measures giving banks greater freedom in credit allocation and pricing decisions, GOI recognizes the need to enhance managerial autonomy and improve bank governance. To that end it established a high-level committee to review the governance of public sector banks, including the procedures for selecting of directors of banks' boards and statutory auditors as well as developing human resources. Based on this committee's recommendations and consistent with the constitutional mandate to ensure equality of employment opportunity and special reservations, GOI has taken action to provide increased autonomy in: (a) day-to-day business operations, (b) recruitment of bank officers (including specialists in such areas as technology, treasury, and forex operations), and (c) staff promotion. Bank staff salaries will also be determined in negotiations with bank employee unions within the framework of public sector guidelines and practices. Management autonomy in public sector banks has also increased through reconstitution of their boards of directors to give them more professional orientation and provisions for representation by private shareholders. A schedule for increasing private sector representation has been announced whereby from the total number of Board members (15), private shareholders will elect two board members once their equity ownership reaches 20% of total equity, which will increase to four and six board members as private ownership increases over 20% up to 40% and over 40% up to 49%, respectively.

Developing Government Securities Markets

3.25 The move toward a more liberal interest rate policy and adoption of a risk-based, capital-adequacy framework have reinforced the need to develop a broad and active market for government securities to facilitate secondary trading and orderly absorption of new issues. Outstanding government debt consists of instruments issued by the central and state governments, as well as government-guaranteed securities issued by financial institutions and other public sector agencies. About 60% of this debt is held by commercial banks and another 30% by insurance companies to meet stipulated reserve requirements. RBI acts as the agent for GOI, and holds and manages government securities on its own account for open market operations. In April 1992 RBI introduced fortnightly auctions of 364-day treasury bills. The auction procedure was extended subsequently to include five- and ten-year dated securities. As part of the overall effort to phase out automatic monetization of the fiscal deficit, in January 1993 RBI began auctioning 91-day treasury bills, which had previously been eligible for refinancing at RBI at a flat 4.6% rate.

3.26 GOI is conscious of the need to develop markets in government securities as part of its overall program of promoting long-term debt markets. In view of India's large and well-developed financial system (including a robust equity market and individual investor base of over ten million), the current environment of moderate inflation, declining interest rates, and portfolio restructuring by commercial banks, the stage is set to move rapidly to improve auction procedures and create a network of well-capitalized government securities dealers for reaching a larger pool of potential investors. With technical assistance from the IMF, RBI has recently developed an action plan to introduce a system of primary dealers in government debt to provide adequate underwriting capacity to act as market-makers in secondary markets, thereby providing needed liquidity. This plan is expected to be announced in the near future. Trading in the secondary market would foster the establishment of a market yield curve for rupee funds in Indian financial markets--a prerequisite for developing India's long-term debt market.

Developing Capital Markets

3.27 With the relaxation of restrictions on foreign investment in the past two years, India's equity market has attracted significant non-debt financial resources from foreign institutional investors such as mutual funds, pension funds, and insurance companies seeking international asset diversification. At the same time, the opening of the equity market to foreign investors has highlighted the need for continued reform of capital markets, including: (a) developing a deep and liquid corporate bond market; (b) creating the necessary policy and regulatory framework for modernization of securities depository and clearing systems; (c) strengthening the regulatory framework for investor protection; and (d) reforming the insurance industry. To that end, GOI has introduced important measures over the past two years: The Capital Issues (Control) Act has been repealed, and consequently governmental control over the issuance and pricing of capital by corporations via the Controller of Capital Issues has been removed. Statutory power has been given to the Securities Exchange Board of India (SEBI) to regulate the functioning of securities markets and securities industry intermediaries and oversee corporate acquisitions and takeovers. GOI has directed the Stock Holding Corporation of India Ltd to establish a National Clearing and Settlement System and a Central Depository Trust for Securities. In addition, in an effort to enhance investor protection, SEBI has issued detailed

guidelines governing the various stages of public capital issues, in particular, the obligations of underwriters. SEBI has also made several important changes, including registering secondary market intermediaries, establishing a customer protection fund and an Investor's Grievances Cell in each stock exchange, broadbasing the governing bodies of the stock exchanges, and increasing the number of members of stock exchanges.

3.28 As regards insurance reform, the GOI-appointed Malhotra Committee has submitted its report with a strong recommendation to introduce competition in the industry by eliminating the monopoly power of the two government-owned insurance corporations--the Life Insurance Corporation and General Insurance Corporation. The proposed reforms cover: (a) conditions for entry of private sector firms and uniform treatment for all market participants by eliminating special dispensations for public sector firms, (b) changes in the structure of mandated investments and rates to permit greater operating efficiency, (c) establishment of a regulatory agency to ensure protection of consumer interests and compliance with norms, and (d) restructuring the two large public sector companies with a view to reducing GOI's equity holding through phased disinvestment. These proposals are now under consideration by GOI.

Reforming the Rural Credit System

3.29 India's rural financial system comprises 28 state-level cooperative banks, several state land development banks, about 26,000 rural commercial bank branches and 196 Regional Rural Banks (RRBs), which are jointly owned by GOI, state governments and sponsoring commercial banks (comprising 15,000 branches). In addition, the National Bank for Agriculture and Rural Development (NABARD) provides term loans for agricultural projects, funding itself in turn from a combination of foreign credit and bonds (which are eligible for SLR). Credit growth in these institutions in total has stagnated in real terms since 1980, and the rural credit system as a whole faces a number of institutional and policy problems. GOI recognizes that many of the existing difficulties are attributable to government interventions and the inherent misalignment of incentives, both on the part of the borrower and the lender. Servicing loans to a large number of borrowers and mobilizing resources through small deposits are inherently expensive, and this has depressed profitability. In addition, deep-seated operational problems have developed since the early 1980s. The performance of the RRBs has been particularly poor. The service area approach, which restricted the lending operation of the RRBs, implied considerable loan concentration and low loan recovery. About 75% of RRBs have suffered losses, and 117 out of a total of 196 have accumulated losses in excess of their share capital. Also, failure to mobilize adequate deposits, mounting overdues and lack of trained staff have implied that cooperative banks have small borrowing membership, low business turnover and large accumulation of losses.

3.30 Since the recommendations of the Agricultural Credit Review Committee (Khusro Committee) in 1989, consensus has emerged on the need to move toward a more market-driven and incentive system of promoting credit delivery, restructure the RRBs, and improve the capabilities of cooperative banks to function as intermediaries. Several important measures already taken include: (a) increased discretionary RRB lending through reduced directed lending from 100 to 40% and greater freedom in their branch rationalization; (b) increasing the share capital of NABARD, enlarging the scope of its activities, and requiring it to enter into

memoranda of understanding with state governments and District Cooperative Banks to revamp the cooperative system; and (c) providing tax incentives to commercial banks for advances to the rural sector. In October 1994, interest rates of rural/agricultural cooperative banks were deregulated (subject to a minimum lending rate of 12%).

Summary

3.31 Over the past three years, GOI has formulated a comprehensive program of financial liberalization, which it has 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.

IV. BANK GROUP ASSISTANCE AND STRATEGY

4.1 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.

4.2 To date, the Bank had funded numerous operations through financial institutions for India's industrial, agricultural, and housing sectors, and recently has agreed to finance an industrial pollution control project.[4] In the past, the 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

[4] Annex II presents a list of financial intermediary projects in India financed by the Bank.

proposed operation was conceived as a sector investment project to support India's financial liberalization and modernization efforts.

4.3 The proposed project would be the first in which the Bank would assist India to implement fundamental reforms and modernization of its banking sector. It would also be the first in catalyzing and improving the ability of the financial institutions and banks to source directly private foreign currency markets in order to fund their foreign currency term loans. The focus envisaged for the project would reflect fully the Operational Directive on Financial Sector Operations (OD 8.30) which requires that Bank operations related to the financial sector have a sound financial sector policy framework, with particular emphasis on minimizing credit distortions, ensuring effective accounting and supervision, and supporting financially sound autonomous financial institutions. The project would also be consistent with OD 8.30 in moving away from the traditional Bank credit lines through a few selected intermediaries towards multiple intermediaries with built-in incentives for improvement of participating financial intermediaries and competition in the financial system as a whole. In addition, the reforms envisaged under the project would help establish 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.

4.4 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. India is now the largest client of IFC. As of end-December 1994, IFC's India portfolio included 83 operations, supported by a variety of instruments including loans, syndications, equity and quasi-equity participation, swaps, and underwritings with a cumulative commitment of US$1.6 billion in a number of subsectors, including financial services. Its operations in financial services have gathered momentum in recent years as the impact of financial sector reforms and opening of international capital markets to domestic companies have begun to be felt. IFC assists the development of the domestic capital market by directly financing private sector financial service firms, venture capital and mutual fund companies, and joint ventures in private commercial banks and by providing technical assistance for capital market development. Continuation of financial reforms and particularly development of foreign currency term lending supported by the proposed project would open up possibilities for non-funded lending by IFC, such as loan option facilities and stand-by loan arrangements.

V. THE PROJECT

Project Objectives and Description

5.1 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.

(a) **Capital Restructuring**. The project would facilitate private equity ownership in public sector commercial banks by making their shares more attractive to potential private sector investors in India's capital markets. Expansion of private equity in public sector banks would: (i) improve the governance of banks by subjecting the banks to the discipline of a private shareholder base; and (ii) reorient their business goals and strategies towards achieving profitability, improved customer services, and higher efficiency. Access to the private capital market would also offer such banks the opportunity to strengthen their capital base independent of GOI's budget. Replenishment of public banks' capital constitutes a key element of GOI's strategy of enhancing the banking system's stability and competitiveness.

(b) **Bank Modernization and Institutional Development**. Initiatives supported under the project would enhance the efficiency and profitability of the six participating banks (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**. The Backstop Facility (BF) would assist eligible financial institutions and banks in India 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 banks and financial institutions in India (EBs) by offering them the option to borrow funds from the BF under specified terms and conditions. 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 due to market disruptions.

5.2 **ODA Assistance**. The project would benefit from separate but complementary technical assistance being considered by the Overseas Development Administration (ODA) of the UK that would help in the transition from direct intervention in the financial intermediation process towards indirect intervention through regulation and supervision of the commercial banking operations. This grant assistance would build RBI's capacity to put in practice a modern and efficient bank supervision and surveillance system. RBI, the Bank and ODA collaborated in defining appropriate technical assistance to be funded under the ODA grant to ensure consistency between this and of the project's recapitalization component. ODA would finance activities supporting RBI's efforts to develop its off-site monitoring system. Technical assistance would operate over three years. It would assist RBI in implementing planning activities, acquisition of technical equipment for data processing and training of its staff to improve its overall monitoring capacity. Progress in the following areas would be monitored:

(a) new data-gathering forms introduced in 1995, (b) physical site preparation for installation of new computer facilities in RBI's Department of Supervision (DOS) by late-1995; (c) training in basic computer skills to DOS personnel no later than December 1996; (d) rationalization of data inputs with a view to reduce the regulatory burden on commercial banks during 1996; (e) development of RBI's communication systems for data input both at its Bombay headquarters and its regional offices during 1996/97; and (f) development of a training curriculum for RBI officials involved in inspection activities during 1996.

Detailed Features of the Project

Capital Restructuring (US$1,157.2 million)[5]

5.3 The project would foster expansion of private equity ownership through a program of recapitalization that would strengthen participating commercial banks' balance sheets. Recent legislative and policy changes have removed statutory obstacles to private equity partnership in India's public sector banks and have provided for increased managerial autonomy and private sector representation on their boards (para 3.24). Public commercial banks that commit to plans to increase private equity through public offerings within 1-4 years would be entitled to subordinated loans from GOI to strengthen their capital base to the extent required to fulfill newly-established RBI capital adequacy norms. They would also be entitled to financial and technical assistance for modernization and institutional development in priority areas of strategic planning, automation, human resource development, and asset-liability, credit and treasury management (para 5.14(e)). Offer documents for public equity offerings by commercial banks are reviewed by the Securities Exchange Board of India as well as GOI, and are required to meet disclosure and regulatory requirements as well as market performance standards. The market for bank shares in India has expanded recently and gained depth with initial public offerings by several public sector banks as well as by new private banks that have entered the market over the past year, giving assurance that the PBs will succeed in placing their equity offerings.

5.4 The use of subordinated debt would be employed in the proposed recapitalization process for three reasons: First, capitalization through subordinated debt with an associated fixed maturity of repayment profile would provide the banks with the necessary transitional capital infusion to strengthen their capital base, which could be retired once banks are able to issue equity in the private market. Second, capitalization through subordinated debt would allow banks to move to a more optimal capital mix and therefore to a lower cost of capital by taking advantage of the more favorable tax treatment of interest payments on debt (i.e., interest

[5] Base costs.

payments are deductible against profit whereas dividend payments are not).[6] Third, while subordinated debt from GOI does not have the force of market discipline as expected from private market sources, it would nevertheless provide GOI with a vehicle for monitoring banks' performance and progress.[7]

5.5 **Participating Banks (PBs)**. Out of the 19 nationalized commercial banks, six have been selected for participation in the project[8]: Allahabad Bank, Bank of India, Dena Bank, Indian Bank, Indian Overseas Bank, and Syndicate Bank. These banks were selected by the Government for the project because their needs for recapitalization required external assistance in the short-term, and accepted by the Bank because of its profit prospects which would allow them to satisfy capital requirement over the span of the project. The selected banks have wide geographical representation, with headquarters in four metropolitan centers: Bangalore, Bombay, Calcutta, and Madras. At end-March 1993 they accounted for 32% of the nationalized banks' assets and 20% of all commercial banks' assets. Banks were excluded from the project because either they were under stringent supervision by RBI or it was concluded that they could not implement within a reasonable time period institutional reforms sufficient to attract private sector investors. As part of the process of meeting eligibility criteria, the selected banks prepared and provided to the Bank detailed business plans outlining their institutional development needs and strategies, recent financial performance and projections, and plans for public offerings of equity shares to reach up to 49% equity participation currently allowed.

5.6 The key financial and institutional indicators for the PBs are summarized in Table 5.1 below. All PBs are large institutions with staff numbers ranging from 16,000 to 53,000 and branches from 1,121 to 2,389. Total assets as of end-March 1994 ranged from Rs 60 billion (US$2 billion) to Rs 255 billion (US$8 billion). Each bank has a lengthy performance record, starting as a private bank and operating since 1969 or 1980 as a nationalized bank with, until recently, considerable government control and interference. The six PBs all accumulated losses in 1992/93 and 1993/94, and are now in a turnaround process of restoring profitability. Despite much-improved performance in 1993/94, by March 1994 these banks still had large volumes of non-performing loans ranging from 9.8 to 17.4% of total assets, as well as low profitability and

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[6] Once the banks eliminate their accumulated net losses they will be subject to a corporate income tax rate of 46% including a surcharge of 15%; the dividends they would pay on Tier I equity issues would be after-tax (see Annex I for taxation of financial institutions). Also, it is important to note that to the extent that subordinated debt increases a bank's leverage and leads to an increase in volatility of profit, it has an adverse impact on the market value of the bank's shares. This effect, however, is likely to be more than offset in the Indian context for two reasons: First, the market incorporates in its pricing of a bank's shares the positive impact of higher capital on bank's ability to expand assets in the future. Second, through subordinated debt GOI can monitor the bank's performance better than through an equity infusion.

[7] Except in the US bond market where investors are particularly sensitive to banks' strengths and weaknesses, in other countries where commercial banks have issued subordinated debt, the market has generated a flat cost curve due to deposit insurance schemes and government bail-out of failing banks.

[8] These banks are described in Annex III.

inadequate capital positions.[9] To reach the stage at which these banks can issue shares successfully in India's capital markets, they must: (a) replenish capital lost in recent years; (b) establish solid profitability track records to provide assurance that they can pay adequate dividends while leaving sufficient retained earnings to sustain their capital adequacy against growing risk-weighted assets; and (c) implement institutional development programs successfully to assure potential investors that they can withstand vigorous future competition. As provided under a Presidential Ordinance (January 21, 1995): (i) GOI has been empowered to reduce its paid-up capital in nationalized commercial banks up to 75%, against accumulated loan losses, and (ii) banks have been authorized, with GOI and RBI approvals, to reduce excess capital. Banks which hold private equity after public offerings, have the authority to reduce their capital in any manner approved by a special majority of shareholders. This will facilitate the process of tapping the capital market.

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[9] Two of the participating banks that had posted negative net profits in 1992/93 and 1993/94 (Bank of India and Indian Overseas Bank) attributed a large share of their problems to losses in overseas branches. Unsuccessful projects, sovereign lending and adverse exchange rate movements all contributed to these losses.

Table 5.1: Financial and Institutional Indicators of Participating Commercial Banks
(as of March 31, 1994)

	Allahabad Bank	Bank of India	Dena Bank	Indian Bank	Indian Overseas Bank	Syndicate Bank
A. Assets (Rs billion)	96.81	254.85	61.25	136.46	131.32	121.00
of which:						
a. Advances	37.22	109.22	21.58	67.81	53.40	39.81
b. Investments	38.25	72.95	23.46	38.87	47.70	49.64
B. Costs and Profits	(% of total assets)					
1. Gross Income	9.9	8.9	9.8	10.7	9.3	9.3
Interest Income	9.1	7.8	8.9	9.5	7.4	8.5
Other Income	0.8	1.1	1.0	1.2	1.9	0.8
2. Gross Expenses	13.7	13.1	11.0	13.6	12.0	11.8
Interest Expenses	7.2	5.7	6.3	7.7	6.4	6.1
Operating Expenses	2.5	2.3	2.9	2.6	2.6	3.2
Provisions & Contingencies	4.0	5.1	1.8	3.2	3.0	2.5
3. Interest Spread	1.9	2.1	2.5	1.8	1.0	2.4
4. Net Profit	-3.8	-4.3	-1.1	-2.9	-2.7	-2.5
5. Return on Assets a/	0.2	0.8	0.6	0.4	0.3	0.0
C. Loan Quality, Provisioning and Capital Adequacy (percentage or as indicated)						
6. NPAs as % of Loan Portfolio	25.3	30.0	23.9	26.8	33.1	29.4
7. NPAs as % of Total Assets	10.8	14.8	9.8	15.0	17.4	11.6
8. Provisions as % NPAs	38.6	39.9	29.5	28.1	53.5	48.8
9. Capital Adequacy Ratio	-0.6	0.7	6.0	3.5	0.3	0.3
D. Branch, Employment and Productivity						
10. Branches	1845	2389	1121	1409	1407	1558
Domestic	1845	2367	1121	1407	1401	1557
International	N.A.	22	N.A.	2	6	1
11. Employees (in thousands)	22.89	53.75	16.55	25.81	25.97	36.54
12. Productivity (Rs million per employee)	5.32	6.02	4.28	7.20	6.22	3.86

/a Return on Assets is defined as the ratio of Gross Profit to Total Assets.
/b Productivity per employee is defined as the ratio of Deposits plus Advances to Total number of employees.
N.A. : Not Applicable.
Source: Published balance sheets and financial statements as of March 31, 1994.

5.7 **Recapitalization.** RBI has accepted the Basle Accord as the guiding framework for commercial banks and term lending institutions and has required all Indian commercial banks to achieve capital adequacy ratios (CAR) of at least 8% of risk-weighted assets by March 31, 1996 (March 31, 1995 for banks with foreign operations). At least one-half of the capital must be in the form of Tier I, or core capital, consisting of paid-up capital and reserves less any accumulated net losses and any equity holdings in banking subsidiaries that are themselves subject to capitalization requirements. The remainder of capital takes the form of "Tier II" capital comprising subordinated debt, designated special reserves, hidden reserves, and revaluation reserve for fixed assets (discounted at 55%).

5.8 The capitalization of PBs is being carried out according to the new regulatory guidelines for asset classification, income recognition and provisioning requirements issued by RBI in April 1992 and subsequent amendments thereof. Balance sheets and profit and loss accounts for the financial years ending in March 1993 and 1994 were prepared under the new guidelines for the PBs. This financial information, supplemented by related additional information on asset classification, formed the basis for estimating the additional capital requirements to meet the RBI-stipulated

performance criteria. The banks' accounts were audited by qualified statutory auditors, as required under the Banking Regulation Act of 1949 (Section 29), but have not yet been examined by RBI inspectors. In view of the Bank's concern that the new asset classification as well as income recognition and provisioning norms (while marking a substantial improvement over the past health code norms) do not yet meet international standards, it was recommended that an independent loan portfolio review of PBs be carried out under terms-of-reference acceptable to the Bank by June 30, 1995. GOI has agreed to such a review, and should it be necessary, the findings of these reviews would be used to revise the estimated capital requirements for PBs. **Assurances were obtained that RBI shall provide to the Bank by June 30 of each year starting in 1995 an independent review of the loan portfolio of each PB through independent auditors acceptable to the Bank and with scope satisfactory to the Bank.**

5.9 Table 5.2 presents the March 1996 forecasts of capital requirements of the six PBs, the date by which all Indian commercial banks must satisfy the Basle standards. The estimated capital requirements are based on the banks' financial statements of end-March 1994 and their projected risk-weighted assets. For each bank, the difference between the estimated March 1996 requirement and the March 1994 position represents additional capital needed during 1994/95 and 1995/96. Estimates indicate that the six banks will need additional capital of about Rs 37 billion (about US$1.18 billion) to achieve a minimum capital adequacy of 8%.

Table 5.2: Additional Capital Requirements of Participating Banks
(Rs Million)

	Allahabad Bank	Bank of India	Dena Bank	Indian Bank	Indian Overseas Bank	Syndicate Bank	Six Banks
1. Actual position, March 1994							
Risk-weighted Assets	40599	133810	28200	67980	54940	38050	363579
Unimpaired Capital	-263	950	2030	2363	940	110	6130
Tier I	-1508	-1500	1390	1455	90	-1010	-1083
Tier II	1245	2450	640	908	850	1120	7213
2. Projected capital adequacy, March 1996							
Risk-weighted Assets	41980	180000	42370	88500	70000	53300	476150
Capital required:	3367	15768	5195	9558	5621	4296	43804
Tier I	1683	7884	2597	4460	2811	2148	19046
Tier II	1683	7884	2597	4460	2811	2148	19046
3. Additional capital required, 1994/5-95/6	3630	14818	3165	6558	4681	4186	37038

5.10 Table 5.3 gives projections of how these capital requirements would be met. GOI's 1994/95 Budget includes an appropriation of Rs 56 billion (about US$1.8 billion) of which Rs. 19.7 billion (US$ 630 million) has been allocated to these six banks. In addition, about Rs 10.9 billion (about US$350 million) has been earmarked by GOI to these six banks in the form of purchases of bank subordinated debt issues. The project would finance these purchases, which as indicated in Table 5.3 would represent 2.5-4.2% of the March 1994 bank advances. The banks would lend the proceeds of their capitalization as new subloans to the private sector at prevailing market rates. Since the subordinated debt would be relatively long-term, PBs would be encouraged to provide long-term subloans. The combined Tier I and Tier II capital infusions would therefore be about Rs 30.6 billion, with the balance coming from banks' retained profits and other Tier II capital sources, such as revaluation of assets. Since the banks have provisioned substantially for loan losses in 1993/94 and 1994/95, they are expected to post improved net profits in 1994/95 and 1995/96.

Table 5.3: Capital Sources of Participating Banks
(Rs Million)

	Allahabad Bank	Bank of India	Dena Bank	Indian Bank	Indian Overseas Bank	Syndicate Bank	Six Banks
Tier I:	3192	9384	1207	3005	2721	3158	22667
Tier I Capital Provided by the Govt.	3562	8484	61	2310	2586	2786	19788
Retained Profit	-370	900	1146	696	135	372	2879
Tier II:	438	5434	1957	3552	1961	1028	14371
Subordinated Debt *	1594	4060	723	1809	1327	1466	10979
Memorandum:							
Total Advances (excl. provisions), March 1994	37722	109220	24220	67810	53400	39812	332184
Subordinated Debt/Total Advances	4.2%	3.7%	3.0%	2.7%	2.5%	3.7%	3.3%

* After adjusted for projected changes in revaluation of reserves and others.

5.11 Recapitalization of the banks has already resulted in new rules of the game regarding credit and portfolio management. In order to continue the progress already attained in the redefinition of these rules in such a way that GOI will reinforce a level playing field between nationalized and private commercial banks, has agreed not to provide any further capital infusions to PBs, in effect forcing them to either raise their future capital requirements by tapping India's capital markets or by reinvesting retained profits. The projections upon which the project's recapitalization was defined include this scenario. **Assurances were given at negotiations that GOI will ensure that the number of equity shares owned by GOI in each PB is not increased from the level prevailing as of March 31, 1995, except: (a) as may be required to comply with applicable laws, and (b) for two PBs in order to allow them to comply by March 31, 1996 with capital adequacy norms prescribed by RBI.**

5.12 In addition to the commitment not to increase GOI's equity participation, business plans (referred as MOUs) have been agreed on and signed by the PBs with RBI. These MOUs 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. **Assurances were obtained that RBI shall enter into a Performance Agreement (also referred to as a Memorandum of Understanding) with each PB annually, with terms and conditions satisfactory to the Bank, including, inter alia: (a) that the concerned PB shall carry out its Business Plan each year; and (b) maintain, at levels satisfactory to the Bank, (i) gross and retained profits; (ii) operational costs over assets; (iii) capital adequacy ratios; and (iv) non-performing assets. Assurances were given by RBI at negotiations that 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, including, inter alia: (A) changes to capital structure; (B) institutional development programs; (C) profitability improvements; (D) actions for debt recovery; (E) schedules for issuing equity to private shareholders; (F) programs for improvement of computers/communications; and (G) programs for human resource development. Assurances were obtained that 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 that RBI shall take prompt remedial action satisfactory to the Bank in the even the net worth of any PB becomes negative. Assurances were obtained that GOI will not be entitled to withdraw from the Bank loan more than 50% of each subordinated loan unless the respective PB has issued equity consistent with**

the PB's Business Plan. In addition to providing for bank autonomy to conduct day-to-day and long-term planning activities, current GOI policy fosters stronger independent representation in the boards of directors of the banks. In this regard, discussions of measures geared to provide substantial, albeit not yet complete, management autonomy to PBs' boards of directors were held with GOI, RBI and PBs. Building on the actions that have already increased managerial autonomy in all public commercial banks (para 3.24), **assurances were given at negotiations that GOI will ensure that each PB shall issue equity shares to shareholders other than the Government, pursuant to a public offering, at levels and in accordance with a schedule satisfactory to the Bank and that GOI will ensure that the boards of directors of each PB shall include the maximum number of directors representing private shareholders permissible under applicable laws.**

5.13 **Assurances were obtained at negotiations that GOI shall onlend proceeds of the Capital Restructuring Loan to PBs as subordinated loans. GOI shall enter into a Subordinated Loan Agreement with each PB on terms and conditions satisfactory to the Bank which would specify that: (a) GOI subordinated loans to PBs shall be provided through promissory notes to be issued by each PB to GOI which shall: (i) be denominated in rupees; (ii) be required to be paid at par at the expiry of twelve years from the date of issue; (iii) not be redeemable at the instance of holders for five years, and thereafter be redeemable only with the consent of RBI; (iv) carry an interest rate which shall be 0.5% over the average rate on GOI 364-day treasury bills for the previous two quarters, with interest being paid at half-yearly intervals; (v) constitute direct, unsecured and subordinated obligations of the concerned PB, subordinated to the claims of all other creditors and depositors of the PB regarding repayment of principal and payment of interest by the PB out of its own resources to such creditors and depositors; (vi) not provide holders any rights or privileges of shareholders; (vii) not be converted into shares; (viii) be transferable by endorsement and delivery; and (ix) not limit the right of the PB to borrow or change its capital structure without the consent of, or intimation to the holder of any such note. A condition of disbursement for each PB would be that GOI shall provide to the Bank a legal opinion that it has entered into a satisfactory Subordinated Loan Agreement with the respective PB. Assurances were also given that the proceeds of subordinated loans would be relent by PBs as subloans 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.**

Modernization and Institutional Development (US$197.7 million)

5.14 The project would support a modernization program focused on building financial strength and long-term competitiveness in a more liberalized business and banking environment. It would support actions in the identified key areas of: (a) strategic planning (b) automation and computerization of payment and accounting mechanisms, (c) human resource development (HRD), (d) organizational improvements, and (e) improved asset-liability, treasury and credit management. In implementing such actions, PBs would be required to prepare and implement annual business plans containing agreed changes in their capital structures, institutional and strategic development, profitability improvements, and schedules for issuing equity to private shareholders. PBs would update these plans annually for review by RBI and the Bank. Modernization activities proposed are summarized below:

(a) **Strategic Planning**. Formulation and implementation of sound strategic plans are at the core of the project's institutional development program. To operate in a competitive business environment, banks will need to develop the capacity to articulate their goals for the future and build their operations accordingly. Once defined, such strategic plans will allow comparisons of the profitability of different financial products and markets and of costs of operations, including branch profitability. Marketing plans, allowing banks to bring marketing practices to bear on depositor and client relationships, would spell out actions required to meet revenue and funding targets, and develop market research and product development plans.

(b) **Automation and Computerization**. PBs' objectives for automation and computerization are to improve: (i) customer service, (ii) internal controls, (iii) decision-making, and (iv) productivity and profitability. Until recently, opposition of bank employee unions kept banks from installing modern computer and communication technologies. As a consequence, "fully computerized" status has been reached only on average by about ten branches (out of 1,000-2,000 branches) in each bank. An agreement recently reached between the Indian Banks Association and employee unions has provided banks the opportunity to reap the full benefits of automation and computerization. Under the project, support would be provided to PBs to carry out programs that would include systems architecture compatible with RBI's computerization plan and would include the following activities: (A) fully automating/computerizing selected branches, (B) computerizing functions such as credit management, treasury and asset/liability management and management information systems (MISs), (C) implementing electronic communication capabilities within each bank and with external agencies, (D) installing Point of Sales debit card facilities (POS) and automatic teller machines (ATMs) where markets warrant, and (E) providing computer training to PB staff.

(c) **Human Resource Development (HRD)**. PBs have large staffs of about 50% clerical, 30% officers, and the balance, support. About 90% of the work force is employed in the branches. Each bank now conducts a full range of human resource functions, including an extensive training program through which about 25-50% of staff is trained for periods of 1-15 days each year. Newly emerging training needs include automation/computerization, merchant banking, credit analysis and management, marketing, product pricing, lending in new sectors, treasury management, asset-liability management, foreign exchange, MISs, strategic planning, and auditing of computerized processes. The project would support HRD efforts in each bank by providing specialist services to: (i) help design initial strategic HRD plans, including reviews of changes required in banks' human resource departments and facilities, (ii) design improved internal training programs where the expertise is currently unavailable within each bank, and (iii) identify extramural training needs in new functional and business areas, which could take place within or outside India.

(d) **Organizational Improvements**. As part of their business plans, PBs would review their organizational structures to rationalize zone-region-branch configurations as well as head office functions to eliminate excess costs, improve customer services and deal with chronic loss-making branches. Some banks have already reorganized to a limited

extent, combining certain head-office functions and reducing the number of zonal and regional offices. Many banks have also opened new branches for certain specialized functions (such as export credit and leasing) and in particularly fast-growing locales. Specialist services would be provided under the project to develop banks' organizational systems in light of emerging business priorities and their strategic plans.

(e) **Asset-Liability and Treasury Management (ALM and TM).** Interest rate liberalization is making ALM crucial for profitability, particularly as competition places interest rate spreads under pressure. In most banks ALM amounts now to managing cash balances in response to changing patterns of cash flows as well as some management of deposit liabilities, rather than to analyzing and managing the different risks involved. Thus far, the banks have rarely used treasury operations to manage risk, but this is becoming increasingly important as the financial system is liberalized. Foreign exchange management will also become more important in response to changing client needs. To respond to these emerging needs, banks must improve their ALM and TM to control their overall balance sheet risk and liquidity volatility. They also need to establish automated MISs for ALM that would gather all relevant data on loans, deposits, liquidity positions, margins, maturity gaps, and interest rate gaps. Banks must evaluate the scope for using CDs, inter-bank funds and other instruments to manage their liability positions and improve their foreign exchange management capabilities. The project would provide specialist services to help: (i) introduce modern ALM and TM techniques in PBs, and (ii) improve their MISs in ALM and TM.

(f) **Credit Management.** In response to the tightening asset classification and income recognition standards established in April 1992, banks have begun to implement actions leading to improved credit appraisal and monitoring capabilities. They have also begun to monitor existing portfolios more closely to provide clearer pictures of non-performing assets. Further improvements are now required in evaluating credit risk, particularly to incorporate environmental impact into loan appraisals and in pricing credit in relationship to risk. Improvements are also needed in streamlining loan documentation and approval procedures to allow faster decision-making. Greater attention is needed to identify both risk concentrations and opportunities at the sector level. The project would provide specialist services to assist banks to design the credit aspects of their strategic plans, formulate credit policy and develop financial products.

Backstop Facility (US$200.0 million)

5.15 **Rationale.** The project aims to promote an orderly development of the foreign currency term lending market through the establishment of a Backstop Facility (BF) that would encourage eligible banks and financial institutions in India to offer medium- to long-term foreign currency loans to companies with foreign exchange revenues. Demand for such loans has strengthened over the past three years due to the liberalization of India's foreign trade and payment system. It has gained further momentum over the past year as a result of the strong revival of economic activity. This demand is not limited to short-term export credits but also includes longer-term loans to finance a wide range of expenditures such as imports of equipment and new technology, expansion of production facilities, market research, and overseas activities including setting up offices or subsidiaries, purchasing patents, and entering into joint ventures. Based on loan proposals and active

inquiries received by financial institutions, the demand for such loans is estimated to be about US$1 billion over the next three years. A significant proportion of this demand is for loans of US$1-4 million each from exporters with well-established records and proven capacities to service foreign currency debt.

5.16 To meet this rapidly expanding demand for foreign currency financing by Indian enterprises and exporters, GOI has adopted a two-fold strategy: First, GOI has permitted large Indian corporations to raise funds directly in international capital markets through issuance of GDRs and debt instruments. Over the period of May 1992 to December 1994, 46 corporations raised the equivalent of US$3.7 billion through issuance of GDRs and 11 corporations issued about US$1.0 billion in equity-linked debt instruments. Second, GOI authorized selected Indian financial institutions to intermediate foreign resources for creditworthy small- and medium-sized companies. This strategy is framed within GOI's broader approach for moving towards capital account convertibility of the rupee and external debt management, and it builds upon progress already achieved in macroeconomic stabilization and financial sector reforms. Such reforms are expected to continue to strengthen foreign investors' demand for Indian private sector and quasi-sovereign securities including those issued by Indian financial institutions. Yet, the ability of Indian financial institutions to establish themselves in offshore markets and raise funds in the most cost-efficient manner is currently hampered by regulatory restrictions designed to control capital flows and the market perception of systemic risk, which results in high term premiums and lack of readily available financing sources beyond the medium-term.

5.17 Indian financial institutions need to make the transition from the regulated past in which financial institutions intermediated sovereign-backed long-term funds with minimal risk to an environment in which they have to rely on market sources to fund lending operations. These institutions have traditionally funded foreign currency term loans through government-backed lines of credit obtained from multilateral institutions (primarily the Bank), official bilateral sources (including export credits), and commercial borrowing. Prior to recent reforms, such financial institutions were required to match their foreign currency assets and liabilities and to obtain clearance from RBI/GOI for advancing foreign currency loans on a transaction-by-transaction basis. By relaxing restrictions on funding and lending rates (para 5.21), GOI plans to enable them to tap the domestic foreign exchange market directly and diversify their funding base in order to provide medium- to long-term foreign currency loans. However, financial institutions face the risk that due to political, economic and international factors beyond their control, they may not be able to roll-over borrowings from the market on reasonable terms. This risk is systemic and affects all financial institutions in transition. The relatively high term premium attached to longer maturity foreign currency funds available to Indian financial institutions also results in unavailability or unattractive terms associated with longer maturities for entrepreneurs. This term premium, which incorporates an important element of country risk as well as institution-specific commercial risk, is expected to decline as India's credit rating improves and participating financial institutions gain greater market recognition.

5.18 **Objective**. The BF would assist in an orderly development of the foreign currency lending market by addressing systemic risks that affect financial institutions' funding costs as a whole. The BF would provide a transitional mechanism to enable participating institutions to increase their reliance on private sources of funds for meeting rapidly expanding demand for foreign currency term loans. As participating institutions gain experience in accessing the markets on a

routine basis and the market is able to provide ongoing liquidity, the need for BF support would diminish.

5.19 **Structure**. The BF would have a term of seven years and would be structured as a stand-by arrangement. It would provide liquidity assurance at a market-related price to EBs by offering the option to borrow funds from the BF under specified terms and conditions. Under the BF, EBs would extend medium- to long-term foreign currency subloans to qualified sub-borrowers and would fund such loans through: (a) domestic market foreign currency instruments, such as CDs and notes;[10] (b) reliance on the proceeds of GDR issues; and (c) external borrowing within permissible regulatory limits. The choice and placement of such instruments would be subject to EBs' own judgment. EBs would call on the BF to exercise their option to receive Backstop loans from the BF under prespecified conditions determined by the widening of borrowing cost spreads due to market disruptions. Backstop loans would be disbursed against subloans made by EBs to sub-borrowers on market terms for subprojects complying with agreed eligibility criteria, including environmental standards satisfactory to the Bank (with respect to environmental impact assessment, involuntary resettlement and indigenous peoples).

5.20 GOI would provide the BF on the basis of full cost recovery for the Facility from EBs. GOI has selected RBI to manage the BF, and IDBI to act as the pass-through agent. Responsibilities of each are specified in paras 5.24-5.25. Such responsibilities and sharing of functions have been designed to minimize conflict of interest in BF implementation and to ensure market orientation in BF operations. The framework under which the BF would be implemented is described below:

(a) **Amount of BF Commitments**. RBI would extend Backstop loan commitments to EBs during a period of seven years with the total amount of these commitments not exceeding US$200 million. To ensure access to a larger universe of EBs, a ceiling of US$35 million per EB would be established.

(b) **Facility Fee**. An EB would pay a Facility Fee on the amount committed but undisbursed. This would be set at a minimum of 25 basis points and would reflect the insurance value of the backstop contract plus the cost of administrative expenses, and would be determined as a result of a competitive bidding process.

(c) **Invoking the BF**. Having purchased commitments, an EB would have the right to draw on the BF to exercise its option, provided that the spread over a benchmark cost of borrowing for three reference EBs with minimum domestic credit rating of AA has increased relative to that in the month of commitment by at least 150 basis points.

(d) **Terms of Drawdown Loans**. The BF would lend an amount committed to an EB with a maturity of up to seven years. The cost at which the BF would provide such financing would be locked in at the time commitments are issued by RBI. This cost

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10 As part of the overall liberalization of the foreign exchange regime, RBI now permits exporters and other eligible beneficiaries of remittances in convertible foreign currencies to deposit up to 25% of their foreign currency earnings (50% for export-oriented units, units in export promotion zones and electronic technology parks) with authorized foreign exchange dealers in foreign currency accounts. Such dealers consist of Indian and foreign commercial banks and financial institutions, and currently number 85.

would be a function of one-year US dollar-funding cost (expressed as a spread over six-month US dollar LIBOR) of three reference EBs plus: (i) 30 basis points to cover IDBI's payments of a guarantee fee to GOI and administrative expenses, and (ii) charges for IDBI's cost of capital, and other factors determined by RBI and IDBI.

(e) **Prepayment**. The EB would have the option of prepaying a drawdown loan, subject to a prepayment premium reflecting any premium charged by the World Bank.

(f) **IBRD Remedies**: The Bank's normal suspension provisions would apply to this loan.

5.21 To enable the BF to function effectively, **the following assurances were obtained during negotiations**:

(a) 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 match the maturities and currencies of their assets and liabilities.

(b) Interest rates on foreign currency loans covered by the BF would be market-determined.

(c) Indian investors eligible to invest in foreign currency under applicable regulations shall be permitted to do so in any debt instrument issued banks and financial institutions registered in India.

5.22 **Eligibility Criteria**. 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 acceptable to the Bank (chosen from among those cited in para 5.23); (b) comply with RBI's capital adequacy guidelines; and (c) comply with RBI exposure limits regarding credit extended to specific industries, individual companies and group companies. If the credit rating of an EB deteriorates after the commitment to below AA rating 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 drawdown from the BF. Based on current information, it is anticipated that several premier Indian banks and financial institutions as well as foreign banks operating in India would meet the above-stipulated eligibility criteria.

5.23 **Credit Rating Agencies**. As described in Annex V, the credit rating industry in India has evolved over the last five years. Currently there are three major rating agencies (CRISIL, ICRA and CARE) which are recognized and accepted by regulatory agencies in India. Drawing on their in-house teams of qualified professionals, these agencies have the expertise to rate short- and long-term debt instruments, including commercial paper, fixed deposits, floating rate notes, and convertible debentures, as well as to carry out credit analysis rating of both manufacturing and financial firms. Their methodology incorporates business risk (industry characteristics, performance and outlook, and business cycle), financial risk (capital structure, liquidity position, cash flow, profitability, leverage and interest coverage), management assessment (corporate strategy and philosophy, organizational structure, quality of management, and personnel policies), and macroeconomic and sectoral factors.

5.24 **BF Manager**. 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 the monitor EBs' servicing of BF loans. The Manager would determine the eligibility of banks to participate according to the established criteria (para 5.22) and monitor the credit rating standings of EBs. The Manager would monitor the amount of commitments available to be offered at any time. The Manager would ensure that the commitments issued do not result in an aggregate amount of commitments outstanding to EBs in excess of the aggregate amount of the BF and do not exceed the maximum exposure of US$35 million per bank. The Manager would announce reference cost spreads on a monthly basis to the EBs. **Assurances were obtained that RBI as Manager shall ensure that EBs participating in the BF shall at all times meet eligibility criteria satisfactory to the Bank, and that any EB that no longer meets such criteria is promptly excluded from participation in the Facility. Assurances were also obtained that RBI shall issue commitments to EBs with terms and conditions satisfactory to the Bank including the conditions under which EBs may withdraw proceeds of the Loan. Assurances were also given that RBI shall receive and review requests from EBs for withdrawal of the proceeds of the Loan pursuant to 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 (para 6.7). Assurances were also obtained that the maximum exposure per EB of US$35 million would not be exceeded.**

5.25 **BF Pass-Through Agent**. IDBI would act as Pass-Through Agent for the BF in accordance with a Pass-Through Agreement with RBI satisfactory to the Bank. IDBI would ensure accountability of flow of funds due to the BF and would report to GOI, RBI and the Bank of the level of facility fees, interest and principal payments received. IDBI would enter into a Drawdown Agreement with each EB at the time of BF commitment, which would specify the Facility Fee, terms for drawdown loans, disbursement conditions and terms of prepayment premium. **Assurances were also given that IDBI will provide backstop loans to EBs at maturities up to a maximum of seven years, at a spread to be determined at the time a BF commitment is issued to EBs based on market conditions. Assurances were given by IDBI that EBs shall withdraw proceeds of backstop loans against subloans made to sub-borrowers on market terms.**

Project Costs and Financing

5.26 **Project Cost**. Total project costs are estimated at US$1,534.1 million (Rs 53,248 million), including US$24.5 million (Rs 928 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 base costs have been adjusted to the time of negotiations. Physical contingencies of 10% were applied on all modernization costs (computerization and technical assistance) for PBs. No physical contingency has been applied on the capital restructuring and BF components or on staffing. A 10% physical contingency has also been calculated on running costs associated with the automation/computerization programs. Price contingencies were added to the foreign exchange component of the bank modernization

and bank supervision components at the rates of 1.5% for 1995 (calendar year), 1.8% for 1996, 2.6% for 1997, and 2.5% for subsequent years. For local costs, price contingencies were added at 8.0% for 1995 (calendar year), 7.0% for 1996, and 6.0% for subsequent years.[11]

5.27 The table below presents a summary of project costs by component. Additional summary tables of project costs by year, by component and by expenditure account are presented in Annex VII.

Table 5.4: Project Cost Summary

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	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.

Proposed Financing Plan

5.28 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 is provided for eligible subloans under the Capital Restructuring component disbursed after April 1, 1994. The financing plan below presents contributions to the project's financing package from the Bank, GOI, and PBs. ODA's assistance to RBI is considered parallel and external to the project.

[11] World Bank Guidelines for India as of May 9, 1994. The estimates for international inflation are consistent with the Bank's latest G-5 MUV Index, which is updated periodically.

Table 5.5: Proposed Financing Plan by Foreign Exchange and Local Costs

	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

5.29 **Lending and Onlending Arrangements**. The following three Bank loans are proposed to finance the project:

(a) **Capital Restructuring Loan**. A US$350 million equivalent loan to GOI would be onlent to PBs 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. PBs would in turn onlend the proceeds of the Bank loan to eligible sub-borrowers at prevailing market rates.

(b) **Modernization and Institutional Development Loan**. A World Bank US$150 million equivalent loan to IDBI, guaranteed by India, would be onlent to PBs. Upon instruction from RBI, IDBI would onlend these loan funds to PBs for the modernization and institutional development under Modernization Loan Agreements with each bank. Subloans would be repayable up to ten years with grace periods of up to three years and would be charged variable market lending rates.

(c) **Backstop Facility 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 BF loans 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. Subloans extended by EBs to eligible firms would be based on market-determined prices.

Procurement

5.30 Procurement arrangements are shown in Table 5.6, which summarizes the program elements and their estimated costs and proposed methods of procurement. Annex XI gives detailed procurement plans.

5.31 **Works (US$11.63 million).** Works to be procured under the project consist of preparation of site for installing computers, communications, ATMs and POS equipment. These consist of civil and electrical works of very small value (less than US$20,000 each) in branches and offices spread throughout the country. These works are not suitable for any competitive bidding due to small amounts involved. Hence, such works, estimated to cost US$20,000 equivalent or less per contract up to an aggregate amount not exceeding US$11.63 million, would be procured in accordance with procedures acceptable to the association through: (a) Force Account, (b) Direct Contracting, or (c) under quotations solicited from at least three qualified contractors.

5.32 **Goods and Equipment (US$164.29 million).** Goods and equipment required for the project consist of computer hardware/software for computerization, ATM/POS equipment and communications equipment. These would be procured following International Competitive Bidding (ICB) procedures, as per Bank Guidelines. However immediate requirements of computers and ATMs for bank branches in India and abroad valued in aggregate US $5.7 million will be procured following Local Shopping procedures. Goods estimated to cost less than US$200,000 per contract, US$6.4 million, would be procured following Local Competitive Bidding (LCB) procedures acceptable to the Bank. The Bank's Standard Bidding Documents would be used for all ICB and LCB procurement. Where the individual contracts are expected not to exceed US$20,000, the items would be procured following Local or International Shopping procedures satisfactory to the Bank, up to an aggregate amount of US$7.0 million equivalent. Rate contracts of Directorate General of Supplies and Disposals (DGS&D), New Delhi, would only be acceptable as a substitute under Local Shopping. Proprietary items including specialized application software for computerization, ATMs, POS, credit card applications, books, periodicals, and audio/video cassettes, valued in the aggregate at about US$12.69 million, would be procured following Direct Contracting procedures.

5.33 In the procurement of goods following ICB procedures, a domestic preference of 15% of the CIF bid price of such goods or the prevailing customs duties (whichever is lower) would be applied to goods manufactured in India meeting eligibility requirements.

5.34 **Subloans.** For goods and services financed with subloans under the capital restructuring and BF components, contracts costing the equivalent of US$5.0 million or more would be procured under simplified ICB procedures and bidding documents acceptable to the Bank. Contracts costing less than US$5.0 million would be procured based on established commercial practices acceptable to the Bank. PBs and EBs would be required to demonstrate that the procurement procedures adopted by sub-borrowers are appropriate and that goods and services procured are reasonably priced and competitive. They would maintain records of the procurement methods used, summarizing offers and awards for review by the Bank on a periodic basis.

5.35 **Technical Assistance and Training (US$10.88 million).** Technical assistance and consultancy services would be hired following procedures prescribed in: World Bank, "Guidelines--Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency," August 1981. Training would be for PB staff members, both in India and abroad.

5.36 **Review of Contracts.** All contracts for the supply of goods and works with an estimated cost of US$300,000 or more, as well as contracts costing US$5 million and over in the case of subloans would be subject to prior review. It is anticipated that about 70% of contracts would be subject to Bank review. Selective post-review of the awarded contracts below the threshold

levels would be carried out by the supervision missions. In respect of consultancies, the model documents used for inviting proposals, terms-of-reference for all consultancies, single-source contracts irrespective of their value, and all contracts valued at US$100,000 or more awarded to firms and US$50,000 or more to be awarded to individuals, would be subject to prior-review. Selective post-review of the awarded contracts below the threshold levels would be carried out by supervision missions.

5.37 **Procurement Reporting**. Procurement information would be collected and recorded as follows:

(a) prompt reporting of contract award information by the Borrower;

(b) comprehensive semi-annual reports to the Bank by the Borrower indicating:

(i) revised cost estimates for individual contracts and the total project;

(ii) revised timing of the procurement actions, including advertising, bidding, contract award and completion time for individual contracts;

(iii) compliance with aggregate limits on specified methods of procurement; and

(iv) a completion report by the Borrower within three months of the closing date of the Bank loans.

Summary of Proposed Procurement Arrangements

Project Element	Procurement Method				Total Cost
	ICB	LCB	Others	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.

Disbursements

5.38 Disbursements from the Bank loans would be made as follows:

(a) 85% of expenditures on civil works for site preparation associated with PBs automation/computerization activities;

(b) 100% of foreign expenditures, 100% of local ex-factory costs or 60% of other local costs of equipment and goods procured for modernization programs of PBs;

(c) 100% of expenditures for training and technical assistance for PBs;

(d) 100% of BF subloans; and

(e) 100% of eligible subloans made by PBs for recapitalization.

5.39 Disbursements against civil works on contracts exceeding US$300,000 equivalent would be fully documented. Disbursements against equipment on contracts exceeding US$300,000 equivalent would also be fully documented, as would disbursements for all consultant service contracts with firms over US$100,000 (US$50,000 for individual consultants) and training. Disbursements for other eligible expenditures would be against Statements of Expenditures (SOEs). Supporting documentation for SOEs would be retained PBs and be made available to Bank staff during supervision. Disbursements would be made for BF loans in the unlikely event that calls are made upon the BF by EBs. However, disbursements would be subject to the Bank's normal suspension rules and remedies. The disbursement schedule for the project is presented in Annex VIII. The Capital Restructuring and Modernization and Institutional Development components are projected to be implemented over a five-year period and to disburse in six. These components would be completed by April 30, 2000, and the Closing Dates for their Bank loans would be October 30, 2000. The BF would be implemented over a seven-year period. The BF component would be completed by April 30, 2002, and Closing Date of the BF Loan would be October 30, 2002.

5.40 To expedite project implementation and reduce the volume of withdrawal applications, a Special Account in US dollars would be established in RBI for the Modernization and Institutional Development Loan with an authorized allocation of US$10.0 million, equivalent to an estimated three-months average estimated disbursement.

Accounts and Audits

5.41 Each PB would establish separate accounts for the project. These accounts, together with supporting documentation, including evidence of contributions from GOI, PBs, and the Bank, would provide a comprehensive record of project financing and expenditures. **Assurances were obtained at negotiations that these accounts (GOI for the Capital Restructuring Component and IDBI for the Bank Modernization and BF Components) and the Special Account in RBI would be maintained and audited annually according to appropriate auditing principles consistently applied by independent auditors acceptable to the Bank, and that the auditors' reports, which would include separate statements on SOEs and certified copies of project accounts would be submitted to the Bank not later than nine months after the close of each fiscal year.**

VI. PROJECT IMPLEMENTATION

6.1 **The Borrowers**. GOI and IDBI would be the borrowers. GOI would be provided a US$350 million equivalent loan to finance the recapitalization component. IDBI would be provided a US$150 million equivalent loan to finance the modernization component, and a SCL of US$200 million as a contingent loan to finance the BF, both as pass-through facilities. IDBI was established in Bombay as a wholly-owned subsidiary of RBI in 1964. It is now fully owned by GOI and is a leading financing institution for the industrial sector. It operates as a direct lender and refinance institution for other national level DFIs. Its promotional role covers a wide range of activities aiming at sound industrial development and financial practices and includes surveys of entrepreneurship development programs, consultancy and advisory services and development banking training programs. IDBI's ten-member board represents a cross-section of government officials, industrialists and commercial and development bank executives. Its board is responsible for the internal policies of IDBI and reviews overall operations and relations with the industrial sector. Powers are delegated to a nine-person executive committee, headed by the Chairman and Managing Director. IDBI has a total staff of 2,800 persons, of which 1,293 are professionals. Professional staff is generally well-qualified and experienced.

6.2 IDBI has a strong balance sheet, with an capital base (reserves included) as of March 1994 of Rs.33.5 billion (just over US$1 billion), and total assets of Rs.345.6 billion (about US$10 billion). The debt-to-net worth ratio remained at a conservative 8.8 (9.92 inclusive of contingent liabilities). According to five-year projections, the leverage would be maintained at acceptable levels through the coming five years, given the high retention of earnings and build-up of reserves. Liquidity levels are adequate, as reflected by a liquidity ratio of 2.6. Portfolio quality is also adequate. On the basis of RBI guidelines, 92% of outstandings (including loans and other types of assistance) was as of March 1994 classified as standard, 5% as substandard, 3% as doubtful. Although specific provisions and other non-general reserves represented only 1.9% of total outstandings, general reserves and capital provided IDBI with an ample cushion to offset future loan losses.

6.3 IDBI is managerially and financially autonomous of GOI. Although IDBI is wholly owned by GOI, the IDBI Act of 1964 as amended, establishing IDBI as a "body corporate", gives IDBI a legal personality separate from GOI and provides for its autonomous functioning under the direction of an independent board. Where IDBI has been used as an instrument of government policy, GOI has covered costs, while leaving IDBI with the operational autonomy to exercise its best banker's judgment of raising resources, sanctioning loans, disbursing proceedings, collecting recoveries, and servicing its borrowings. IDBI is not funded out of general budget revenues. Non-concessional loans are funded by commercial sources of borrowing on both the domestic and foreign capital markets. The business plans presented by IDBI have reflected the sound judgment of an independently-managed banking institution, and have been similarly implemented.

6.4 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.

6.5 **Implementing Agency**. RBI would be the implementing agency. Within RBI, the Department of Banking Operations and Development (DBOD) of RBI would be responsible for overall project coordination. DBOD is the principal unit within RBI charged with bank supervision and regulation. It maintains a staff of about 240 professionals located in the RBI's central office in Bombay and in 16 regional offices. DBOD is headed by a Chief Officer who would function as Project Manager. In addition to its overall coordinating role under the project, DBOD would: (a) carry out a full supervision of the project once each year, participate on the Bank's annual supervision missions, and follow-up on agreed supervision-related action plans (para 6.10); (b) collect semi-annual progress reports from PBs and submit them to GOI and the Bank; (c) prepare annual status reports on the BF; (d) receive disbursement applications from PBs and submit them to the Bank for processing; (e) coordinate the submission of project audit reports to the Bank; (f) prepare semi-annual procurement status reports for submission to the Bank and follow-up on any procurement issues; (g) review and submit to GOI and the Bank copies of the annual financial Performance Agreements (MOUs) and business plans of the PBs, with project implementation plans, staff training plans, and equipment acquisition plans; and (h) coordinate arrangements for the mid-term review of the project (para 6.12). DBOD is ideally suited for its project coordinating role in view of its current bank supervisory and regulatory activities and existing network of field offices. To bolster its capability to supervise the project, DBOD would draw upon expertise from RBI's Department of Information Technology charged with coordinating RBI's computer and communications systems. This department contains the necessary capability to supervise the implementation of PBs' computerization and communications programs under the project.

6.6 **Capital Restructuring**. Under the project, 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 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, as provided under the Banking Companies (Acquisition and Transfer of Undertaking) Amendment Act (1994), 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. **Assurances were obtained from GOI and RBI that they will carry out a review of progress of implementation of the component with the Bank when US$150 million equivalent of the amount of the Capital Restructuring Loan is disbursed.**

6.7 **Modernization and Institutional Development**. The Borrower and Pass-Through Agent for this component would be IDBI, but 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. **Assurances were given by RBI that it will ensure that the modernization and institutional development component of the project is carried out by each PB in accordance with a plan for modernization and institutional development of such PB satisfactory to the Bank. Assurances were also obtained from IDBI that it shall onlend the proceeds of the Modernization and Institutional Development Loan to each PB under a modernization and institutional**

development subsidiary loan agreement, with terms and conditions satisfactory to the Bank including: (i) prevailing market interest rate; (ii) a maturity of up to ten years; and (iii) a plan for modernization and institutional development. A condition of effectiveness would be that RBI and IDBI have entered into a Pass-Through Agreement for the modernization and institutional development component satisfactory to the Bank. A condition of disbursement for each PB would be that each PB shall enter into a modernization and institutional development subsidiary loan agreement with IDBI satisfactory to the Bank. A second condition of disbursement for each PB would be the receipt of the PB's plan for modernization and institutional development satisfactory to the Bank. A third condition of disbursement for each PB would be the receipt by the Bank of a long-form audit satisfactory to the Bank of the respective PB.

6.8 **Backstop Facility**. The Borrower and Pass-Through Agent for the BF would be IDBI, but the Facility would be managed by RBI. In this capacity, IDBI would be entrusted with: (a) making payment to EBs in the event of a drawdown of the Facility under specified conditions, and (b) collecting Facility Fees and payments of interest and principal 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. **A condition of Backstop Facility Loan effectiveness would be that RBI and IDBI have entered into a Pass-Through Agreement, with terms and conditions satisfactory to the Bank.**

6.9 To perform its role as manager of the Facility, RBI's DBOD would: (a) coordinate and monitor activities related to eligibility of participating financial institutions in accordance with agreed criteria of access to the BF (para 5.22); (b) monitor compliance by participating institutions with these criteria throughout the implementation period); (c) allocate BF funds among EBs (para 5.24); (d) determine whether the strike price has been reached resulting in disbursements from the facility; and (e) present periodic reports to the Bank on the performance of the BF. **Assurances were obtained that RBI shall issue Operating Guidelines for the BF to eligible financial institutions and banks, with form and content satisfactory to the Bank, prior to the first BF commitment. Assurances were obtained from IDBI that it will enter into Facility Draw Down Agreements with EBs determined by RBI to be eligible to participate in the Facility, on terms and conditions satisfactory to the Bank including that: (i) EBs shall pay a Facility Fee to IDBI, with the rate being determined through a competitive process satisfactory to the Bank (with a minimum fee of 25 basis points); and (ii) the proceeds of the Backstop Facility Loan shall be onlent by IDBI to EBs as backstop loans, upon receiving payment instructions from RBI on terms and conditions satisfactory to the Bank. A condition of disbursement for each EB would be the signing of a Facility Draw Down Agreement satisfactory to the Bank by IDBI and the EB.**

6.10 **Project Supervision**. Project supervision would be linked closely to project objectives and the annual business plans of PBs. It would involve monitoring a number of key indicators and assessing both quality and quantity aspects of project implementation and impact. There would be two supervisions each year, only one of which would involve a Bank mission. A project launch workshop would be organized by DBOD within three months of project effectiveness. RBI would prepare a mid-year supervision report for Bank review every September, and an annual report for Bank review in April; however, in the first four years there would be an additional mission to provide assistance at critical phases. Key supervision missions proposed for the project are presented in Annex IX. The main supervision mission each year, would coincide with the review of annual business plans prepared by the six PBs. RBI's DBOD would carry out direct supervision of the PBs.

The Bank's supervision would be indirect: It would review documentation on project progress assembled by DBOD, but would only visit specific banks if problems warrant. DBOD's branch network and general supervisory functions would facilitate project review activities. DBOD would prepare full supervision reports according to Bank standards.

6.11 **Monitoring and Evaluation**. The ultimate goal of the project is to foster competition, allocative efficiency and market-orientation in India's financial system and contribute to meeting long-term financing needs of its investors as a means of stimulating economic growth. To reach this goal, the project would introduce institutional, base-capital and managerial changes in six public commercial banks, and establish a BF in support of growth of foreign currency denominated financial intermediation in the economy. To monitor progress in the capital restructuring and modernization activities, three sets of performance indicators for the six commercial PBs would be monitored: (a) yearly evolution of five key financial parameters, (b) PBs' entry into the capital markets at determined dates for the raising of private equity participation, and (c) implementation of the agreed targets for the modernization of the banks' computer facilities as well as the targets for training and human resources development. Project implementation progress would be monitored by DBOD for each of the banks participating in these two components. Progress in implementing the BF would be monitored through presentation of semi-annual reports prepared by DBOD and presented to the Bank on the fulfillment of the criteria defined for the participation of subscribed institutions. BF monitoring would confirm that the performance criteria allowing access are maintained by participating institutions and that draw downs are consistent with agreed criteria. **Assurances were obtained that IDBI shall provide annual reports to the Bank on the status and implementation of Facility Draw Down Agreements, including receipts and application of Facility Fees; as well as any payments of interest and repayment of principal under subloans.**

6.12 **Reporting, Mid-Term Review and Completion Reviews**. Semi-annual reports would be submitted by DBOD which would summarize progress on the recapitalization and modernization components of the project no later than April 30 and October 31 of each year. Annual reports on the progress of the BF would be submitted by DBOD no later than April 30 of each calendar year. These reports would provide information on the financial, physical and training progress of the project for the periods April to September and October to March. Additionally, DOBD would annually submit to the Bank copies of the annual financial Performance Agreements (MOUs) for the six PBs, copies of their annual project implementation plans, staff training plans, and equipment acquisition plans by April 30 of each calendar year. **Assurances were obtained from GOI, RBI and IDBI that they shall jointly carry out a mid-term review of the project by September 30, 1997 with scope and content satisfactory to the Bank, and shall thereafter take necessary action to implement the findings and recommendations of such review.** The MTR would enable mid-course corrections to improve project performance.

VII. PROJECT BENEFITS AND JUSTIFICATION

7.1 **Benefits**. By directly addressing areas of pressing need in India's financial sector, 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) facilitate sourcing of private funds and access to foreign currency finance to meet long-term investment financing needs; and (c) foster modern banking practices and services. The project would contribute to economic growth by meeting the long-term financing needs of India's investors. Expansion of private sector ownership in public sector banks and the associated change in the composition of their

boards of directors would enhance managerial autonomy and would redefine 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. Even though the project would deal directly with only six banks, the benefits of the institutional development component would spread beyond them since new techniques and best practices would be shared through training and technology adoption. Encouraging financial institutions to access private foreign currency sources directly (supported by the BF) rather than relying government-backed sources of funds, would widen financial markets, induce innovation and create hedging techniques for risk and liquidity management. In addition, the liquidity assurance of foreign currency term financing through the BF would reinforce the prospect for sustainable export expansion and private capital flows.

7.2 **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 risks 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 negatively affect 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.

7.3 **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. These are elaborated upon in Annex X. In addition, subprojects involving asbestos would not be eligible for financing under the project. PBs and EBs would have responsibility for ensuring that the subprojects conform to these requirements and procedures. As a condition of eligibility, PBs would prepare a statement of environmental goals that would include objectives, scope and strategy to address specific environmental issues and training needs. Some financial institutions, such as ICICI and IDBI, already have considerable experience with integrating environment assessment into the appraisal function. PBs would be receive technical assistance to develop and implement an Environmental Risk Analysis program into their operations to improve overall environmental appraisal capacity. During supervision, the Bank would review the environmental appraisal procedures of the PBs and financial institutions and their application to subprojects. **Assurances were given at negotiations that subprojects financed under the project would comply with environmental standards satisfactory to the Bank.**

7.4 **Impact on Women**. The expansion of the banking sector in the post-nationalization years has offered substantial opportunities to women, both as borrowers and as professionals. GOI's lending strategy has directed banks to show special consideration to women borrowers individually and organized in cooperative groups. Women have particularly benefitted from special credit lines for exports and small-scale industries, which have been implemented by nationalized banks. Through competitive examinations organized by the Banking Services Recruitment Board, women have entered the banking profession on a significant scale and currently account for about 10% of staff. As banks rationalize their lending strategies under the project, upgrade their operational performance and improve their product mix, women borrowers would benefit from better banking services. Women entrepreneurs are also expected to benefit from term borrowing opportunities made possible by the BF.

VIII. AGREEMENTS REACHED AND RECOMMENDATION

Capital Restructuring Loan

8.1 Assurances were obtained during negotiations from **GOI** that:

(a) GOI shall onlend proceeds of the Loan to PBs as subordinated loans. GOI shall enter into a Subordinated Loan Agreement with each PB on terms and conditions satisfactory to the Bank, including that: (a) GOI subordinated loans to PBs shall be provided through promissory notes to be issued by each PB to GOI which shall: (i) be denominated in rupees; (ii) be required to be paid at par at the expiry of twelve years from the date of issue; (iii) not be redeemable at the instance of holders for five years, and thereafter be redeemable only with the consent of RBI; (iv) carry an interest rate which shall be 0.5% over the average rate on GOI 364-day treasury bills for the previous two quarters, with interest being paid at half-yearly intervals; (v) constitute direct, unsecured and subordinated obligations of the concerned PB, subordinated to the claims of all other creditors and depositors of the PB regarding repayment of principal and payment of interest by the PB out of its own resources to such creditors and depositors; (vi) not provide holders any rights or privileges of shareholders; (vii) not be converted into shares; (viii) be transferable by endorsement and delivery; and (ix) not limit the right of the PB to borrow or change its capital structure without the consent of, or intimation to the holder of any such note (para 5.13).

Condition of Disbursement for Each PB. GOI shall provide to the Bank a legal opinion that it has entered into a satisfactory Subordinated Loan Agreement with the respective PB (para 5.13).

(b) the proceeds of subordinated loans would be relent as subloans by PBs 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 (paras 5.13 and 7.3).

(c) GOI will ensure that each PB shall issue equity shares to shareholders other than GOI, pursuant to a public offering, at levels and in accordance with a schedule satisfactory to the Bank (para 5.12).

(d) GOI will ensure that the board of directors of each PB shall include the maximum number of directors representing private shareholders permissible under applicable laws (para 5.12).

(e) GOI will ensure that the number of equity 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: (i) as may be required to comply with applicable laws, and (ii) for two PBs in order to allow them to comply by March 31, 1996 with capital adequacy norms prescribed by RBI (para 5.11).

(f) GOI will carry out a review of progress in implementation of the capital restructuring component with RBI and the Bank when US$150 million equivalent of the amount of the Loan is disbursed (para 6.6).

(g) GOI will ensure that it will not onlend more than 50% of each subordinated loan unless the respective PB has issued equity consistent with the PB's Business Plan (para 5.12).

8.2 Assurances were obtained from **RBI** that:

(a) RBI shall enter into a Performance Agreement (also referred to as a Memorandum of Understanding) with each PB annually, with terms and conditions satisfactory to the Bank, including, inter alia: (i) that the concerned PB shall carry out its Business Plan each year; and (ii) maintain, at levels satisfactory to the Bank: (A) gross and retained profits; (B) operational costs over assets; (C) capital adequacy ratios; and (D) non-performing assets (para 5.12);

(b) RBI shall ensure that 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, including, inter alia: (i) changes to capital structure; (ii) institutional development programs; (iii) profitability improvements; (iv) actions for debt recovery; (v) schedules for issuing equity to private shareholders; (vi) programs for improvement of computers/communications; and (vii) programs for human resource development (para 5.12);

(c) RBI shall take prompt action satisfactory to the Bank to ensure the continued safety a nd soundness of each PB in the event that the Tier I risk-adjusted capital adequacy ra tio 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 (para 5.12).

(d) RBI shall provide to the Bank by June 30 of each year starting in 1995 an independent review of the loan portfolio of each PB through independent auditors acceptable to the Bank and with scope satisfactory to the Bank (para 5.8).

(e) RBI will carry out a review of progress of implementation of the capital restructuring component with GOI and the Bank when US$150 million equivalent of the amount of the Loan is disbursed (para 6.6).

Modernization and Institutional Development Loan

8.3 Assurances were given by **RBI and IDBI** that they will enter into a Pass-Through Agreement, on terms and conditions satisfactory to the Bank, setting out IDBI's responsibilities with regard to a pass-through of Bank Loan proceeds to participating banks (para 6.7).

Condition of Effectiveness. RBI and IDBI have entered into a Pass-Through Agreement satisfactory to the Bank for the modernization and institutional development component (para 6.7).

8.4 Assurances were obtained from **RBI** that RBI shall ensure that the modernization and institutional development component of the project is carried out by PBs in accordance with a plan for modernization and institutional development of each PB satisfactory to the Bank (para 6.7).

Condition of Disbursement for Each PB. Receipt by the Bank of a satisfactory modernization and institutional development plan for the respective PB.

8.5 Assurances were obtained during negotiations from **IDBI** that IDBI shall onlend the proceeds of the Loan to each PB for modernization and institutional development under a modernization and institutional development subsidiary loan agreement, with terms and conditions satisfactory to the Bank including: (a) prevailing market interest rate; (b) a maturity of up to ten years; and (c) a plan for modernization and institutional development (para 6.7).

Condition of Disbursement for Each PB. Each PB shall enter into a modernization and institutional development subsidiary loan agreement with IDBI satisfactory to the Bank (para 6.7).

Condition of Disbursement for Each PB. The receipt by the Bank of a long-form audit satisfactory to the Bank of the respective PB (para 6.7).

Backstop Facility Loan

8.6 Assurance was obtained from **RBI** and **IDBI** that they shall enter into a Pass-Through Agent Agreement, with terms and conditions satisfactory to the Bank (para 8.8).

Condition of Effectiveness. RBI and IDBI have entered into a Pass-Through Agreement satisfactory to the Bank (para 6.8).

8.7 Assurance was obtained from **RBI** that:

(a) RBI shall issue Operating Guidelines for the BF to eligible financial institutions and banks, with form and content satisfactory to the Bank, prior to the first BF commitment (para 6.9);

(b) RBI will ensure that 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 bank (para 5.24);

(c) RBI shall ensure that EBs participating in the BF shall at all times meet eligibility criteria satisfactory to the Bank, and that any EB that no longer meets such criteria is promptly excluded from participation in the Facility. Eligibility criteria shall include: (i) EBs should meet the RBI capital adequacy rules (which reflect the BIS guidelines) but should not fall below 8% of risk weighted assets. They should be in compliance with RBI exposure limits regarding credit concentration and be experienced in borrowing and lending in foreign currencies; (ii) EBs should have a minimum AA domestic rating by two recognized domestic rating institutions in order to be eligible to receive new BF commitments (a downgrade would result in ineligibility to access additional commitments from the Facility); (iii) EBs will be allowed to draw down from

the Facility based on any existing commitments if they are downgraded to not lower than a BBB rating; however if they fall below a BBB rating, all undisbursed commitments shall be cancelled (para 5.24).

(d) RBI shall issue commitments to eligible financial institutions and banks with terms and conditions satisfactory to the Bank including the conditions under which EBs may withdraw proceeds of the Loan as backstop loans pursuant to the Facility Draw Down Agreements between EBs and IDBI; and the terms and conditions of such backstop loans (para 5.24);

(e) RBI shall receive and review requests from EBs for Backstop loans pursuant to the commitments issued by RBI and, where RBI is satisfied that an EB is entitled to such a loan, issue instructions to IDBI to make a Backstop loan pursuant to the Pass-Through Agreement between RBI and IDBI (para 5.24);

(f) RBI will provide to IDBI, GOI and the Bank annual reports on the status of the Facility including the eligibility of EBs and payments of Facility Fees and (if applicable) interest payments and principal repayments (para 6.11);

(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 match the maturities and currencies of their assets and liabilities (para 5.21(a)).

(h) Interest rates on foreign currency loans covered by the BF would be market-determined (para 5.21(b)).

(i) Indian investors eligible to invest in foreign currency under applicable regulations shall be permitted to do so in debt instruments issued by EBs (para 5.21(c)).

8.8 Assurances were obtained from **IDBI** that:

(a) It will enter into Facility Draw Down Agreements with EBs determined by RBI to be eligible to participate in the Facility, on terms and conditions satisfactory to the Bank including: (i) EBs shall pay a Facility Fee to IDBI, with the rate being determined through a competitive process satisfactory to the Bank (with a minimum fee of 25 basis points); and (ii) proceeds of the Bank Loan shall be onlent by IDBI to EBs as backstop loans, upon receiving payment instructions from RBI instructing IDBI, on terms and conditions satisfactory to the Bank (para 6.9);

Condition of Disbursement for Each EB. The signing of a Facility Draw Down Agreement satisfactory to the Bank by IDBI and the EB (para 6.9).

(b) IDBI will provide backstop loans to EBs at maturities up to a maximum of seven years, at a spread to be determined based on market conditions (para 5.25).

(c) EBs shall withdraw proceeds of backstop loans against subloans made to sub-borrowers on market terms (para 5.25). Subprojects shall comply with criteria satisfactory to the Bank, including environmental standards satisfactory to the Bank (para 7.3).

(d) IDBI shall provide annual reports to the Bank on the status and implementation of Facility Draw Down Agreements, including receipts and application of Facility Fees, as well as any payments of interest and repayment of principal under subloans (para 6.11).

All Three Loans

8.9 Assurances was obtained from GOI, RBI and IDBI that they shall jointly carry out a mid-term review of the project by September 30, 1997 with scope and content satisfactory to the Bank, and shall thereafter take necessary action to implement the findings and recommendations of such review (para 6.12).

8.10 Assurances were obtained at negotiations that these accounts (GOI for the Capital Restructuring Component and IDBI for the Bank Modernization and BF Components) and the Special Account in RBI would be maintained and audited annually according to appropriate auditing principles consistently applied by independent auditors acceptable to the Bank, and that the auditors' reports, which would include separate statements on SOEs and certified copies of project accounts would be submitted to the Bank not later than nine months after the close of each fiscal year (para 5.41).

Recommendation

8.11 With the above assurances, the proposed project would be suitable for Bank loans totalling US$700.0 million equivalent consisting of: (a) a US$350.0 million currency pool loan to India at the Bank's standard variable rate, repayable over 20 years with five years of grace; (b) a US$150.0 million currency pool loan to IDBI at the Bank's standard variable rate, repayable over ten years with three years of grace; and (c) a US$200.0 million single currency loan to IDBI at the Bank's standard LIBOR-based variable lending rate, repayable over 14 years with eight years of grace.

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Financial Markets and Institutions

Reserve Bank of India

1. The Reserve Bank of India (RBI) established in 1934, is the central bank of the country. It performs the traditional central banking roles of note issue and banker to the government and commercial banks. It formulates and implements the monetary and credit policy, manages the foreign exchange market, and regulates and supervises all commercial banks. Its prudential regulations include: minimum capital requirements, qualifications for directors, limits on loan concentration and insider borrowing, and guidelines for asset classification and income recognition. RBI has powers to levy fines and penalties for non-compliance and also to intervene in the management of a bank if serious problems arise. It also provides deposit insurance to small depositors through a subsidiary, the Deposit Insurance and Credit Guarantee Corporation (DICGC). Deposit insurance is compulsory in India up to Rs. 100,000 per depositor per bank, which covers more than 97% of accounts.

Commercial Banks

2. Commercial banks are the mainstay of India's financial system. Since nationalization in 1969 and 1980, the commercial banking sector has been dominated by public sector banks (currently 27) which account for nearly 83% of deposits, and 92% of bank branches. Their widespread network of 45,000 branches enables them to raise deposits countrywide to service an asset base of Rs. 3520 billion (US$112.23 billion) or 50% of GDP as of March 1993, including an investment portfolio of Rs. 1009 billion, or 14.3% of GDP. They have traditionally provided short-term credit to meet the working capital needs of industry, agriculture, and trade, and have in recent years established subsidiaries for leasing, underwriting mutual funds, merchant banking and other corporate services. With the recent entry of four new private domestic and two foreign banks, private commercial banks currently in operation, consist of 28 Indian and 26 foreign banks, each accounting for about 6% of total assets. Foreign banks are now permitted to operate more freely in India and are subject to similar regulatory requirements as domestic banks. With increasing cross-border financial transactions, foreign banks are expected to increase their activities in the future particularly in providing syndicated loans, currency swaps, and corporate finance to private industry.

Financial Institutions

3. Three important all-India term-lending institutions--ICICI, IDBI and IFCI--with total assets of US$ 19 billion as of end-March 1994, dominate India's term-lending market. They provide medium-term and long-term financial assistance to the private corporate sector for new projects, as well as expansion and modernization of existing facilities either directly or through consortium arrangement with commercial banks. Financial institutions have traditionally funded themselves through issuance of government-guaranteed domestic bonds and foreign lines of credit from multilateral and bilateral sources. Their domestic deposit base is limited to the CD market. They are increasingly compelled to tap local

and foreign markets for funding and are active in areas of asset management, securitization, and investment banking.

Mutual Funds

4. The Mutual Fund industry has played a key role in resource mobilization and in development of the capital market. Currently there are 14 funds with total fund mobilization of Rs. 663 billion, of which four-fifths was on account of the Unit Trust of India, a public sector fund. In all, there are over 140 mutual fund schemes, of which only a dozen are open-ended. Since the industry was opened to domestic and foreign private funds in 1992, private funds have reached a share of 5% of the total net assets. The potential growth of the industry is substantial considering that its share in market capitalization is still small. As mutual funds are not permitted to have transactions in debt or short-term money market instruments, the government has allowed up to 55% of public offerings of equity to be privately placed with funds managed by commercial banks, financial institutions and foreign institutional investors. This has encouraged portfolio diversification in favor of new investments in infrastructure and export industries.

Capital Market

5. With a market capitalization of US$155 billion, and with over 7500 companies listed, India's capital market is among the largest in the developing world. The market is composed of 23 regional exchanges, with Bombay being the most important exchange in terms of the number and market value of listed companies and turnover accounting for over 75% of market capitalization in India. With liberalization of foreign direct investment and removal of administrative restrictions on interest rates on debentures and public sector bonds, new capital issues have risen dramatically in recent years from Rs. 57.5 billion (US$ 2.23 billion) in 1991/92 to Rs. 224.8 billion (US$7.17 billion) in 1993/94[1] surpassing for the first time the total volume of loans sanctioned by the financial institutions. Capital raised in 1994/95 is anticipated to be Rs. 350 billion (US$11.2 billion). Until recently, debentures dominated corporate issuance of fresh capital, but in the past two years the balance has shifted towards equity, which accounts for over one-half of total capital raised.

Money Market

6. The Indian money market is broadly based; the instruments include call money, rediscounting of bills, treasury bills, commercial paper, certificates of deposit (CD), and the inter-corporate deposit market. In recent years the money market has revived considerably with the regular auctioning of treasury bills, and reactivation of repurchase agreements between RBI and commercial banks in the treasury bill market. To a large extent the success of the varied instruments can be attributed to major policy relaxations by GOI. For example, the outstanding amount of commercial paper has risen from Rs. 5 billion in April 1993 to over Rs. 40 billion at the end of July 1994.

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[1] Capital raised in the primary market increased from Rs 1,959 million (US$ 247 million) in 1980 to Rs 64,731 million (US$ 3.80 billion) in 1990.

Rural Credit System

7. India's rural financial system comprises 28 state-level cooperative banks (with loan outstandings totalling about Rs. 135 billion), several state land development banks, some 26,000 rural commercial bank branches (with loan outstandings totalling about Rs. 200 billion), and 196 regional rural banks (RRBs) which are jointly owned by the Central Government, State Governments and sponsoring commercial banks, comprising 15,000 branches (with loan outstandings totalling about Rs. 20 billion). In addition, the National Bank for Agriculture and Rural Development (NABARD) provides term loans for agricultural projects, funding itself in turn from a combination of foreign credit and bonds (which are eligible for SLR). Credit growth in these institutions taken together has stagnated in real terms since 1980, and the rural credit system as a whole faces a number of institutional and policy problems. Servicing loans to a large number of borrowers and mobilizing resources through small deposits is inherently expensive, and this has placed a heavy burden on profitability. In addition, deep-seated operational problems have developed since the early 1980s. The performance of the RRBs has been particularly poor. The service area approach which restricted the lending operation of the RRBs implied considerable loan concentration and low loan recovery. About 75% of RRBs have suffered losses and 117 out of a total of 196 have accumulated losses in excess of their share capital. Also, in the cooperative system, failure to mobilize adequate deposits, mounting overdues and lack of trained staff have implied that cooperative banks have low borrowing membership, low business turnover and large accumulation of losses.

Urban Non-Bank Financial Market

8. The urban non-bank financial market consists of finance and hire-purchase companies, housing-finance companies, and other institutions. The market is considered competitive and relative to commercial banks is technologically advanced, has expanded in recent years much faster than banking industry, and captures currently about 10% of total deposits of the banking sector.

Financial Infrastructure

9. India has a sophisticated and highly developed **legal** framework governing the financial sector. As such, there is a well developed body of laws and regulations, experienced and competent legal institutions and an experienced cadre of trained legal professionals in financial law. The **accounting profession** is well developed in India. The major Indian accounting firms are affiliated to prominent accounting firms in the US and UK. The Institute of Chartered Accountants in India has existed for several decades and includes many qualified professionals. It is also a member of the International Federation of Accountants to maintain parity with world-wide standards and practices in audits. Commercial banks in India are audited by external auditors under standards issued by the Institute of Chartered Accountants of India, in addition to their own internal auditors and annual examination by RBI inspectors. Bank auditing has recently received substantial attention for several reasons, including emphasis being placed on strengthening bank balance sheets and the shift in the supervisory attention of RBI from compliance with socioeconomic objectives to prudential concerns. The scope and coverage of bank audits is specified by the RBI which includes several aspects of credit risk management, funds management, internal control and profitability with substantial attention given to matters such as the handling of fraud, suspense accounts, branch reconciliation, reconciliation of control and subsidiary ledgers. The auditors are required to concentrate on the loan portfolio and on issues of credit risk

management including the classification, provisioning and recovery efforts made with regard to non-performing loans.

Taxation

10. Commercial banks and financial institutions are treated in many respects like any other commercial entity. They are liable to pay corporate tax at the rate of 46% (40% plus 15% surcharge) on taxable income, after appropriate allowances are made for write-off for loss loans, and depreciation of investment portfolio. Apart from the tax on income, banks and finance institutions also pay an interest tax equivalent to 3% of the amount actually accrued as interest income earned within India and a wealth tax at the rate of 1% of the valuation date. Also, an implicit tax on commercial banks is the requirement of the 15% cash reserve ratio stipulated by the RBI on which banks are partly remunerated.

The Insurance Industry

11. The insurance industry is bifurcated into life insurance and general insurance. Life insurance activity was nationalized in 1956, and the responsibility for the business was placed under a newly created organization known as The Life Insurance Corporation of India. General insurance was nationalized in 1972. In place of a single monolithic organization like the LIC, general insurance companies were reorganized under the four large firms as wholly owned subsidiaries of the General Insurance Corporation of India, engaged in most areas of general insurance and competing with each other. Insurance rates are determined by a government-appointed body - the Tariff Advisory Committee. The post of Controller of Insurance is virtually defunct as its regulatory authority suffered erosion after the insurance business became GOI's responsibility, and the Finance Ministry administers the two public sector bodies.

12. The appointment of the Malhotra Committee to propose reforms of the insurance industry, was a direct fall-out of the Narasimham Committee. The Government has yet to take any decision on its recommendations. Briefly, the recommendations fall into three broad divisions, namely, conditions relating to the entry of private sector firms; the restructuring of the two public sector giants in life insurance and general insurance by expansion of their capital base and reduction of Government's equity holding and improving profitability; and the organizational aspects of regulatory compliance under the existing Insurance Act. Some of the specific measures include: the opening up insurance activity to the private sector to deepen insurance coverage[2] and also improve the quality of customer service through competition; (foreign firms, to be permitted under conditions joint venture with Indian partners); the restoration of the office of the Controller of Insurance with accompanying regulatory authority; the reorganization of the LIC into four zonal groups virtually functioning as independent companies with central responsibilities in policy and staffing with the LIC; and the re-organization of the GIC as a holding company with its subsidiaries functioning as independent entities. These long-awaited suggestions have been warmly received by private individuals, industry and trade but have also provoked the hostility of labor unions which perceive them to be detrimental to the interests of employees and the public sector in general.

[2] It is estimated that GIC covers barely 0.62% of the total potential business, and LIC reaches out to 20% of the total insurable population. (Business Standard, January 10, 1994).

ANNEX II

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

List of Bank's Previous Financial Investment Projects in India

1. The Bank has made numerous loans through financial institutions for India's industrial, agricultural and, recently, housing sectors. There have, however, been no loans for reforms of the financial sector as a whole. In Industry, the Bank has extended many general lines of credit for on-lending to the private and joint private-public sectors. The Industrial Finance and Technical Assistance Loan (1988) focussed on strengthening ICICI and IDBI. The last few loans have concentrated on specific subsectors such as cement (1989) and petrochemicals (1990) and functional support areas such as export (1989) and technology (1989) development to address policy and institutional issues. Generally the intermediaries have been the DFIs but the Export Development loan included two or three commercial banks. In these recent loans, the Bank specified performance conditions that apply only to the credit line, except in the case of the Industrial Finance loan, in which ICICI and IDBI as entities have performance conditions. In agriculture, there have been many subsector development loans and several general lines of credit to support the state and nationwide agricultural credit system. These projects used commercial banks as intermediaries and had performance conditions applying to the credit line. In addition, there were overall performance criteria for commercial banks' agricultural lending and for NABARD. The Bank's involvement with Indian commercial banks has been limited to particular subsectors (agriculture and industry) and not dealt with these institutions as a whole. The housing sector has received only one loan (not counting urban development loans) which was intermediated by the Housing Development and Finance Company (HDFC), a private sector firm.

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Review of Participating Banks

1. Allahabad Bank is a Calcutta-based bank with particular regional strength in Uttar Pradesh, Bihar and West Bengal, although like all the nationalized banks it operates throughout the country. It had Rs. 96.8 billion (about US$3.2 billion) in assets at the end of March 1994. It ended March 1994 with 22,890 employees and 1,845 branches. During 1993/94, Allahabad Bank achieved gross profitability (before provisions) of 0.3% of total assets ("total assets" refers here to the arithmetic average of the year-end and previous year-end balance-sheet values), through interest receipts of 9.5%, non-interest income of 0.9%, interest expenses of 7.5%, and operating costs of 2.7%. Allahabad Bank's deposits grew 10% over 1993/94, while its advances net of loan-loss provisions declined by 5.9%; its credit-deposit ratio declined from 51.4% in March 1993 to 44% in March 1994. Its risk-weighted assets grew only 5.1% over 1993/4, compared with total asset growth of 9.8%. On India's standard measure of employee productivity, Allahabad Bank had Rs. 5.3 billion in advances plus deposits per thousand employees, up from Rs. 5.1 billion the preceding year. Its "efficiency ratio" was a high 91.5%, down from 99.7% in in 1992/93. Non-performing advances totalled 14.5% of total advances at the end of March 1994, a considerable reduction from the 21.6% reported at the end of March 1993. As a consequence of heavy provisioning, its capital position was -1.6% at the end of March 1994 (although a substantial equity contribution by the government, reasonable profitability, some recovery of NPAs, and the slow growth in risk-weighted assets should enable the bank to improve its capital base rapidly during 1994/95). The government's equity holding in the bank amounted to 56.6% of net worth in March 1994, but accumulated net losses were Rs. 4.7 billion (about US$15 million), some 19 times the bank's gross profit for 1993/94.

2. Bank of India is a Bombay-based bank with particular regional strength in western India. It has overseas branches in several nations, including the United Kingdom and several Asian nations. It had Rs. 254.9 billion (about US$8.2 billion) in assets at the end of March 1994. It ended March 1994 with 53,750 employees and 2,389 branches. During 1993/94, the Bank of India achieved gross profitability (before provisions) of 0.8% of total assets, resulting from interest receipts of 8.2%, non-interest income of 1.1%, interest expenses of 6%, and operating costs of 2.4%. The Bank of India's deposits grew 9.7% over 1993/94, while its advances net of loan-loss provisions declined by 5.4%; its credit-deposit ratio declined from 59.2% in March 1993 to 51% in March 1994. Its risk-weighted assets grew only 2.1% over 1993/94, compared with total asset growth of 10%. On India's standard measure of employee productivity, the Bank of India had Rs. 6 billion in advances plus deposits per thousand employees, up from Rs. 5.8 billion the preceding year. Its "efficiency ratio" was 74.4%, down from 83.5% in 1992/93. Non-performing advances totalled 30% of total advances at the end of March 1994, an increase from the 24.4% reported at the end of March 1993. (The rupee value of the stock of overseas non-performing loans has been affected by India's currency devaluation.) As a consequence of heavy provisioning, its capital position was just 0.5% of risk-weighted assets at the end of March 1994 (again, a substantial equity contribution by the government, reasonable profitability, some recovery of

NPAs, and the slow growth in risk-weighted assets should enable the bank to improve its capital base rapidly during 1994/95). The government's equity holding in the bank amounted to 69.3% of net worth in March 1994, but accumulated net losses were Rs. 1.4 billion (about US$45 million).

3. Dena Bank is a Bombay-based bank with particular regional strength in the western states of Maharashtra and Gujarat. It had Rs. 61.3 billion (about US$2 billion) in assets at the end of March 1994. It ended March 1994 with 16,550 employees and 1,121 branches. During 1993/94, Dena Bank achieved gross profitability (before provisions) of 0.7% of total assets, resulting from interest receipts of 9.7%, non-interest income of 1.1%, interest expenses of 6.9%, and operating costs of 3.1% (down from 3.4% in 1993/94). Dena Bank's deposits grew 18.8% over 1993/94, making it one of India's faster-growing deposit bases, while its advances net of loan-loss provisions grew 8.6%; its credit-deposit ratio declined from 48% in March 1993 to 43.8% in March 1994. Its risk-weighted assets grew 20.7% over 1993/94, compared with total asset growth of 21.2%. On India's standard measure of employee productivity, Dena Bank had Rs. 4.3 billion in advances plus deposits per thousand employees, up from Rs. 3.7 billion the preceding year. Its "efficiency ratio" was 81.6%, down from 98.2% in 1992/93. Non-performing advances totalled 23.9 percent of total advances at the end of March 1994, a slight increase from the 23.1% reported at the end of March 1993. As a consequence of heavy provisioning, its capital position was 6.6 percent of risk-weighted assets at the end of March 1994, which places the bank in a relatively strong position to achieve full capital adequacy relatively soon. The government's equity holding in the bank amounted to 76.4 percent of net worth in March 1994, but accumulated net losses were Rs. 1.6 billion (about US$15 million), about 3.5 times the bank's gross profit for 1993/94.

4. Indian Bank is a Madras-based bank with particular regional strength in south India. It had Rs. 13.6 billion (about US$4.4 billion) in assets at the end of March 1994. It ended March 1994 with 25,810 employees and 1,409 branches. During 1993/94, Indian Bank achieved gross profitability (before provisions) of 0.4% of total assets, resulting from interest receipts of 9.2%, non-interest income of 1.1%, interest expenses of 7.4%, and operating costs of 2.5%. Indian Bank's deposits grew only 3% over 1993/94, while its advances net of loan-loss provisions declined by 12.4%; its credit-deposit ratio declined from a relatively high 67.5% in March 1993 to 57.4% in March 1994. Its risk-weighted assets declined by 16.5% over 1993/4, while its total assets declined 7.5%. On India's standard measure of employee productivity, Indian Bank was relatively strong, with Rs. 7.2 billion in advances plus deposits per thousand employees, slightly below the Rs. 7.4 billion reported the preceding year. Its "efficiency ratio" was 87.6%, up from 72.3% in 1992/93. Non-performing advances totalled 12.9% of total advances at the end of March 1994, a considerable reduction from the 22.2% reported at the end of March 1993. As a consequence of heavy provisioning, its capital position was 3.3% of risk-weighted assets at the end of March 1994. The government's equity holding in the bank amounted to 62% of net worth in March 1994, but accumulated net losses were Rs. 3.9 billion (about US$125 million), almost six times the bank's gross profit for 1993/94.

5. Syndicate Bank is based in the state of Karnataka, with particular regional strength in that state and Maharashtra. It has some overseas branches, in places such as London. It had Rs. 121 billion (about US$3.9 billion) in assets at the end of March 1994. It ended March 1994 with 36,540 employees and 1,558 branches. During 1993/94, Syndicate Bank's gross profitability (before provisions)% of total assets was negligible, resulting from interest receipts of 9.3%, non-interest income

of only 0.9%, interest expenses of 6.7%, and operating costs of 3.5%. These operating costs were particularly high; they had reached 3.9% in 1993/94. Indian Bank's deposits grew 14.1% over 1993/94, while its advances net of loan-loss provisions declined by 5.8%; its credit-deposit ratio declined from 47.7% in March 1993 to a relatively low 39.4% in March 1994. Its risk-weighted assets grew only 3.7% over 1993/4, while its total assets grew 21.6%. On India's standard measure of employee productivity, Syndicate Bank had only Rs. 3.9 billion in advances plus deposits per thousand employees, just above the Rs. 3.6 billion reported the preceding year. Its "efficiency ratio" improved from 141% in 1992/93 to 99%. Non-performing advances totalled 29.4% of total advances at the end of March 1994, a substantial increase from the 24.7% reported at the end of March 1993. As a consequence of heavy provisioning, its capital position was only 0.1% of risk-weighted assets at the end of March 1994. The government's equity holding in the bank amounted to 82.7% of net worth in March 1994, but accumulated net losses were Rs. 9.7 billion (about US$310 million).

6. Indian Overseas Bank is a Madras-based bank with particular regional strength in south India and overseas branches in several Asian market centers. It had Rs. 131.3 billion (about US$4.2 billion) in assets at the end of March 1994. It ended March 1994 with 25,970 employees and 1,407 branches. During 1993/94, Indian Overseas Bank's gross profitability (before provisions) was 0.4% of total assets, resulting from interest receipts of 8.1%, relatively high non-interest income of 2.1%, interest expenses of 7%, and operating costs of 2.8%. Indian Overseas Bank's deposits grew 13.7% over 1993/94, while its advances net of loan-loss provisions declined by 0.6%; its credit-deposit ratio declined from 56.5% in March 1993 to 49.4% in March 1994. Its risk-weighted assets grew 23.7% over 1993/94, while its total assets grew 21.8%. On India's standard measure of employee productivity, Indian Overseas Bank had Rs. 6.2 billion in advances plus deposits per thousand employees, considerably above the Rs. 5.1 billion reported the preceding year. Its "efficiency ratio" was 88.1%, down from 119% in 1992/93. Non-performing advances totalled 33.1% of total advances at the end of March 1994, a slight increase over the 31.1% reported at the end of March 1993. Its capital position was 2.8% of risk-weighted assets at the end of March 1994. The government's equity holding in the bank amounted to 82.3% of net worth in March 1994, but accumulated net losses were Rs. 11.0 billion (about US$353 million).

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Institutional Development of Nationalized Banks

1. Participating banks are well into turnaround efforts involving every level of their organizations, triggered by the financial policy reform initiatives beginning in 1991. When GOI provided additional capital to the nationalized banks at the beginning of 1994, senior management of the banks signed Memoranda of Understanding with the RBI, committing their banks to short-term performance targets and development activities. These led the banks to carry out certain essential improvements, which have already had positive consequences. Nevertheless, the nationalized banks still have many weaknesses that will require sustained efforts to overcome. Over the medium-term, as India's financial markets are liberalized, competitive pressures will force the banks to redesign policies, procedures and products; automate their basic functions; redesign their work processes; rationalize their organizations; train their staff; and nurture changes in their corporate "culture" as they transform themselves from state bureaucracies into business enterprises. Priority areas are: (a) strategic planning; (b) computerization/automation; (c) human resource development (HRD); (d) credit management; (e) asset-and-liability and treasury management (ALM and TM); (f) organization; and (g) marketing.

Strategic Planning

2. Present situation: With interest-rate levels and planned business growth determined by GOI and RBI policies, nationalized banks have tended to be passive recipients of deposit resources, and they have provided loans on the basis of the resources available according to detailed norms. The passive nature of their operations implied limited scope for strategic planning. To the extent banks undertook longer-term planning activities, they have been guided by such traditional priorities as deposit growth rather than efficiency and profitability. Recently, however, recognizing that the liberalized environment will make it essential, banks have begun actively to develop strategic-planning capabilities.

3. Development needs: Formation of strong strategic-planning capabilities is central, indeed crucial, to the participating banks' development effort. The banks need to be able on a continuing basis to describe clearly where they plan to be one, three and ten years out. At the same time, they need to develop the organizational capacity to implement whatever changes the strategic plan requires. In a bank with strong planning capabilities, the strategic plan would be well understood throughout the organization, and would become the focus of the bank's "culture."

4. As part of their strategic-planning capability, the nationalized banks need to develop capacities to measure the profitability of their various kinds of businesses; to analyze markets, competition, and economic contexts; to test the sensitivity of forecast results to variations in assumptions; to evaluate new investments; and to bring fresh insights into planning how profit and

capital adequacy goals will be met. They need also to develop the skills to "cost" their operations: reliable cost accounting is essential to enable banks to determine the profitability of existing and possible future business activities. Determination of branch profitability is especially important given the banks' large numbers of branches. Since technology will figure so largely in each bank's medium-term plans, development of an automation strategy will be closely linked with the strategic planning exercise generally.

5. Project support: Rapid development of the banks' strategic planning resources will require specialized assistance. The project would therefore provide support for such services to assist the banks in: (a) developing a solid strategic planning process, (b) training staff and line managers in its use; (c) assembling necessary data; and (d) helping management prepare the first round of strategic plans. Depending on its existing planning resources and the scope of the effort undertaken, each particular bank management has indicated the level and nature of external assistance required.

Computerization/Automation

6. Current situation: The banks included in the project reported having fully computerized all their operations in 5-15 branches and some of the functions at head office and zonal/regional offices, as well as having installed electronic communications linking a few key offices and branches. Computerization investment so far averages about Rs. 100-200 million (US$ 3-6 million) in each bank. The "fully computerized branches" have installed networked personal computers for such operations as demand drafts, foreign exchange dealing, automatic signature verification, one-window service and back-office operation. Computerization at head office and zonal/regional offices includes payroll and reconciliation, and has also been applied in limited ways to credit management, personnel, inventory, statutory returns and some management information. Connections to the SWIFT network for transmitting international financial messages have been installed at a few branches dealing with overseas business.

7. The recent agreement between the Indian Banks' Association and the staff unions has removed the principal constraint on computerization. On the whole, however, the banks' automation is far behind what is needed, and the banks now need to catch up rapidly. This will be difficult: banks face serious obstacles, including insufficient technical staff, inadequate power supplies, a deficient communications environment, and inappropriate facilities.

8. The banks' in-house staff for planning and managing information and technology has been centralized in Computer Policy and Planning Departments (CPPDs), which all the banks had set up following recent RBI guidelines. Each CPPD is staffed by about 40-60 bank officers trained and experienced in information and technology. Additional automation staff are in place in zonal/regional offices and at fully computerized branches. Purely technical requirements such as hardware maintenance are met through external contractors. Computer training for staff in branches and in other offices is provided both in-house and at external training institutes. In the banks visited, information and technology planning consists at best of annual automation plans consistent with the banks' annual plans. For most banks, the shortage of staff skilled in both banking and in automation planning has made this exercise difficult.

9. The banks possess limited management information systems (MIS), consisting of little more than the data gathered as required by the RBI. The information is compiled manually, at many stages with only partial use of computers. As a consequence, information is made available to management only with lengthy time lags, and cannot be rapidly disseminated within the institutions. In a practical sense, since the banks comprise large numbers of far-flung branches with limited internal communications, at any moment they can only estimate their aggregate asset and liability positions.

10. The banks submit a large number of complex reports to RBI, which processes the data further to produce summary statistics. While in principle these data could serve as the foundation of a MIS, they tend to be out of date by the time they are complete. Recent efforts by the banks and RBI to simplify the reports and reduce their number have produced some improvements.

11. Inter-branch reconciliation is a particularly large problem. Since inter-branch communications are so poor, many banks have come to construct their basic working statistics on the basis of key branches that can communicate readily with head offices as a relatively small number of their larger branches account for the preponderance of their transactions.

12. <u>Development needs</u>: The banks indicated that their foremost objectives in computerizing are to improve (a) customer service, (b) internal control, (c) decision- making, and (d) productivity and profitability. The banks' computerization strategies also need to address requirements in such areas as credit management, treasury and asset/liability management, general ledger, and management information systems.

13. It is important that the banks' computerization strategies be closely linked with their strategic planning processes. Banks' computerization strategies need to incorporate (a) methodologies for forecasting and monitoring costs and benefits of computerization; (b) systems "architectures" compatible with the RBI's plans for computerizing supervision activities, the payments system and the check clearing system; (c) approaches to streamlining work flows to take full advantage of information technology; (d) policies and procedures for auditing computer systems; (e) policies and plans for security, reliability and disaster recovery; and (f) a rolling implementation plan that is specific for the first two years and flexible for subsequent years, including plans for training and on-going support.

14. The banks have little in-house experience in installing and managing communications networks, and will need to develop such systems. They have little experience in auditing computer systems, and will need to develop this capability. The participating banks have identified 2-4 individuals each for training audit computer systems.

15. Training for in-house staff in planning and managing computerization will be an essential by-product of the developmental activities mentioned thus far. In addition. banks' planners and managers will need to become more knowledgeable about effective use of computerization of commercial banks in other countries.

16. Progress toward development of an automated MIS should be a high-priority development goal in each bank's automation strategy. This is particularly important for asset-and-liability management and also for profitability and market analyses. Elimination of unnecessary reporting and simplification of internal forms are also essential aspects of MIS development.

17. Project support: The project would support the banks' efforts to advance their computerization. In particular, it would provide support for external consulting services to assist banks in (a) formulation of information and technology strategies; (b) elaboration of plans for auditing of computerized operations; and (c) study tours for planners and managers to understand effective use of technology in commercial banks outside India. Twinning arrangements would also be explored with foreign banks.

18. Automation development also would include (a) planning and developing (or acquiring) data bases and applications software for credit management, TM/ALM, management information systems and other applications; (b) determining technology upgrades at head office and zonal/regional offices as necessary to support these applications; (c) modifying applications software in totally computerized branches as necessary to meet changing needs; and (d) planning and implementing upgraded communications between head office, zonal/regional offices and major branches. The banks have some in-house capability for the first three of these items. Services would be provided under the project to help manage planning and implementation of the communications network development for about one year, until the requisite skills become available in-house.

Human Resource Management and Development

19. Current situation: About 50% of each bank's staff are clerical employees, about 30% are officers, and the balance are support staff. Officers tend to be heavily clustered in the lower two of the seven officer scales. Among all employees there is a preponderance of college graduates (70% in one bank). 90% of the work force is employed in the branches. The IBA agreement with the unions that permitted the banks to proceed with automation specified that the banks would not terminate staff except for cause.[1]

20. Development needs: The senior managements of participating banks are aware that they need to improve day-to-day human resource management, upgrade skills, strengthen the banking culture, and improve productivity. They typically cite human resource improvement needs as their number one priority. It is important to emphasize that, particularly given the large sizes of the organizations, human-resource planning needs to be carried out in the context of an overall strategic development plan.

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[1]In one bank, no more than 1 in every 5,000 employees is terminated "for cause" in a typical year.

21. The banks need to examine policies and programs for (a) setting and articulating performance standards; (b) strengthening motivation to meet goals and standards; (c) improving productivity, and perhaps improving quality and customer service; (d) accelerating and focusing skills development; and (e) developing the ability to attract and retain skilled persons in such high-demand as technical areas information technology, treasury operations and foreign exchange.

22. Bank managements face a particularly large problem in the area of staff training. Banks' training faculties need to meet priority requirements in newer as well as traditional banking areas. Emerging training needs include not only automation but also merchant banking, credit management, marketing, product pricing, lending in new sectors, treasury management, asset/liability management, foreign exchange, management information systems, strategic planning, and computer audit.

23. Project support: In view of the size, importance, complexity, and sensitivity of these needs, the project would provide support to each bank to conduct two main tasks:

(i) Overall assessment: Consultancy services to be provided would help the bank assess all major human resource practices. They would first determine the desired results of human resource management, then assess the current human resource condition in the light of these requirements; and in each area where significant shortfalls are identified, determine how best to reshape current practices.

(ii) Training: Support would also be provided to assist the bank in conducting training-needs analyses for key jobs, updating training curricula, developing new internal training programs, improving all elements of the training infrastructure and identifying external-training programs in new skill areas as they may be needed.

24. For the training tasks, funds would be provided to the banks under the project for two selected aspects of training implementation: (i) to retain experts to develop the content of internally-designed training programs where such expertise is unavailable within the bank, and (ii) to provide external training to a core staff in new functional and business areas.

Credit Management

25. Present situation: In response to the tightened asset classification and income recognition norms and the authorities' enhanced emphasis on loan quality, all the banks have made changes in some aspects of their credit management systems. Banks have directed lending officers to scrutinize credit applications more thoroughly, and are monitoring existing portfolios more closely to prevent deterioration of performing advances into non-performing assets (NPAs). In addition, they have developed intensive programs to reduce their high NPA levels. As noted above, over several years before 1991, nationalized banks' credit management became relatively lax, and the asset classification system then prevailing, based on the presumable realizability of collateral, enabled banks to avoid downgrading loans. Policy changes following the Narasimham Committee report have brought about the current reform effort.

26. All participating banks use similar systems of delegated authority for loan approvals. Branch managers have authority to approve loans up to a certain size, regional managers have authority to approve larger loans, and zonal managers have authority to approve still larger loans. Each loan decision is then reviewed, after commitment or denial, by the next highest supervisor level holding a higher delegated authority. The largest loan applications must be approved by top managers, or even by the board of directors. No single borrower may receive more than 25%, and "group" borrowers may receive no more than 50%, of the bank's paid-in capital and reserves.

27. Organizationally, some institutions concentrate credit policy and larger approvals under a single General Manager at the head office. Others fragment responsibility for approvals among several General Managers, mainly to balance work loads. Loan approval processes have tended to be slow, particularly those of larger loans since the paperwork must make its way from branch submission up the organization chain. Some nationalized banks, anticipating intensified competition, have already begun experimenting with streamlined approval processes.

28. Bank boards review asset growth targets, sector allocations, loan-recovery objectives, and lending concentrations at least annually. The boards also set overall credit policies each year, in consultation with top management. These credit policies are based in turn on RBI's semi-annual credit policy statements in April and October, which are formulated in the light of overall macroeconomic objectives and trends.

29. The participating banks have all established recovery units and have assigned loan recovery a high priority. Basic responsibility for recovery usually remains with branch managers, but the recovery units provide specialized technical and legal services. Some banks handle the larger problems at their head offices, but the majority delegate decision-making, although with technical and legal assistance and direction from the head office. Many banks have established systems of delegated authority parallelling the loan approval system for approving compromises with defaulting borrowers.

30. An important characteristic of Indian bank credit operations is the use of the "cash credit" modality -- a form of limited overdraft lending -- for most corporate working-capital lending. Banks approve borrowing limits according to asset coverage and seasonal requirements. It has proven difficult for bank managers to gauge whether such a loan is deteriorating. Most cash credit lines are collateralized, but the legal system has tended to make recovery difficult. In addition, the cash-credit modality has complicated banks' liquidity management: once a line has been approved, borrowing is at the borrower's initiative. Banks and bank regulators have sought to discourage cash credit and encourage term lending, but Indian manufacturing firms find cash credit convenient since they themselves are subject to unpredictable variations in their inventory cycles and to overdue payments on their own receivables.

31. Aspects of the credit process requiring improvement include (a) processes of credit review, monitoring, testing, and analysis, so banks can evaluate the performance and profitability of their credit operations; (b) the approval process which needs to be speeded up to maintain pace with competition; (c) credit documentation, internal systems of credit policy and credit product development, including improvement of the ability to identify strong and weak economic sectors and;

(d) the organization of the credit function and methods of recovering NPAs, or of restoring NPAs to performing status.

32. Development needs: Many of the needed improvements in the credit area require limited external assistance. These include examination of the delegated approval systems; establishment of peer-review systems; and review of priority-sector lending policies and programs. Development of marketing and pricing strategies to encourage term borrowing and discourage cash-credit borrowing would best be undertaken by individual banks with a minimum of outside advice, since this would have to be tailored to their clients' particularities. Finally, the banks appear to be developing strong recovery programs, and again are in the best position to know how to work with their particular clients.[2] One area in which the banks could apply external support would be the institution of systems of credit review, covering the approval process and the performance of loans provided. Another area would be in developing training programs for staff in the field of credit management.

33. Project support: The project would provide technical assistance in credit management, mostly in the form of consulting services to enable banks to design the credit aspects of their strategic plans, but also in the form of training activities and specific advice for such problems as streamlining approvals and improving credit documentation. Consulting services could also be provided to assist the banks with credit policy formulation and with product development, including (a) development of an automated credit MIS (in coordination with the computerization aid and assistance in developing the MIS) and (b) a credit development program designed to train "the next generation" of credit officers, which could be implemented in conjunction with a "twinning" arrangement.

Asset and Liability Management/Treasury Management

34. Present situation: At present Indian banks' ALM systems are still in rudimentary stages, but interest-rate liberalization is likely to make ALM crucial for profitability, particularly as competition forces the banks' interest spreads down. The banks' ALM systems are uncoordinated, with different units carrying on such ALM functions as treasury, investments, funding, and foreign exchange operations. In most banks ALM amounts to (a) more-or-less disciplined approaches to managing cash balances, the investment portfolio, and interbank operations, in response to the cash flows arising from deposits (and the reserves required against them), borrowing and credit operations; (b) some management of deposit liabilities, mainly through CD issues (interest rates on which are now free), and (c) investment portfolio management.

35. Commercial banks' investment portfolios consist mainly of government securities eligible to satisfy the Statutory Liquidity Requirement and other securities. Over the past 12 months banks have been authorized to make limited purchases of public-sector-undertaking (PSU) bonds and equities. The banks have been instructed to designate half their portfolios as "permanent" and the

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[2]The Narasimham Committee recommended that the banks' bad loans be turned over to an Asset Reconstruction Fund, but after considerable deliberation, GOI concluded that the banks themselves were more likely to be able to recover more effectively.

other as "current," with the latter to be marked to market for income-recognition purposes.[3] Banks have begun to set maturity distribution policies, setting exposure limits and creating senior management review committees.

36. With interest rates largely administered, up to now there has been little scope for interest-rate gap management. Margin data are available with a considerable lag after the semi-annual balance-sheet closings; without this information on a timely basis, ALM had not been possible.

37. All participating banks have or plan soon to begin treasury management (TM) systems to respond to liquidity swings. The cash reserve ratio (CRR) must be satisfied and since penalties for failure to comply are stiff, banks try to maintain it within comfortable margins. On the basis of the liquidity indicators they have, the banks' TM units determine the appropriate borrowings and placements each day as a function of available liquidity and the going average CRR balance running over the fortnight.

38. Development needs: Bank managements expect interest-rate liberalization rapidly to create a need for ALM systems, and are trying to prepare in advance. The banks will need to work toward global ALM systems, which would deploy all the bank's assets and liabilities in mutually consistent ways so as to coordinate and control their overall balance-sheet evolution. They will also need to establish an automated ALM MIS. Such a system would gather together relevant data and provide analysis for management action.

39. Project support: Consultants would be needed to design asset-and-liability management models that would enable the banks to identify data requirements, developing margin and liquidity analyses, structure asset-and-liability committee (ALCO) agendas, and introduce gap-management techniques.

Organization

40. Present situation: Historically, the banks have all used a four-tier geographic organizational structure comprising a head office, zones, regions, and branches, through which they managed between 1,100 and 2,400 branches and between 16,000 and 53,000 employees. Zonal offices report to the head offices, regional offices report to zonal offices, and branches report to regional offices. The typical regional office manages between 40 and 60 branches. More than half of most banks' branches are small rural branches; the rest serve semi-urban, urban and metropolitan locations. Roughly 90% of the work force is employed in the branches, about 3% works in the head office, and the remainder works in zonal and regional offices.

41. Head offices are typically organized under several General Managers, each of whom reports to the bank's top two officers, the Executive Director and the Chairman/Managing Director. General Managers typically have several, frequently unrelated, operating and staff functions. For

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[3]For 1993/94 the banks were instructed to designate 70 percent of their investment accounts as permanent.

example, some General Managers are responsible for overseeing both a given function throughout the bank and most line functions in a given zone. General Managers responsible for internal audit and vigilance, however, are dedicated exclusively to these functions. They are usually placed by the Government in the banks for three-year periods. Dedicated units to deal with NPA have been added in response to recent GOI and RBI directives (as discussed below).

42. At the top level, governance has been exercised largely through directives and advice from the RBI and representatives of GOI. The Board of Directors, chaired by the Chairman and including the Executive Director, also has important roles in setting overall policies, developing business plans, and approving large loan proposals. At present all directors are GOI or RBI appointees, although some directors are appointed as representatives of particular constituencies. As noted above, private shareholders' representatives will join the boards of nationalized banks, once they go to the market and offer equity to private investors. The Chairman is appointed by GOI for periods of up to five years, although many Chairmen serve shorter terms. The Chairmen of the nine banks visited are all seasoned career bankers who have served in other Indian nationalized banks.

43. Participating banks are all reviewing their organization structures, focussing on the needs to (a) impart stronger direction to certain key functions, (b) improve customer service, (c) add new staff functions and business units, and (d) reduce costs. Some banks have already done some reorganizing, e.g., increasing the number of General Managers, combining related head-office staff functions, eliminating part or all of the tier of zonal offices, reducing the number of regional offices and merging or otherwise rationalizing branches. Some are using consultants in this effort. Most have also opened new branches, typically specialized branches and regular branches in particularly fast-growing areas.

44. Development needs: In the near-term, the banks must continue rationalizing their head office and zone-region-branch structures. Most of the banks need to consolidate leadership of disparate credit and ALM functions. Most also need to augment their marketing resources, at the head office, zone and region levels. Zones, regions, and branches need to be further rationalized to eliminate excess costs, improve customer service and deal with chronically loss-making branches including reviewing their methods of measuring branch profitability. As noted earlier, all the banks visited have begun moving in these directions.

45. For the longer term, the banks need to examine their organizations more fundamentally. As they reformulate their business priorities and develop strategic plans, organization structures must be designed to help bring these priorities and plans about. Certain staff and operating functions such as automation, treasury management, asset/liability management, marketing, loan recovery, relationship management, and strategic planning may need to be expanded, and others reduced. In these same areas, skills will need to be enhanced.

46. Current and new strategies will require changes of job descriptions at all levels -- e.g., the branch manager's job may need to be restructured to address new priorities, expanded functions, and higher performance demands. Basic business processes, and their organizational underpinnings, will also need to be streamlined.

47. Project support: On the whole, the area of organization is generally best left to the banks' managements, since they know the practical realities of bank operations and staff and are therefore in the best position to work out the most efficient organization. The project could provide some consulting support to banks, however, for technical help as necessary to design and implement near-term organizational improvements, and to help banks evaluate other possible organizational improvements. For the longer-term, the project could help the banks carry out more fundamental reassessments of their organizations, in keeping with new strategic plans. External resources can bring fresh insights and new analytical methodologies to the banks' managements regarding organization.

Marketing

48. Present situation: Bank managers are increasingly aware that marketing offers considerable potential, particularly in anticipation of emerging competitive pressures. Banks have therefore begun conducting market and competitive research, working on product design, and formulating advertising and promotion campaigns. Marketing is coming into its own in the banks as an operating responsibility, to be conducted by all zone-region-branch managers and certain other field staff. Branch managers receive some marketing training, but this has tended to focus on deposit mobilization. Marketing for lending and fee-based activities is relatively new to most of the nationalized banks.

49. Development needs: The banks must all accelerate the development of their marketing resources. Their objective should be to build full-scale bank-wide marketing programs and to bring effective marketing practices to bear in all depositor and client relationships. The strategic-planning exercise should be extended to include marketing plans, spelling out market-oriented goals and actions necessary to meet bank-wide revenue and funding targets. The banks will need to develop associated capabilities in such areas as market research; product/market profitability analysis; product development, pricing, and performance monitoring; development of business-unit marketing plans, and support services to operating managers in developing market-oriented skills and attitudes. Particularly as India's financial markets become more competitive, achievement of the banks' financial plans will require strong marketing practices and capabilities.

50. Project support: Under the project, support would be provided to the banks in developing marketing programs and infrastructure. Banks in a number of countries have used marketing in competitive environments and have honed their techniques through practical experience. India's banks could draw on this experience by bringing in bank-marketing specialists to review and help develop the banks' marketing capabilities. In addition, consultants with bank marketing or even consumer-goods marketing experience could provide helpful insights.

INDIA
FINANCIAL SECTOR DEVELOPMENT PROJECT
INSTITUTIONAL DEVELOPMENT - CONSULTANCY

Terms of Reference

1. The overall objective of these Terms of Reference is to provide participating Banks with a package of technical assistance which will provide substantial impetus to their success as modern, competitive, profitable commercial banks.

2. The specific elements of this development program are based on two sources: (i) banks' internal diagnostic reviews, and; (ii) a diagnostic review of the Bank conducted by the World Bank in August, 1994. The specific elements of the program cover five key banking areas - i.e.,

(a) Strategic planning
(b) Automation
(c) Organization
(d) Functional areas of human resource management and development
(e) Credit management, asset/liability management, and management information systems and marketing

3. These Terms of Reference focus on the required results, not on the methodology for achieving them. The Consultant is expected to suggest the most effective, and particularly the most cost-effective, development methodologies and outline them in their proposal. In developing the proposal, the Consultant also should feel free to point out deliverables where the development costs may not seem to be justified, and areas that the Consultant believes are particularly important for Indian banks that have not been identified in these Terms of Reference.

STRATEGIC PLANNING

4. Development program. In this area, the consultant is expected to:

(a) Develop a strategic and financial planning process to fits the needs and situation of Indian banks, including elements such as:

- Analyses of markets, competition, and the profitability of business units, key markets, products and services, and customers
- Definition of the Bank's mission, component businesses, goals, basic strategies, basis for successful competition
- Definition of target markets
- Identification of key products and services
- Identification of financing and other resource requirements
- Planning of specific implementation actions

(b) Define the information needed for sound strategic planning; devise practical ways to generate the needed information

(c) Train core staff to use the process - i.e, planning staff members and key head office, zonal, regional and branch managers

(d) Work with bank staff to develop the strategic plan and the specific actions for implementing the plan; and work with bank staff to develop the supporting financial plan.

Planning the automation of the bank will be an integral part of the strategic planning, as described in the next section.

5. Development program: In this area, the Consultant is expected to:

(a) Assess the organization structure (head office units and a sample of zonal, regional, and branch offices) in the context of the new strategic plan

(b) Plan a new or modified organization structure of head office units directly focused on successfully executing the strategic plan

(c) Identify opportunities for rationalizing the zone/region/branch network

(d) Plan a new or modified organization structure of a "model" zonal office, regional office, metropolitan branch, urban branch, semi-urban branch, and rural branch

(e) Identify the required staffing levels and skill requirements in each modified organization unit

(f) Prepare a concrete plan for implementing new structures.

In defining new or modified organizational units, the Consultant will provide sufficient detail about the unit so the bank can successfully implement it - e.g., the unit's basic mission, main responsibilities, and key functions for carrying out each responsibility, as well as the required staffing levels and main skill requirements as noted above,

HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

6. Development program: In this area, the Consultant is expected to:

(a) Define the bank's specific objectives for its human resources (e.g., performance, qualifications, costs, culture, deployment, motivation); assess the current situation in terms of these objectives; identify the gaps and the levers for closing the gaps

(b) Upgrade current human resource management programs, and their implementation, to achieve the defined objectives; identify needed improvements in the human resource management organization structure, staffing, and skills

(c) Assist training staff to conduct a forward-looking training needs analysis of key managerial, professional and clerical positions in the new organization structure; revise the training curriculum and define needed improvements in on-the-job development practices to meet skill shortfalls

(d) Identify needed improvements in the training infrastructure - e.g., planning, trainee and trainer selection, trainer training, course design, training methodologies, materials, facilities, evaluation.

(e) Define the organizational culture required for successfully operating in the mode of the new strategy; assess the existing culture against these requirements; plan the actions needed to close the gaps.

CREDIT MANAGEMENT

7. Development program: In this area, the Consultant is expected to:

(a) Assess the quality and results of the bank's current credit management processes, organization, skills, information, and support resources

(b) Work with credit staff and senior management to upgrade, where needed, current processes for rupee and foreign currency lending, enterprise and individual lending, short-term and long-term credits, project finance, and syndicated and consortium lending - addressing the full scope of the credit process, including:

- Credit policies
- Credit products
- Portfolio management
- Origination
- Underwriting standards, analysis, and risk-rating
- Collateral
- Structuring and pricing
- Approval, lending authorities
- Administration and documentation
- Monitoring
- Classification and provisioning
- Problem loan identification, management, and workout
- Control (credit audit)

(c) Identify credit information and automation requirements

(d) Upgrade the credit management organization structure, in the context of the bank's strategic plan and the revised credit processes

(e) Train a core staff in the implementation and use of the revised credit processes

(f) Identify ongoing credit skill needs; develop a plan for meeting them.

ASSET/LIABILITY MANAGEMENT (ALM)

8. Development program: In this area, the Consultant is expected to:

(a) Assess the current and anticipated scope of asset/liability risks and opportunities in the context of current operations and the strategic plan

(b) Define ALM policies - authorities, targets, risk parameters, limits, funding, investment securities, guidelines for concentrations and diversification, positioning of balance sheet/earnings stream, etc.

(c) Develop or improve basic asset/liability management processes, such as:

- Pricing management
- Interest rate risk and gap management
- Liquidity management
- Foreign exchange management
- Earnings management
- Management of operational, market, political, legal, regulatory and other risks

(d) Identify ALM information (internal and external), analytical, modeling and reporting requirements and an appropriate modeling software package

(e) Assess the current ALM organization structure (in particular, the Asset/liability Management Committee, its support organization, and the role of Treasury and other units); identify and help implement necessary improvements

(f) Train core staff in the use of the new ALM processes; work with the Asset/liability Management Committee in its early meetings utilizing the new processes

(g) Identify additional skill needs of key managers and staff and develop a plan for meeting them.

MANAGEMENT INFORMATION SYSTEMS (MIS)

9. Development program: In this area, the Consultant is expected to:

(a) Design "stopgap" MIS enhancements to directly support the new strategy, credit, ALM, HRM, and marketing requirements

(b) Design a comprehensive integrated MIS to cover key banking areas such as:

- Business unit reporting
- Business/market segment/customer/product profitability
- Credit management
- Asset/liability management
- Productivity management
- Zone, region, branch management
- Customer information
- Regulatory reporting
- Internal audit
- Human resource management and training

(c) Prepare an implementation plan, including practical manual and automated solutions, near-term and long-term actions, and migration from "stopgap" measures

(d) Identify the organization, responsibilities, staffing, skills, and other resources needed to support effective utilization of the MIS.

MARKETING

10. Development program: In this area, the Consultant is expected to:

(a) Design the marketing organization structure; define marketing responsibilities across the organization; define staffing and skill requirements

(b) Help marketing staff strengthen the market research and analysis conducted during the strategic planning work, to cover macroeconomic developments, competitor strengths and weaknesses, customer needs and behaviors, and other key areas

(c) Help evaluate existing markets and identify and evaluate new markets; plan the product/market matrix; design selected new products and/or enhance key existing products; plan product positioning.

(d) Design marketing strategies and plan marketing and sales programs; help plan advertising and promotion; establish marketing budgets

(e) Identify ongoing marketing skill requirements and develop a plan for meeting them.

METHOD OF WORK

11. The participating bank and the Consultant will work out the best methodologies for conducting the work. However, based on previous consulting experiences in other countries, certain basic characteristics of the method of work are advisable, as described below:

(a) The work would be highly participative, requiring significant investment of the time of Indian bank managers and staff - which is essential for the results to fit the bank, for the bank to have a sense of "ownership" of the results, and for developing the skills of managers and staff to continue improving and revising the programs as conditions change.

(b) Experts from the Consultant will team up with counterparts from the bank to conduct each work module. The counterparts would, at minimum, be responsible for data-gathering, certain analyses, and some of the documentation of agreed-on results; and, depending on their skills, could participate in developing recommended improvements and new processes.

(c) Functional managers (e.g., in credit, ALM, HRM, marketing) would participate with the Consultant's experts in developing recommendations, and take the lead in implementing approved recommendations.

(d) Senior management would review all recommendations, help to refine them as necessary, and decide on their adoption; and, as a practical matter, would be directly involved in the planning of strategies, policies, implementation, and other key elements of the program. In addition, they would be trained in certain banking skills required for their full participation in such areas as strategic planning, credit management and asset/liability management. One Board member would be assigned responsibility for coordinating the overall program on behalf of the Bank.

(e) Senior management would expeditiously make necessary reorganization and managerial and staff redeployment decisions as the work progresses.

TIMING AND SEQUENCE OF THE WORK

12. The management of the banks would like the work to start as soon as possible and be conducted at a reasonably rapid pace, limited only by the capacity of the organization to conduct their part of the work and absorb the changes being introduced. Management expects that the program may take two to three years to be fully completed, but the sequencing and pace of the work should be organized so as to start to produce usable results within three months from the commencement of the program. Additional usable results should be generated sequentially all during the balance of the program.

13. The Consultant should suggest in its proposal the most logical sequencing of the work and implementation of the outputs, for discussion and finalization with management.

14. The bank will need documentation of the plans, progress, and outputs of the work. At a minimum, the Consultant will prepare and review with management the following:

- Within six weeks of commencing work, a detailed updated work plan, including the proposed work steps, level of effort (work-weeks), and scheduled outputs

- Quarterly progress reports documenting findings, issues, conclusions, recommendations, proposed end-products, implementation plans, and next steps in the program.

Specific reporting requirements, including contract budget, expenses and payments, and implementation progress will be agreed between bank management and the Consultant during contract negotiations.

TRAINING REQUIREMENTS

15. The Consultant will provide two types of training: (a) "on-the-job training" for the bank's counterpart staff who are working with the Consultant for their roles in the work; and (b) training of core staff and managers in the utilization of new or revised processes. This training could be provided at the bank, at the Consultant's facilities, or through other methods as appropriate to the skills being developed.

16. This component does not include training in "basic" skills such as accounting, financial analysis, and computer operations - on the understanding that these will be provided by the bank, either through training within the bank, or through other methods. This will require that skill needs are planned and met in advance of the time persons with basic skills are required for training by the Consultant in the new or revised processes being developed during the program. These skill needs should be discussed and agreed by the bank and the Consultant early in the program.

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Rating Agencies in Banking

1. There are three existing rating agencies in India all of whom have been promoted by financial institutions and commercial banks. These are the Credit Rating Information services of India Ltd (CRISIL) and the Investment Information and Credit Rating Agency of India (ICRA) and Credit Analysis and Research Limited (CARE). These rating agencies have undertaken rating of debt instruments of banks and financial institutions. Within three months, these agencies are expected to analyze the debt servicing capabilities of EBs and give ratings accordingly.

2. CRISIL is a private rating agency sponsored by the ICICI, HDFC, ADB and foreign banks. It was commissioned in 1987 following Moody's recommendations for the establishment of a rating agency in India. It conducts rating services as well as a popular ranking exercise for the entire banking sector based on published balance sheet data. The firm has adapted the "CAMEL" package, a popular US rating package to an Indian variant called "CRAMEL".

3. ICRA, a quasi-public sector agency promoted by the IFCI and other financial institutions has three years of operational experience. The SBI was the first bank to approach ICRA for rating, and was awarded +AAA rating, which was subsequently confirmed by CRISIL as well. ICRA has also entered into a technical collaboration with International Bank for Credit Analysis (IBCA) of UK for assistance in rating in the banking sector in line with international norms, as and when required. ICRA has also developed a strong consultancy wing, taking on tasks of restructuring exercise for public sector banks. ICRA has tied-up with Ernest Young of UK for the completion of this assignment. Irrespective of the actual number of banks rated, both CRISIL and ICRA have a staff composition with strong banking background, and both are making forays in the consultancy sector, including surveillance and monitoring of progress of restructuring plans.

4. CARE is a credit rating and information services company promoted by Indian financial and investment institutions, commercial banks and private sector finance companies. CARE ratings are recognized or accepted by regulatory authorities like SEBI, RBI and Government of India for all instruments for which rating has been made obligatory. Incorporated as a public limited company under the Indian Companies Act, CARE is steered by a Board of Directors comprising eminent persons with long experience in financial services and other related areas. A Rating Committee comprising reputed professionals (none of them representing any of the promoters) assign each rating, assisted by the intensive analysis by a team of professionals. The company enjoys full autonomy in its operations and the market has clearly recognized CARE for its independence, integrity and credibility. In evolving its rating methodologies, CARE has had the benefit of close interaction with most of the reputed credit rating agencies in the world. Currently, CARE is discussing with some of these agencies the possibilities for strategic alliances. CARE commenced rating operations in October 1993 and announced its first rating in the following month. To date,

CARE has completed 230 rating assignments covering 212 instruments, involving a total debt of about Rs. 68 billion and 18 Credit Analysis Ratings.

Credit Rating Process

5. A credit rating is specific to a particular debt instrument and is intended as an aid to investors to differentiate debt instruments on the basis of their underlying credit quality. Rating agencies take up assignments on the basis of a mandate from an issuer. Teams of rating analysts conduct industry specific research, meet experts, collect information from company officials and other reliable sources, visit manufacturing facilities, carry out detailed analysis which is presented as a structured report before a rating committee for assignment. After the rating is communicated to the client, one single opportunity is given for a review of the case before it is made final. In India, the issuer is given the option to accept or reject the rating. Once accepted, the ratings are placed under surveillance for the lifetime of the instrument, and depending on the performance of the issuer, the rating may be retained, placed under watch, upgraded or downgraded. The rating agencies have the prerogative to disclose the rating/change to relevant regulatory bodies in public interest.

Bank Debt Instrument Rating

6. These include all three types of debt covering short-term debt such as CDs;[1] medium-term instruments such as fixed deposits accepted from the public, and finally long-term debt instruments covering various types of debt instruments, hybrid debt instruments and subordinated debt instruments (with maturity over five years) eligible for inclusion in Tier II capital for meeting capital adequacy norms.

Risk Evaluation

7. In a rating exercise of banks and financial institutions both business as well as financial risks are carefully evaluated. Business risks are evaluated by an analysis of the regulatory environment and increased competition arising out of liberalization and their impact on banking operations. In analyzing financial risks, Indian rating agencies use various adaptations of the CAMEL model. These are:

- Capital adequacy
- Resource raising ability
- Asset quality
- Management goals, strategies, planning and control systems
- Earnings potential, profitability, and existing financial position
- Liquidity management and financial flexibility.

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[1] Recent RBI guidelines allow banks to mobilize CDs on a competitive basis by allowing them to issue CDs equivalent to 10% of fortnightly average outstanding aggregate deposits in 1992-93.

(a) Capital adequacy: This is the main parameter for the effective functioning of a bank as banks must have sufficient capital to absorb unforeseen losses, provide a hedge against risks assumed in normal business and boost public confidence in the event of sudden withdrawals. The Narasimham Committee has laid down a 6% capital adequacy norm to be achieved by March 1995, and 8% by March 1996. The rating process involves a review of the manner of computation of present capital adequacy and an estimate of the future capital adequacy requirement as well as the bank's strategy to maintain and enhance capital adequacy norms. In developing a profile of risk-weighted assets, asset quality as well as the level of loan loss provision are examined to evaluate the sources for raising capital to meet adequacy needs and for normal growth of business. The performance of a bank is analyzed in relation to the legal requirements as well with peer group performance.

(b) Resource-Raising Ability: This requires an overview of funding sources and an analysis of funding profile and costs of various sources, (deposits, refinance, bills rediscounting, call money borrowing). The deposit portfolio is analyzed in terms of size, maturity, interest rate, geographical coverage, share in the banking sector, growth trends and peer group comparison to understand the strengths in resource-raising on a sustained basis.

(c) Asset Quality: Theoretically, banks should recover their advances within the stipulated period and concentrate on reducing the quantum of NPAs. Under lending activities, an examination of the portfolio of commercial/priority/international advances; the major lending segments; the policies, organization and systems and norms for lending is followed by a review of the contaminated portfolio, default rates and delinquency patterns over a period of time. Accounting policies with respect to income recognition, and provisioning for loan losses, and write-offs are analyzed. Under the investment portfolio the two areas of scrutiny are: profile of investment portfolio (mix returns and maturity), and valuation and depreciation policy with respect to an investment.

(d) Management Evaluation: Management is a key parameter as the chairman's leadership and effective planning alone can lead to successful implementation of policies. Review of the board of directors and key personnel is followed by a study of management goals and strategies; recruitment, training and HRD; planning system; audit and inspection system; and management information system.

(e) Earnings: These are of two types, interest income and non-interest income. The percentage of savings account, current account and fixed deposits in total deposits of a bank is assessed and compared with the costs of deposits in each type of account to establish the costs of maintaining the accounts. Apart from sources and uses of funds and various profitability parameters such as yields, spreads and key financial ratios like return on assets, return on equity, plough-back of earnings. There is strong emphasis on off balance sheet items.

(f) Liquidity: The basic character of banking is the ability to meet short-term obligations. This depends on the matching of assets and liabilities profile. The rating agencies have to establish conformity to government guidelines in respect of SLR and CRR, and review the scale of inter-bank call money operations and overnight exposures, and whether asset liability matches in terms of maturity and interest rates.

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Participating Financing Institutions

The Industrial Development Bank of India

Background

1. The Industrial Development Bank of India (IDBI) was established in 1964 as a wholly owned subsidiary of the Reserve Bank of India (the country's central bank) to provide credit and other support domestic industry. The full ownership was transferred in 1976 to the Indian Government and the bank became a principal conduit for financial support to domestic industry, particularly for term credit. In October 1994, the IDBI Act was amended by an Ordinance promulgated by the Government of India (GOI). The Ordinance, inter alia, provides for (i) conversion of up to 500 million equity shares aggregating Rs. 5000 million held by GOI in IDBI into redeemable preference capital at the option of GOI; (ii) reconstitution of the Board of Directors of IDBI; and (iii) raising of equity from the capital market, subject to GOI holding not falling below 51% of issued capital. Subsequently, by a gazette notification dated November 16, 1994, GOI converted 253 million equity shares held by it in IDBI aggregating Rs. 2530 million into 16% redeemable preference shares. Although its share of total financing by all-India institutions fell over time, the bank still accounted in 1993-94 for 31.8 percent of total sanctions and 31.5 percent of disbursement granted by Indian financial institutions (up from 29.4 and 30.0 percent respectively in 1992-93 -- figures exclude commercial banks). Financial assistance provided by IDBI to industrial clients is complemented by a wide range of promotional services, ranging from advisory services to consultancy services, entrepreneurship development programs, training courses in development banking, industry surveys and others. As a response to new developments in financial markets, the bank has also launched new types of products and services such as asset credit and equipment finance, leasing, bridge financing, merchant banking, foreign exchange dealing and other financial services (see para. 6).

Organization and Staffing

2. IDBI's Board comprises 10 members, of which 9 are non-executive members. They represent a cross section of government ministries and agencies, and private industry. The current Chairman and Managing Director took over in December 1993 from the former Chairman who governed for eight years. The Board is responsible for overseeing operations and internal procedures and an Executive Committee comprising all members of the Board meets at regular intervals to take mainly credit decisions.

3. As of today, five Executive Directors report directly to the Chairman, responsible respectively for (i) Development Financing Institutions Department, Internal Audit Department, Corporate Accounts Department, Taxation, Board Division and Investor Relations Division; (ii) Project Finance Department, Business Development Division, Asset Quality Review Department, Market Research Department, Merchant Banking Division, Forex Services Department; (iii) Venture Capital Division, Technology Department, Research & Planning Department; (iv) Rehabilitation Finance Department, Resources Management Department, Electronic Data Processing Division; (v) Personnel Department, Training,

JNIDB, Administration and Premises Department, Legal Department and Debenture Trustee Cell. Field offices are organized around five regional offices, based respectively in Calcutta (with 4 branch offices), Guwahati in the North East (6 such offices), Madras (7), Bombay (6) and New Delhi (8) with each reporting to one of the Executive Directors.

4. As of September 30, 1994, IDBI had a total staff of 2801 of which 1293 were professionals. The mix of non-professionals to professionals was brought down from 1.7 to 1.17 over 1985-90, and has remained fairly stable since then. Professional staff is generally well qualified and experienced, reflecting the generally competitive salaries paid by the institution against other public and private sector institutions and the modest level of staff turnover. Internal training programs were intensified over the past years, in response to the need to adapt to new technologies and lending instruments and to increased competition in financial markets.

Market Strategy

5. IDBI's financial assistance to the industrial sector has been traditionally effected through three types of instruments: (a) direct loans and advances (64 percent of outstandings as of March 1994); (b) refinancing of industrial loans made by other All-India and state-level lending institutions and by commercial banks (17.1 percent of outstandings); and (c) discounting and rediscounting of bills to other financial institutions which formed 18.2 percent of outstandings as of March 1994. While IDBI does on occasion lend directly to smaller firms, it should be noted that medium-scale projects costing up to Rs. 50 million (US$1.6 million) are generally financed indirectly through refinancing. Also, bulk of the refinancing is provided by the Small Industries Development Bank of India (SIDBI), which was established in 1990 as a wholly-owned IDBI subsidiary responsible for lending and relending to small industry.

6. In order to expand the range of services to clients and adapt to emerging changes in the financial sector, the bank is offering new products and services outside of its traditional project lending activities, such as asset credit and equipment finance. It has also launched into equipment leasing, both to meet increasing demand for such services, and reduce asset maturity and the attendant mismatch between maturity profiles on opposite sides of the balance sheet. Also, given the withdrawal in 1991/92 of IDBI's tax-free status, lease financing is expected to limit the institution's future tax liability. IDBI has also started granting large bridge loans, given against public/rights issues and designed to increase access by clients to local capital markets. The bank entered into the area of merchant banking in 1991-92, providing professional advice and financing to industry for the raising of resources from capital markets, the acquisition of assets on lease, loan syndication, project counseling, merchant banking appraisal, capital restructuring, and the merger or take-over of existing units. So far, the bank's Merchant Banking Division has managed 118 public and rights issues for mobilizing Rs. 123.4 billion from the Capital Market. In September 1992, IDBI had set up a foreign exchange dealing room, and began, in January 1993, to offer to borrowers forward cover with respect to both their debt service obligations to the bank and payments against letters of credit backed by rupee loans, the placement of deposits abroad, swaps, forward exchange rate agreements, and other derivative products.

7. Important changes also affected the bank's traditional direct lending policies. In order to reduce risk and improve projects viability, standard equity contributions asked from promoters have been revised upwards. The system of consortium lending, which had over time reduced the degree of competition in the system has been replaced by an informal system of loan syndication. Meanwhile, the interest rate

structure was partially liberalized, reducing the scope of subsidized lending and allowing DFIs increasing freedom to charge individual customers as per perceived lending risk. IDBI also introduced, for the first time, the concept of variable Prime Rate applicable to long-term lending in December 1993.

Resource Mobilization

8. IDBI traditionally had access to low-cost resources to finance its operations. However, sources of such funds have gradually become unavailable. The bank now relies on its own credit standing instead of previously-used government backing and guarantees in accessing both capital and market borrowings. It has also lost access to the Investment Deposit Account and Capital Bonds Schemes, as well as partial access to the RBI's National Industrial Credit, now made available to SIDBI. In addition, allocation to IDBI of Statutory Liquidity Ratio (SLR) bonds has been phased out.

9. Against these shortfalls, IDBI continues to rely on internal cash flow (60 percent of resources generated in 1993/94) for a substantial share of its requirements. It will also rely increasingly on market related instruments such as public bonds, institutional borrowings, certificates of deposit (CDs) and fixed deposits to finance new lending. Fresh funds generated by the latter four instruments aggregated Rs. 32.2 billion in 1993-94. In the past year, substantial resources were raised by deep discount and double option bonds, certificates of deposit, fixed deposit schemes and unsecured floating rate bonds. Foreign currency borrowings aggregated to Rs. 7.12 billion in 1993-94. These are projected to increase to Rs. 15 billion by 1996/97. In the future, the bank is also considering leveraging its resources through asset securitization, an approach which would require reforms to the tax and regulatory regimes to make it worthwhile in the Indian context.

10. The above resources carry market rates of interest. Reflecting overall downward trends, the cost of medium-term borrowings from institutional lenders or issue of bonds is expected to come down to around 12.5 - 13 percent by 1996/97. Over the same period, the cost of shorter maturity instruments such as CDs would fall from 14 percent to around 12 percent.

Lending Policies

11. IDBI's aggregate financing recorded satisfactory growth in 1993-94, in tune with the pick-up in economic activity. Total disbursements of Rs. 80.8 billion represented an increase of 21 percent over the previous year, with outstandings as of March 1994 standing at Rs. 307.43 billion, 11.7 percent above previous year levels. Foreign currency loans' sanctions over the year increased at a faster pace of 69 percent to Rs. 12.2 billion, reflecting in part the materialization of pent-up demand following import liberalization. The share of refinancing in total operations continued to decline, amounting to only 4.3 percent of approvals against 5.5 percent the previous year. Assistance by way of underwriting and direct subscription recorded significant increases to Rs. 15.85 billion, as a response to the buoyancy of capital market activity and the bank's deliberate efforts to build up its capital market-related portfolio.

12. IDBI's financing operations are increasingly directed to private industry; on a sanctions basis, the private sector represented over the fiscal year 77.6 percent of the total, as against 20 percent for the public sector, 2 percent for the joint sector and 0.4 percent for the cooperative sector. Assistance to new projects constituted 46.8 percent of the total, as against 44.0 percent for expansion and diversification and 9.1 percent for modernization, the balance being accounted for by rehabilitation projects. Lending activity was well diversified with the leading sectors in decreasing order of importance being chemicals,

basic metals and metal products, electricity generation, textiles, fertilizers and electrical and electronic equipment, cement and food products.

13. Reflecting both the lowering of inflation and the deregulation of lending rates, interest rates on IDBI project loans were reduced by 1 percent during 1993-94. The current Prime Rate is 13.5%. Borrowers can also opt for variable interest rates under the above-mentioned system of Long Term Prime Rate.

Financial and Accounting Policies

14. IDBI follows standard prudential rules with respect to maximum exposure to both a specific business group as well as a given industry. The top ten business groups accounted for only 12 percent of the bank's total exposure as of March 1994. Chemicals and basic metals and metal products constituted the top sectors with 14 percent each of total exposure. The bank follows RBI guidelines to financial institutions regarding asset classification, income recognition, and loan provision and write-off. Although full compliance is mandated by 1994-95, IDBI already abides fully to those guidelines, as well as satisfying capital adequacy norms well above the required minimum.

Financial Condition

15. IDBI has a strong balance sheet, with an equity base (reserves included) as of March 1994 of Rs. 33.54 billion (over US$1 billion) and total assets of Rs. 345.88 billion (about US$11 billion--up to 11.3 percent over March 1993). The debt-to-net worth ratio remained at a conservative 8.9 (inclusive of contingent liabilities). According to future projections, the leverage would be maintained at acceptable levels through the coming years, given the high retention of earnings and build up of reserves. Liquidity levels are adequate, as reflected by a liquidity ratio of 2.10.

16. Portfolio quality is generally adequate. On the basis of RBI guidelines, 92 percent of outstandings (including loans and other types of assistance) was, as of March 1994, classified as standard, 5 percent as substandard and 3 percent as doubtful. Although specific provisions and other non-general reserves represented only 2.3 percent of total outstandings, general reserves and capital provide IDBI with an ample cushion to offset future loan losses.

Profitability

17. Adequate profitability has been maintained over the years, with net income up 25.4 percent in 1993/94 to Rs. 6.1 billion (pre-tax income was up 28.7 percent, but was partially offset by the loss of IDBI's tax-free status). Net return on equity was a satisfactory 23.7 percent (ratio of profit before tax to net worth), and net return on total assets was 2.3 percent. The average interest margin on loans was a satisfactory 4.8 percent. Administrative expenses remain modest at 0.3 percent of average assets.

Table 1: IDBI Balance Sheets - Actual and Projected
(Rs. million)

Year ending March	1991	1992	1993	1994	1995	1996	1997
	---Actuals---				---Projections---		
ASSETS							
Cash & Liquid Assets	28555	15161	11180	14547	21967	7547	7547
Loans Due w/in Year	22571	30412	47856	55331	58375	68412	68947
Other Current Assets	10836	30323	33333	34252	34441	35285	37133
Total Current Assets	53962	75896	92369	104130	114783	103244	105628
Loans & Investments	153553	181692	193661	214134	244510	292357	358656
Bills Rediscounted	17452	19392	20480	22551	23207	24070	25087
Bills Discounted	2042	2698	2680	2483	2734	3010	3312
Leased Assets	0	15	646	1598	3096	5797	11297
Other Assets	676	719	995	988	1037	1089	1143
TOTAL ASSETS	227685	280413	310831	345883	389368	429567	585124
LIABILITIES							
Debt Due W/in Year	8468	17144	22043	36293	35046	47123	43601
Advance Income	5863	5717	6530	10031	6262	6531	6844
Other Current Liabilities	11187	14240	15037	24118	39628	31865	35451
Total Current Liabilities	24638	37101	43610	70443	80936	85519	85897
Long Term Liabilities	182216	218242	238502	241899	269711	275812	340861
Paid Up Capital	7030	7530	7530	7530	5000	6680	6680
General Reserves	12670	14810	16442	18783	20881	24310	29127
Earmarked Reserves	1131	1100	1069	764	864	964	1064
Special Reserves	0	1621	3679	6464	10347	15292	21335
Preference Capital	0	0	0	0	1630	830	0
Share Previous	0	0	0	0	0	20168	20168
Total Equity	20831	25070	28719	33541	38721	68237	78366
TOTAL LIABILITIES	227685	280413	310831	345883	389368	429567	585124
Contingent Liabilities	4431	6938	9821	13170	13829	14520	15246

Table 2: IDBI Income Statements - Actual and Projected
(Rs. million)

Year ending March	1991	1992	1993	1994	1995	1996	1997
	-------------Actuals----------				---------Projections---------		
Gross Operational Income	21807	27632	33097	39887	43462	48829	56186
Interest expense	15872	10003	23203	26856	29553	32375	36916
Net Operational Income	5934	8830	9894	12232	13910	16453	19278
Fee Income	0	262	469	787	1351	1613	1911
Lease Rentals	0	1	34	193	586	1199	2389
Operating Profit	5934	9892	10396	13211	15847	19266	23571
Other Financial Expenses	213	128	202	198	228	262	301
Administrative Expenses	300	454	556	837	1196	1645	2257
Provisions for Bad Debts	1825	2563	2866	3522	3511	3151	2795
Interest Tax	0	209	598	701	875	1039	1252
Total Expenses	2418	3354	4214	5257	5889	6097	6605
Gross Profit	3516	5739	6182	7954	10037	13169	16966
Income Tax	0	997	1313	1846	2489	3182	3870
Net Income	3516	4741	4869	6108	7548	9986	13096

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Project Details and Summary Costs

India

Financial Sector Development Project

Components Project Cost Summary

	(Rs Crore)					(US$ Million)				
	Local	**Foreign**	**Total**	**% Foreign Exchange**	**% Total Base Costs**	**Local**	**Foreign**	**Total**	**% Foreign Exchange**	**% Total Base Costs**
1. Bank Recapitalization	3,703.0	-	3,703.0	-	74	1,157.2	-	1,157.2	-	74
2. Bank Modernization	270.8	361.7	632.6	57	13	84.6	113.0	197.7	57	13
3. Backstop Facility	-	640.0	640.0	100	13	-	200.0	200.0	100	13
Total BASELINE COSTS	3,973.8	1,001.7	4,975.6	20	100	1,241.8	313.0	1,554.9	20	100
Physical Contingencies	26.7	36.2	62.9	58	1	8.3	11.3	19.6	58	1
Price Contingencies	63.4	222.9	286.3	78	6	-47.8	7.4	-40.5	-18	-3
Total PROJECT COSTS	4,064.0	1,260.8	5,324.8	24	107	1,202.3	331.7	1,534.1	22	99

India
Financial Sector Development Project
Project Components by Year -- Base Costs

	Base Cost (Rs Crore)							Base Cost (US$ Million)						
	94/95	95/96	96/97	97/98	98/99	99/00	Total	94/95	95/96	96/97	97/98	98/99	99/00	Total
1. Bank Recapitalization	2,465.3	1,237.8	-	-	-	-	3,703.0	770.4	386.8	-	-	-	-	1,157.2
2. Bank Modernization	-	52.3	136.0	161.9	151.7	130.6	632.6	-	16.3	42.5	50.6	47.4	40.8	197.7
3. Backstop Facility	-	-	160.0	160.0	160.0	160.0	640.0	-	-	50.0	50.0	50.0	50.0	200.0
Total BASELINE COSTS	2,465.3	1,290.1	296.0	321.9	311.7	290.6	4,975.6	770.4	403.1	92.5	100.6	97.4	90.8	1,554.9
Physical Contingencies	-	5.2	13.5	16.1	15.1	13.0	62.9	-	1.6	4.2	5.0	4.7	4.0	19.6
Price Contingencies														
Inflation														
Local	-	0.8	5.9	11.5	15.5	18.5	52.3	-	0.2	1.8	3.6	4.9	5.8	16.3
Foreign	-	0.3	2.4	5.3	7.4	8.3	23.7	-	0.1	0.7	1.7	2.3	2.6	7.4
Subtotal Inflation	-	1.1	8.2	16.8	23.0	26.8	75.9	-	0.3	2.6	5.3	7.2	8.4	23.7
Devaluation	-	3.1	33.2	48.0	59.0	67.0	210.4	-21.1	-29.6	-1.9	-3.2	-3.9	-4.5	-64.2
Subtotal Price Contingencies	-	4.1	41.5	64.9	82.0	93.9	286.3	-21.1	-29.2	0.6	2.1	3.2	3.9	-40.5
Total PROJECT COSTS	2,465.3	1,299.4	351.0	402.9	408.8	397.4	5,324.8	749.3	375.6	97.4	107.7	105.4	98.7	1,534.1
Taxes	-	6.3	18.3	23.6	23.5	21.0	92.8	-	1.8	5.1	6.3	6.1	5.2	24.5
Foreign Exchange	-	35.8	280.8	314.0	318.8	311.4	1,260.8	-	10.4	77.9	84.0	82.2	77.4	331.7

India

Financial Sector Development Project

Project Components by Year -- Investment/Recurrent Costs

	Totals Including Contingencies (Rs Crore)							Totals Including Contingencies (US$ Million)						
	94/95	95/96	96/97	97/98	98/99	99/00	Total	94/95	95/96	96/97	97/98	98/99	99/00	Total
A. Bank Recapitalization														
Investment Costs	2,465.3	1,237.8	-	-	-	-	3,703.0	749.3	357.7	-	-	-	-	1,107.0
Subtotal	2,465.3	1,237.8	-	-	-	-	3,703.0	749.3	357.7	-	-	-	-	1,107.0
B. Bank Modernization														
Investment Costs	-	58.0	154.7	184.1	168.8	138.0	703.5	-	16.8	42.9	49.2	43.5	34.3	186.7
Recurrent Costs	-	3.7	16.1	31.8	46.0	58.2	155.8	-	1.1	4.5	8.5	11.9	14.5	40.3
Subtotal	-	61.7	170.8	215.9	214.8	196.2	859.3	-	17.8	47.4	57.7	55.4	48.7	227.0
C. Backstop Facility														
Investment Costs	-	-	180.3	187.0	194.0	201.3	762.5	-	-	50.0	50.0	50.0	50.0	200.0
Subtotal	-	-	180.3	187.0	194.0	201.3	762.5	-	-	50.0	50.0	50.0	50.0	200.0
Total PROJECT COSTS	2,465.3	1,299.4	351.0	402.9	408.8	397.4	5,324.8	749.3	375.6	97.4	107.7	105.4	98.7	1,534.1
Total Investment Costs	2,465.3	1,295.7	335.0	371.1	362.8	339.2	5,169.0	749.3	374.5	92.9	99.2	93.5	84.3	1,493.7
Total Recurrent Costs	-	3.7	16.1	31.8	46.0	58.2	155.8	-	1.1	4.5	8.5	11.9	14.5	40.3

India
Financial Sector Development Project
Table 101. Bank of India
Detailed Costs
(Rs Crore)

	Base Cost							Totals Including Contingencies						
	94/95	95/96	96/97	97/98	98/99	99/00	Total	94/95	95/96	96/97	97/98	98/99	99/00	Total
I. Investment Costs														
A. Capitalization	999.0	482.0	-	-	-	-	1,481.0	999.0	482.0	-	-	-	-	1,481.0
B. Modernization														
1. Technology														
Technology for Branches	-	3.0	7.0	14.0	20.0	16.0	60.0	-	3.6	8.8	18.7	28.4	24.2	83.7
Technology for Admin. Offices	-	0.5	1.1	1.1	0.9	0.9	4.5	-	0.6	1.4	1.5	1.3	1.4	6.1
Banking Applications Software	-	-	4.0	4.0	-	-	8.0	-	-	5.0	5.4	-	-	10.4
Communications Infrastructure	-	-	4.4	4.4	4.4	1.8	15.0	-	-	5.5	5.9	6.3	2.7	20.4
ATMs	-	-	2.0	2.0	2.0	2.0	8.0	-	-	2.5	2.7	2.8	3.0	11.1
Subtotal	-	3.5	18.5	25.5	27.3	20.7	95.5	-	4.1	23.3	34.1	38.8	31.3	131.7
2. Technical Assistance (Tech. Stategy, Communications Mgt, Audit System)	-	0.5	1.0	0.5	-	-	2.0	-	0.6	1.2	0.7	-	-	2.5
3. Training	-	0.3	0.5	0.7	0.8	0.7	3.0	-	0.3	0.6	0.9	1.1	1.0	4.0
4. Site Preparation, UPS, etc.	-	1.0	3.0	4.0	6.0	6.0	20.0	-	1.2	3.8	5.4	8.5	9.1	27.9
5. Training Equipment (HRD)	-	0.1	0.6	0.6	0.6	0.6	2.5	-	0.1	0.8	0.8	0.9	0.9	3.4
Subtotal	-	5.4	23.6	31.3	34.7	28.0	123.0	-	6.4	29.7	41.9	49.3	42.3	169.5
Total Investment Costs	999.0	487.4	23.6	31.3	34.7	28.0	1,604.0	999.0	488.4	29.7	41.9	49.3	42.3	1,650.5
II. Recurrent Costs														
A. Modernization														
Incremental Staff /a	-	0.1	0.2	0.3	0.3	0.3	1.2	-	0.1	0.2	0.4	0.4	0.4	1.4
Expenses /b	-	0.4	2.2	4.8	7.5	9.6	24.3	-	0.4	2.7	6.3	10.5	14.2	34.2
Total Recurrent Costs	-	0.4	2.4	5.1	7.8	9.9	25.5	-	0.5	3.0	6.6	10.9	14.6	35.6
Total	999.0	487.8	26.0	36.4	42.5	37.9	1,629.5	999.0	488.8	32.7	48.5	60.2	56.9	1,686.1

\a Based on assumed numbers of incremental staff (cumulated), provided separately, and salaries of Rs 36,000 per year.
\b 10% per annum of Technology investment subtotal, cumulated.

India
Financial Sector Development Project
Table 103. Indian Bank
Detailed Costs
(Rs Crore)

	Base Cost							Totals Including Contingencies						
	94/95	95/96	96/97	97/98	98/99	99/00	Total	94/95	95/96	96/97	97/98	98/99	99/00	Total
I. Investment Costs														
A. Capitalization	298.0	357.8	-	-	-	-	655.8	298.0	357.8	-	-	-	-	655.8
B. Modernization														
1. Technology														
Technology for Branches	-	5.0	19.0	19.3	-	-	43.3	-	5.9	23.9	25.8	-	-	55.7
Technology for Admin. Offices	-	-	1.3	1.7	1.0	-	4.0	-	-	1.6	2.3	1.4	-	5.3
Banking Applications Software	-	-	4.0	4.0	-	-	8.0	-	-	5.0	5.4	-	-	10.4
Communications Infrastructure	-	-	5.0	10.0	15.0	6.0	36.0	-	-	6.3	13.4	21.3	9.1	50.1
ATMs	-	1.0	5.0	6.0	10.0	8.0	30.0	-	1.2	6.3	8.0	14.2	12.1	41.8
Subtotal	-	6.0	34.3	41.0	26.0	14.0	121.3	-	7.1	43.2	54.9	37.0	21.2	163.4
2. Site Preparation, UPS, etc.	-	1.0	5.0	6.0	10.0	8.0	30.0	-	1.2	6.3	8.0	14.2	12.1	41.8
3. Technical Assistance (Tech. Stategy, Communications Mgt, Audit System)	-	0.5	1.0	0.1	-	-	1.6	-	0.6	1.2	0.1	-	-	1.9
4. Training	-	0.8	2.8	2.6	1.3	0.5	8.0	-	0.9	3.4	3.4	1.8	0.7	10.3
Subtotal	-	8.3	43.1	49.7	37.3	22.5	160.9	-	9.8	54.2	66.4	53.0	34.0	217.4
Total Investment Costs	298.0	366.1	43.1	49.7	37.3	22.5	816.7	298.0	367.6	54.2	66.4	53.0	34.0	873.2
II. Recurrent Costs														
A. Modernization														
Incremental Staff /a	-	0.0	0.1	0.2	0.2	0.2	0.7	-	0.0	0.1	0.2	0.3	0.3	0.9
Expenses /b	-	0.6	4.0	8.1	10.7	12.1	35.6	-	0.7	5.0	10.8	15.1	18.1	49.6
Total Recurrent Costs	-	0.6	4.1	8.3	10.9	12.3	36.3	-	0.7	5.1	11.0	15.3	18.3	50.5
Total	298.0	366.7	47.2	58.0	48.2	34.8	853.0	298.0	368.3	59.3	77.4	68.3	52.3	923.7

\a Based on assumed numbers of incremental staff (cumulated), provided separately, and salaries of Rs 36,000 per year.
\b 10% per annum of Technology investment subtotal, cumulated.

India
Financial Sector Development Project
Table 104. Indian Overseas Bank
Detailed Costs
(Rs Crore)

	Base Cost							Totals Including Contingencies						
	94/95	95/96	96/97	97/98	98/99	99/00	Total	94/95	95/96	96/97	97/98	98/99	99/00	Total
I. Investment Costs														
A. Capitalization	333.0	135.1	-	-	-	-	468.1	333.0	135.1	-	-	-	-	468.1
B. Modernization														
1. Technology														
Technology for Branches	-	-	2.2	4.4	3.4	-	10.0	-	-	2.8	5.9	4.8	-	13.5
Technology for Admin. Offices	-	-	4.7	2.4	2.4	-	9.5	-	-	5.9	3.2	3.4	-	12.5
Banking Applications Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Communications Infrastructure	-	-	1.6	1.6	1.5	6.4	11.1	-	-	2.0	2.1	2.1	9.7	16.0
ATMs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	8.5	8.4	7.3	6.4	30.6	-	-	10.7	11.2	10.4	9.7	42.0
2. Site Preparation, UPS, etc.	-	-	0.4	1.3	0.8	-	2.5	-	-	0.5	1.7	1.1	-	3.4
3. Technical Assistance (Tech. Stategy, Communications Mgt, Audit System)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Training	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Training-Related Equipment (HRD)														
ATMs	-	-	0.4	0.4	0.3	-	1.1	-	-	0.5	0.5	0.4	-	1.5
Other	-	-	0.3	0.3	0.3	0.3	1.2	-	-	0.4	0.4	0.4	0.5	1.7
Subtotal	-	-	0.7	0.7	0.6	0.3	2.3	-	-	0.9	0.9	0.9	0.5	3.1
Subtotal	-	-	9.6	10.4	8.7	6.7	35.4	-	-	12.1	13.9	12.4	10.1	48.5
Total Investment Costs	333.0	135.1	9.6	10.4	8.7	6.7	503.5	333.0	135.1	12.1	13.9	12.4	10.1	516.6
II. Recurrent Costs														
A. Modernization														
Incremental Staff /a	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses /b	-	-	0.9	1.7	2.4	3.1	8.0	-	-	1.1	2.2	3.4	4.6	11.3
Total Recurrent Costs	-	-	0.9	1.7	2.4	3.1	8.0	-	-	1.1	2.2	3.4	4.6	11.3
Total	333.0	135.1	10.5	12.1	11.1	9.8	511.5	333.0	135.1	13.2	16.2	15.8	14.7	527.9

\a Based on assumed numbers of incremental staff (cumulated), provided separately, and salaries of Rs 36,000 per year.
\b 10% per annum of Technology investment subtotal, cumulated.

India
Financial Sector Development Project
Table 105. Dena Bank
Detailed Costs
(Rs Crore)

	Base Cost							Totals Including Contingencies						
	94/95	95/96	96/97	97/98	98/99	99/00	Total	94/95	95/96	96/97	97/98	98/99	99/00	Total
I. Investment Costs														
A. Capitalization	153.3	163.3	-	-	-	-	316.5	153.3	163.3	-	-	-	-	316.5
B. Modernization														
1. Technology														
Technology for Branches	-	0.1	0.5	0.4	-	-	1.0	-	0.1	0.6	0.5	-	-	1.3
Technology for Admin. Offices	-	0.5	1.5	1.3	1.2	-	4.5	-	0.6	1.9	1.7	1.7	-	5.9
Banking Applications Software	-	-	4.0	4.0	-	-	8.0	-	-	5.0	5.4	-	-	10.4
Communications Infrastructure	-	-	3.0	4.0	3.0	-	10.0	-	-	3.8	5.4	4.3	-	13.4
ATMs	-	3.0	3.0	3.0	1.5	1.5	12.0	-	3.6	3.8	4.0	2.1	2.3	15.8
Subtotal	-	3.6	12.0	12.7	5.7	1.5	35.5	-	4.3	15.1	17.0	8.1	2.3	46.8
2. Site Preparation, UPS, etc.	-	0.1	0.5	0.4	-	-	1.0	-	0.1	0.6	0.5	-	-	1.3
3. Technical Assistance (Tech. Stategy, Communications Mgt, Audit System)	-	0.5	1.0	0.5	-	-	2.0	-	0.6	1.2	0.7	-	-	2.5
4. Training	-	0.5	1.5	1.0	-	-	3.0	-	0.6	1.8	1.3	-	-	3.7
5. HRD														
Consultancies	-	0.0	0.0	0.0	0.0	0.0	0.1	-	0.0	0.0	0.0	0.0	0.0	0.2
External Training	-	1.2	1.2	1.2	1.4	1.6	6.7	-	1.4	1.5	1.6	2.1	2.5	9.2
Internal Training	-	2.2	2.3	2.4	2.8	2.9	12.4	-	2.5	2.8	3.1	3.8	4.2	16.2
Library Facilities	-	0.2	0.2	0.2	0.3	0.3	1.1	-	0.2	0.3	0.3	0.4	0.4	1.4
Training Aids/Equip.	-	0.4	0.4	0.2	0.2	0.2	1.2	-	0.4	0.4	0.3	0.2	0.2	1.6
Subtotal	-	3.9	4.0	4.0	4.6	4.9	21.4	-	4.5	5.0	5.2	6.5	7.3	28.5
Subtotal	-	8.6	19.0	18.6	10.3	6.4	62.9	-	10.0	23.8	24.7	14.6	9.6	82.8
Total Investment Costs	153.3	171.8	19.0	18.6	10.3	6.4	379.4	153.3	173.3	23.8	24.7	14.6	9.6	399.3
II. Recurrent Costs														
A. Modernization														
Incremental Staff /a	-	0.1	0.3	0.5	0.5	0.5	1.9	-	0.1	0.3	0.6	0.7	0.7	2.4
Expenses /b	-	0.4	1.6	2.8	3.4	3.6	11.7	-	0.4	1.9	3.7	4.8	5.3	16.2
Total Recurrent Costs	-	0.5	1.8	3.3	3.9	4.1	13.6	-	0.5	2.3	4.3	5.4	6.0	18.5
Total	153.3	172.3	20.9	21.9	14.3	10.5	393.1	153.3	173.8	26.1	29.0	20.0	15.6	417.8

\a Based on assumed numbers of incremental staff (cumulated), provided separately, and salaries of Rs 36,000 per year.
\b 10% per annum of Technology investment subtotal, cumulated.

India
Financial Sector Development Project
Table 108. Syndicate Bank
Detailed Costs
(Rs Crore)

	Base Cost							Totals Including Contingencies						
	94/95	95/96	96/97	97/98	98/99	99/00	Total	94/95	95/96	96/97	97/98	98/99	99/00	Total
I. Investment Costs														
A. Capitalization	326.0	92.6	-	-	-	-	418.6	326.0	92.6	-	-	-	-	418.6
B. Modernization														
1. Technology														
Technology for Branches	-	3.2	7.1	7.1	7.1	7.1	31.5	-	3.7	8.9	9.5	10.1	10.7	43.0
Technology for Admin. Offices	-	0.3	0.6	0.7	0.4	0.4	2.4	-	0.4	0.8	0.9	0.6	0.6	3.2
Banking Applications Software	-	0.5	0.5	0.5	0.5	0.5	2.6	-	0.6	0.7	0.7	0.7	0.8	3.5
Communications Infrastructure	-	0.5	0.5	0.5	0.7	0.7	2.9	-	0.6	0.6	0.7	1.0	1.1	3.9
ATMs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	-	4.5	8.7	8.8	8.7	8.7	39.4	-	5.3	11.0	11.7	12.4	13.2	53.6
2. Site Preparation, UPS, etc.	-	2.3	2.3	2.3	2.3	2.3	11.3	-	2.7	2.8	3.0	3.2	3.4	15.1
3. Technical Assistance (Tech. Stategy, Communications Mgt, Audit System)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Training	-	0.3	0.3	0.3	0.3	0.3	1.3	-	0.3	0.3	0.3	0.3	0.4	1.6
Subtotal	-	7.0	11.2	11.3	11.2	11.2	51.9	-	8.2	14.1	15.1	15.9	16.9	70.3
Total Investment Costs	326.0	99.6	11.2	11.3	11.2	11.2	470.5	326.0	100.8	14.1	15.1	15.9	16.9	488.9
II. Recurrent Costs														
A. Modernization														
Incremental Staff /a	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses /b	-	0.4	1.3	2.2	3.1	3.9	11.0	-	0.5	1.6	2.9	4.3	5.9	15.2
Total Recurrent Costs	-	0.4	1.3	2.2	3.1	3.9	11.0	-	0.5	1.6	2.9	4.3	5.9	15.2
Total	326.0	100.0	12.5	13.5	14.3	15.1	481.4	326.0	101.4	15.8	18.0	20.2	22.8	504.1

\a Based on assumed numbers of incremental staff (cumulated), provided separately, and salaries of Rs 36,000 per year.
\b 10% per annum of Technology investment subtotal, cumulated.

India
Financial Sector Development Project
Table 109. Allahabad Bank
Detailed Costs
(Rs Crore)

	Base Cost							Totals Including Contingencies						
	94/95	95/96	96/97	97/98	98/99	99/00	Total	94/95	95/96	96/97	97/98	98/99	99/00	Total
I. Investment Costs														
A. Capitalization	356.0	7.0	-	-	-	-	363.0	356.0	7.0	-	-	-	-	363.0
B. Modernization														
1. Technology														
Technology for Branches	-	8.4	6.5	6.5	6.6	6.5	34.5	-	9.9	8.2	8.7	9.3	9.9	46.1
Technology for Admin. Offices	-	1.7	1.7	1.7	1.7	1.7	8.6	-	2.0	2.2	2.3	2.4	2.6	11.6
Banking Applications Software	-	1.3	1.2	1.1	1.0	0.9	5.4	-	1.6	1.5	1.4	1.4	1.3	7.1
Communications Infrastructure	-	1.0	0.5	0.6	0.6	0.7	3.4	-	1.2	0.6	0.8	0.9	1.1	4.6
ATMs	-	-	1.8	1.8	1.8	1.8	7.3	-	-	2.3	2.4	2.6	2.8	10.1
Subtotal	-	12.4	11.7	11.7	11.7	11.7	59.2	-	14.7	14.8	15.6	16.6	17.6	79.4
2. Site Preparation, UPS, etc.	-	6.8	4.1	4.1	4.1	4.1	23.2	-	8.0	5.2	5.5	5.8	6.2	30.7
3. Technical Assistance (Tech. Stategy, Communications Mgt, Audit System)	-	0.2	0.3	0.3	0.3	0.3	1.3	-	0.3	0.3	0.3	0.4	0.5	1.7
4. Training	-	0.5	0.5	0.5	0.5	0.5	2.4	-	0.5	0.6	0.6	0.7	0.8	3.2
Subtotal	-	19.9	16.5	16.5	16.6	16.6	86.1	-	23.5	20.8	22.1	23.5	25.1	115.0
Total Investment Costs	356.0	26.9	16.5	16.5	16.6	16.6	449.1	356.0	30.5	20.8	22.1	23.5	25.1	478.0
II. Recurrent Costs														
A. Modernization														
Incremental Staff /a	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses /b	-	1.2	2.4	3.6	4.8	5.9	17.9	-	1.4	3.0	4.7	6.7	8.8	24.7
Total Recurrent Costs	-	1.2	2.4	3.6	4.8	5.9	17.9	-	1.4	3.0	4.7	6.7	8.8	24.7
Total	356.0	28.1	18.9	20.1	21.3	22.5	467.0	356.0	32.0	23.8	26.9	30.2	33.9	502.7

\a Based on assumed numbers of incremental staff (cumulated), provided separately, and salaries of Rs 36,000 per year.
\b 10% per annum of Technology investment subtotal, cumulated.

India
Financial Sector Development Project
Table 201. Backstop Facility
Detailed Costs
(Rs Crore)

	Base Cost							Totals Including Contingencies						
	94/95	**95/96**	**96/97**	**97/98**	**98/99**	**99/00**	**Total**	**94/95**	**95/96**	**96/97**	**97/98**	**98/99**	**99/00**	**Total**
I. Investment Costs														
A. Backstop Facility	-	-	160.0	160.0	160.0	160.0	640.0	-	-	180.3	187.0	194.0	201.3	762.5
Total	-	-	160.0	160.0	160.0	160.0	640.0	-	-	180.3	187.0	194.0	201.3	762.5

India
Financial Sector Development Project
Expenditure Accounts Project Cost Summary

	(Rs Crore)					(US$ Million)				
	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
I. Investment Costs										
A. Capitalization	3,703.0	-	3,703.0	-	74	1,157.2	-	1,157.2	-	74
B. Equipment	166.4	309.0	475.4	65	10	52.0	96.6	148.6	65	10
C. TA	6.0	1.1	7.1	15	-	1.9	0.3	2.2	15	-
D. Training	29.2	7.6	36.7	21	1	9.1	2.4	11.5	21	1
E. Books/Journals	0.4	0.7	1.1	65	-	0.1	0.2	0.3	65	-
F. BF Loans	-	640.0	640.0	100	13	-	200.0	200.0	100	13
Total Investment Costs	3,904.9	958.3	4,863.2	20	98	1,220.3	299.5	1,519.7	20	98
II. Recurrent Costs										
A. Incremental Staff	3.8	-	3.8	-	-	1.2	-	1.2	-	-
B. Running Costs	65.1	43.4	108.5	40	2	20.4	13.6	33.9	40	2
Total Recurrent Costs	68.9	43.4	112.4	39	2	21.5	13.6	35.1	39	2
Total BASELINE COSTS	3,973.8	1,001.7	4,975.6	20	100	1,241.8	313.0	1,554.9	20	100
Physical Contingencies	26.7	36.2	62.9	58	1	8.3	11.3	19.6	58	1
Price Contingencies	63.4	222.9	286.3	78	6	-47.8	7.4	-40.5	-18	-3
Total PROJECT COSTS	4,064.0	1,260.8	5,324.8	24	107	1,202.3	331.7	1,534.1	22	99

India

Financial Sector Development Project

Expenditure Accounts by Components - Base Costs

(Rs Crore)

	Bank Recapitalization	Bank Modernization	Backstop Facility	Total	Physical Contingencies %	Physical Contingencies Amount
I. Investment Costs						
A. Capitalization	3,703.0	-	-	3,703.0	-	-
B. Equipment	-	475.4	-	475.4	10.0	47.5
C. TA	-	7.1	-	7.1	10.0	0.7
D. Training	-	36.7	-	36.7	10.0	3.7
E. Books/Journals	-	1.1	-	1.1	10.0	0.1
F. BF Loans	-	-	640.0	640.0	-	-
Total Investment Costs	3,703.0	520.2	640.0	4,863.2	1.1	52.0
II. Recurrent Costs						
A. Incremental Staff	-	3.8	-	3.8	-	-
B. Running Costs	-	108.5	-	108.5	10.0	10.9
Total Recurrent Costs	-	112.4	-	112.4	9.7	10.9
Total BASELINE COSTS	3,703.0	632.6	640.0	4,975.6	1.3	62.9
Physical Contingencies	-	62.9	-	62.9	-	-
Price Contingencies						
Inflation						
Local	-	52.3	-	52.3	-	-
Foreign	-	23.7	-	23.7	-	-
Subtotal Inflation	-	75.9	-	75.9	-	-
Devaluation	-	87.9	122.5	210.4	-	-
Subtotal Price Contingencies	-	163.8	122.5	286.3	5.2	14.8
Total PROJECT COSTS	3,703.0	859.3	762.5	5,324.8	1.5	77.7
Taxes	-	92.8	-	92.8	9.1	8.4
Foreign Exchange	-	498.3	762.5	1,260.8	3.6	45.3

India

Financial Sector Development Project

Expenditure Accounts by Components - Base Costs

(US$ Million)

	Bank Recapitalization	Bank Modernization	Backstop Facility	Total	Physical Contingencies %	Physical Contingencies Amount
I. Investment Costs						
A. Capitalization	1,157.2	-	-	1,157.2	-	-
B. Equipment	-	148.6	-	148.6	10.0	14.9
C. TA	-	2.2	-	2.2	10.0	0.2
D. Training	-	11.5	-	11.5	10.0	1.1
E. Books/Journals	-	0.3	-	0.3	10.0	0.0
F. BF Loans	-	-	200.0	200.0	-	-
Total Investment Costs	1,157.2	162.6	200.0	1,519.7	1.1	16.3
II. Recurrent Costs						
A. Incremental Staff	-	1.2	-	1.2	-	-
B. Running Costs	-	33.9	-	33.9	10.0	3.4
Total Recurrent Costs	-	35.1	-	35.1	9.7	3.4
Total BASELINE COSTS	1,157.2	197.7	200.0	1,554.9	1.3	19.6
Physical Contingencies	-	19.6	-	19.6	-	-
Price Contingencies						
Inflation						
Local	-	16.3	-	16.3	-	-
Foreign	-	7.4	-	7.4	-	-
Subtotal Inflation	-	23.7	-	23.7	-	-
Devaluation	-50.1	-14.0	-	-64.2	-	-
Subtotal Price Contingencies	-50.1	9.7	-	-40.5	-2.2	0.9
Total PROJECT COSTS	1,107.0	227.0	200.0	1,534.1	1.3	20.5
Taxes	-	24.5	-	24.5	9.1	2.2
Foreign Exchange	-	131.7	200.0	331.7	3.6	12.0

India
Financial Sector Development Project
Expenditure Accounts by Years -- Base Costs

	Base Cost (Rs Crore)							Foreign Exchange		Base Cost (US$ Million)							Foreign Exchange	
	94/95	95/96	96/97	97/98	98/99	99/00	Total	%	Amount	94/95	95/96	96/97	97/98	98/99	99/00	Total	%	Amount
I. Investment Costs																		
A. Capitalization	2,465.3	1,237.8	-	-	-	-	3,703.0	-	-	770.4	386.8	-	-	-	-	1,157.2	-	-
B. Equipment	-	41.6	110.6	127.6	111.2	84.4	475.4	65.0	309.0	-	13.0	34.6	39.9	34.7	26.4	148.6	65.0	96.6
C. TA	-	1.7	3.3	1.4	0.3	0.3	7.1	15.0	1.1	-	0.5	1.0	0.4	0.1	0.1	2.2	15.0	0.3
D. Training	-	5.7	9.0	8.6	7.1	6.5	36.7	20.6	7.6	-	1.8	2.8	2.7	2.2	2.0	11.5	20.6	2.4
E. Books/Journals	-	0.2	0.2	0.2	0.3	0.3	1.1	65.0	0.7	-	0.0	0.1	0.1	0.1	0.1	0.3	65.0	0.2
F. BF Loans	-	-	160.0	160.0	160.0	160.0	640.0	100.0	640.0	-	-	50.0	50.0	50.0	50.0	200.0	100.0	200.0
Total Investment Costs	2,465.3	1,286.9	283.1	297.8	278.8	251.4	4,863.2	19.7	958.3	770.4	402.1	88.5	93.1	87.1	78.6	1,519.7	19.7	299.5
II. Recurrent Costs																		
A. Incremental Staff	-	0.2	0.6	1.0	1.0	1.0	3.8	-	-	-	0.1	0.2	0.3	0.3	0.3	1.2	-	-
B. Running Costs	-	3.0	12.4	23.2	31.8	38.1	108.5	40.0	43.4	-	0.9	3.9	7.2	10.0	11.9	33.9	40.0	13.6
Total Recurrent Costs	-	3.2	13.0	24.1	32.9	39.2	112.4	38.6	43.4	-	1.0	4.1	7.5	10.3	12.2	35.1	38.6	13.6
Total BASELINE COSTS	2,465.3	1,290.1	296.0	321.9	311.7	290.6	4,975.6	20.1	1,001.7	770.4	403.1	92.5	100.6	97.4	90.8	1,554.9	20.1	313.0
Physical Contingencies	-	5.2	13.5	16.1	15.1	13.0	62.9	57.5	36.2	-	1.6	4.2	5.0	4.7	4.0	19.6	57.5	11.3
Price Contingencies																		
Inflation																		
Local	-	0.8	5.9	11.5	15.5	18.5	52.3	-	-	-	0.2	1.8	3.6	4.9	5.8	16.3	-	-
Foreign	-	0.3	2.4	5.3	7.4	8.3	23.7	100.0	23.7	-	0.1	0.7	1.7	2.3	2.6	7.4	100.0	7.4
Subtotal Inflation	-	1.1	8.2	16.8	23.0	26.8	75.9	31.1	23.7	-	0.3	2.6	5.3	7.2	8.4	23.7	31.1	7.4
Devaluation	-	3.1	33.2	48.0	59.0	67.0	210.4	94.7	199.3	-21.1	-29.6	-1.9	-3.2	-3.9	-4.5	-64.2	-	-
Subtotal Price Contingencies	-	4.1	41.5	64.9	82.0	93.9	286.3	77.9	222.9	-21.1	-29.2	0.6	2.1	3.2	3.9	-40.5	-18.3	7.4
Total PROJECT COSTS	2,465.3	1,299.4	351.0	402.9	408.8	397.4	5,324.8	23.7	1,260.8	749.3	375.6	97.4	107.7	105.4	98.7	1,534.1	21.6	331.7
Taxes	-	6.3	18.3	23.6	23.5	21.0	92.8	-	-	-	1.8	5.1	6.3	6.1	5.2	24.5	-	-
Foreign Exchange	-	35.8	280.8	314.0	318.8	311.4	1,260.8	-	-	-	10.4	77.9	84.0	82.2	77.4	331.7	-	-

India

Financial Sector Development Project

Expenditure Accounts by Components - Totals Including Contingencies

(Rs Crore)

	Bank Recapitalization	Bank Modernization	Backstop Facility	Total
I. Investment Costs				
A. Capitalization	3,703.0	-	-	3,703.0
B. Equipment	-	645.1	-	645.1
C. TA	-	8.8	-	8.8
D. Training	-	48.2	-	48.2
E. Books/Journals	-	1.4	-	1.4
F. BF Loans	-	-	762.5	762.5
Total Investment Costs	3,703.0	703.5	762.5	5,169.0
II. Recurrent Costs				
A. Incremental Staff	-	4.7	-	4.7
B. Running Costs	-	151.1	-	151.1
Total Recurrent Costs	-	155.8	-	155.8
Total PROJECT COSTS	3,703.0	859.3	762.5	5,324.8
Taxes	-	92.8	-	92.8
Foreign Exchange	-	498.3	762.5	1,260.8

India

Financial Sector Development Project

Expenditure Accounts by Components - Totals Including Contingencies

(US$ Million)

	Bank Recapitalization	Bank Modernization	Backstop Facility	Total
I. Investment Costs				
A. Capitalization	1,107.0	-	-	1,107.0
B. Equipment	-	171.0	-	171.0
C. TA	-	2.4	-	2.4
D. Training	-	12.9	-	12.9
E. Books/Journals	-	0.4	-	0.4
F. BF Loans	-	-	200.0	200.0
Total Investment Costs	1,107.0	186.7	200.0	1,493.7
II. Recurrent Costs				
A. Incremental Staff	-	1.2	-	1.2
B. Running Costs	-	39.1	-	39.1
Total Recurrent Costs	-	40.3	-	40.3
Total PROJECT COSTS	1,107.0	227.0	200.0	1,534.1
Taxes	-	24.5	-	24.5
Foreign Exchange	-	131.7	200.0	331.7

India
Financial Sector Development Project
Project Components by Year -- Totals Including Contingencies

	Totals Including Contingencies (Rs Crore)							Totals Including Contingencies (US$ Million)						
	94/95	**95/96**	**96/97**	**97/98**	**98/99**	**99/00**	**Total**	**94/95**	**95/96**	**96/97**	**97/98**	**98/99**	**99/00**	**Total**
1. Bank Recapitalization	2,465.3	1,237.8	-	-	-	-	3,703.0	749.3	357.7	-	-	-	-	1,107.0
2. Bank Modernization	-	61.7	170.8	215.9	214.8	196.2	859.3	-	17.8	47.4	57.7	55.4	48.7	227.0
3. Backstop Facility	-	-	180.3	187.0	194.0	201.3	762.5	-	-	50.0	50.0	50.0	50.0	200.0
Total PROJECT COSTS	2,465.3	1,299.4	351.0	402.9	408.8	397.4	5,324.8	749.3	375.6	97.4	107.7	105.4	98.7	1,534.1

India

Financial Sector Development Project

Expenditure Accounts by Years -- Totals Including Contingencies

	Totals Including Contingencies (Rs Crore)							Totals Including Contingencies (US$ Million)						
	94/95	**95/96**	**96/97**	**97/98**	**98/99**	**99/00**	**Total**	**94/95**	**95/96**	**96/97**	**97/98**	**98/99**	**99/00**	**Total**
I. Investment Costs														
A. Capitalization	2,465.3	1,237.8	-	-	-	-	3,703.0	749.3	357.7	-	-	-	-	1,107.0
B. Equipment	-	49.2	139.4	170.8	158.2	127.5	645.1	-	14.2	38.7	45.7	40.8	31.7	171.0
C. TA	-	2.0	4.0	1.8	0.4	0.5	8.8	-	0.6	1.1	0.5	0.1	0.1	2.4
D. Training	-	6.5	11.0	11.2	9.8	9.6	48.2	-	1.9	3.1	3.0	2.5	2.4	12.9
E. Books/Journals	-	0.2	0.3	0.3	0.4	0.4	1.4	-	0.1	0.1	0.1	0.1	0.1	0.4
F. BF Loans	-	-	180.3	187.0	194.0	201.3	762.5	-	-	50.0	50.0	50.0	50.0	200.0
Total Investment Costs	2,465.3	1,295.7	335.0	371.1	362.8	339.2	5,169.0	749.3	374.5	92.9	99.2	93.5	84.3	1,493.7
II. Recurrent Costs														
A. Incremental Staff	-	0.2	0.7	1.1	1.3	1.4	4.7	-	0.1	0.2	0.3	0.3	0.3	1.2
B. Running Costs	-	3.5	15.4	30.7	44.7	56.8	151.1	-	1.0	4.3	8.2	11.5	14.1	39.1
Total Recurrent Costs	-	3.7	16.1	31.8	46.0	58.2	155.8	-	1.1	4.5	8.5	11.9	14.5	40.3
Total PROJECT COSTS	2,465.3	1,299.4	351.0	402.9	408.8	397.4	5,324.8	749.3	375.6	97.4	107.7	105.4	98.7	1,534.1

India
Financial Sector Development Project
Expenditure Accounts Breakdown
(Rs Crore)

	Base Cost				Physical Contingencies				Price Contingencies				Total Incl. Cont.				Base Costs + Price Cont. on Base Costs	Physical Cont. Plus Price Cont. on Physical Cont.
	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total		
I. Investment Costs																		
A. Capitalization	-	3,703.0	-	3,703.0	-	-	-	-	-	-	-	-	-	3,703.0	-	3,703.0	3,703.0	-
B. Equipment	309.0	109.3	57.0	475.4	30.9	10.9	5.7	47.5	83.9	23.4	15.0	122.2	423.7	143.7	77.7	645.1	586.5	58.6
C. TA	1.1	6.0	-	7.1	0.1	0.6	-	0.7	0.2	0.8	-	1.0	1.4	7.4	-	8.8	8.0	0.8
D. Training	7.6	29.2	-	36.7	0.8	2.9	-	3.7	2.0	5.7	-	7.8	10.4	37.8	-	48.2	43.8	4.4
E. Books/Journals	0.7	0.4	-	1.1	0.1	0.0	-	0.1	0.2	0.1	-	0.3	0.9	0.5	-	1.4	1.3	0.1
F. BF Loans	640.0	-	-	640.0	-	-	-	-	122.5	-	-	122.5	762.5	-	-	762.5	762.5	-
Total Investment Costs	958.3	3,847.9	57.0	4,863.2	31.8	14.5	5.7	52.0	208.8	30.0	15.0	253.8	1,198.9	3,892.4	77.7	5,169.0	5,105.0	64.0
II. Recurrent Costs																		
A. Incremental Staff	-	3.8	-	3.8	-	-	-	-	-	0.8	-	0.8	-	4.7	-	4.7	4.7	-
B. Running Costs	43.4	54.3	10.9	108.5	4.3	5.4	1.1	10.9	14.1	14.4	3.2	31.7	61.9	74.1	15.1	151.1	137.4	13.7
Total Recurrent Costs	43.4	58.1	10.9	112.4	4.3	5.4	1.1	10.9	14.1	15.2	3.2	32.6	61.9	78.8	15.1	155.8	142.0	13.7
Total	1,001.7	3,906.0	67.9	4,975.6	36.2	19.9	6.8	62.9	222.9	45.3	18.1	286.3	1,260.8	3,971.2	92.8	5,324.8	5,247.1	77.7

India
Financial Sector Development Project
Expenditure Accounts Breakdown
(US$ Million)

	Base Cost				Physical Contingencies				Price Contingencies				Total Incl. Cont.				Base Costs + Price Cont. on Base Costs	Physical Cont. Plus Price Cont. on Physical Cont.
	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total		
I. Investment Costs																		
A. Capitalization	-	1,157.2	-	1,157.2	-	-	-	-	-	-50.1	-	-50.1	-	1,107.0	-	1,107.0	1,107.0	-
B. Equipment	96.6	34.2	17.8	148.6	9.7	3.4	1.8	14.9	6.1	0.5	1.0	7.6	112.3	38.1	20.6	171.0	155.5	15.5
C. TA	0.3	1.9	-	2.2	0.0	0.2	-	0.2	0.0	-0.0	-	-0.0	0.4	2.0	-	2.4	2.2	0.2
D. Training	2.4	9.1	-	11.5	0.2	0.9	-	1.1	0.1	0.1	-	0.2	2.7	10.1	-	12.9	11.7	1.2
E. Books/Journals	0.2	0.1	-	0.3	0.0	0.0	-	0.0	0.0	0.0	-	0.0	0.2	0.1	-	0.4	0.3	0.0
F. BF Loans	200.0	-	-	200.0	-	-	-	-	-	-	-	-	200.0	-	-	200.0	200.0	-
Total Investment Costs	299.5	1,202.5	17.8	1,519.7	9.9	4.5	1.8	16.3	6.3	-49.6	1.0	-42.3	315.7	1,157.4	20.6	1,493.7	1,476.7	17.0
II. Recurrent Costs																		
A. Incremental Staff	-	1.2	-	1.2	-	-	-	-	-	0.0	-	0.0	-	1.2	-	1.2	1.2	-
B. Running Costs	13.6	17.0	3.4	33.9	1.4	1.7	0.3	3.4	1.1	0.5	0.2	1.8	16.0	19.2	3.9	39.1	35.6	3.6
Total Recurrent Costs	13.6	18.2	3.4	35.1	1.4	1.7	0.3	3.4	1.1	0.6	0.2	1.8	16.0	20.4	3.9	40.3	36.8	3.6
Total	313.0	1,220.6	21.2	1,554.9	11.3	6.2	2.1	19.6	7.4	-49.0	1.2	-40.5	331.7	1,177.8	24.5	1,534.1	1,513.5	20.5

ANNEX VIII

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Schedule of Estimated Disbursements[1/]

Bank		Disbursement	Cumulative Disbursement	
FY	Semester	-----(US$ million)-----		Percent
95	II	75.0	75.0	15
96	I	81.8	156.8	31
96	II	46.9	203.7	41
97	I	52.2	255.9	51
97	II	47.4	303.3	61
98	I	44.8	348.1	70
98	II	39.7	387.8	78
99	I	27.4	415.2	83
99	II	27.3	442.5	88
00	I	23.8	466.3	93
00	II	16.9	483.2	97
01	I	16.8	500.0	100

[1/] Excludes projections for BF-related disbursements.

ANNEX IX

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Supervision Plan

Dates		Activity	Skills	SWs
FY96	July	Start up supervision Mission	Procurement	2
			Management	2
FY96	April	Supervision Mission	Procurement	2
			Financial	4
			Management	2
FY97	September	Supervision Mission	Technical CS	2
			Procurement	2
FY97	April	Supervision Mission	Financial	6
			Management	3
FY98	September	Supervision Mission	Technical	2
			Procurement	2
FY98	April	Supervision Mission	Financial	6
			Management	3
FY99	September	Supervision Mission	Management	2
			Procurement	2
FY99	April	Supervision Mission	Financial	6
			Management	3
FY00	April	Supervision Mission	Financial	6
			Procurement	2
			Management	2
FY01	April	Supervision Mission	Financial	4
			Procurement	2
			Technical	2
			Management	2
FY02	April	Supervision Mission	Financial	4
			Procurement	2
			Technical	2
			Management	2
FY03	December	ICR Mission		10

ATTACHMENT

Performance Indicators

GOI	RBI	IDBI	Participating Banks	Eligible Banks
<u>Capitalization</u> • Timely issuance of subordinated debt to participating banks	• Active supervision of participating banks' progress towards stated goals • Timely clearance of changes in PB's Board of Directors and share issuance		• Progress towards issuing shares in the market • Degree of shareholder representation in the Board of Directors • Restoration of capital adequacy and profitability a/	
<u>Modernization</u>	• Active supervision of participating banks' progress towards stated goals	• Operating Performance of IDBI a/	• Timely identification of institutional needs • Degree of improvements in personnel and computerization • Restoration of capital adequacy and profitability a/	
<u>Backstop Facility</u>	• Preparation of operating guidelines for the Facility • Active monitoring of Facility and bank eligibility	• Operating Performance of IDBI a/ • Operating Performance of Facility		• Strength of demand by EBs for BF • Maintenance of capital adequacy and profitability a/

a/ Measurements include net profits/assets, operating costs/assets, capital adequacy ratio, gross profits/assets, and ratings, if any, by rating agencies.

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Environmental Aspects

Legal Framework for Environment Protection

1. India has a strong legal framework for protecting and managing its environment and natural resources. The major laws for the protection and management of environment are: the Water (Prevention and Control of Pollution) Act of 1974 and the Air (Prevention and Control of Pollution) Act of 1981, and the Public Liability Insurance Act of 1991 and their enabling notifications.[1] The Environmental (Protection) Act of 1986 is the principal legislation for environmental assessment in India.

Procedures for Obtaining Environmental Clearance

2. Within this legal framework, promoters of manufacturing projects in India are required to obtain Consent to Establish, Environmental Clearance, and Consent to Operate from the appropriate agencies in the Central and State Governments. Consent to Establish is given by the State Pollution Control Boards (SPCBs) under the Air and Water Pollution Prevention and Control Acts. At the next stage, the project is subject to closer scrutiny for Environmental Clearance at the central or state level depending on the size of the project. The Ministry of Environment and Forests (MOEF) administers the clearance of large projects under the Environmental Impact Assessment (EIA) under the procedures set out in the EIA Notification of 1994, in respect of 29 projects in 9 sectors.[2] Under these procedures the EIA Statement, Environment Management Plan and a reply to a standard questionnaire under sectoral guidelines must be submitted to MOEF. After preliminary review by technical experts, the Appraisal Committee evaluates the same, in the course of which there is provision for public consultation and hearing. Monitoring requirements are incorporated in the clearance certification. The MOEF recently issued a notification requiring industries to submit an Annual Environmental Statement to the SPCBs as part of the Environmental Audit.[3]

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[1] A recently published Handbook of Environmental Procedures and Guidelines, briefly summarizes the provisions of the these and other environment laws in force.

[2] Capital investment, pollution potential, and ecological sensitivity are used as criteria to include or exempt projects from this notification. 22 of these projects are in the mining sector.

[3] This is a very innovative step, as it facilitates the task of supervision through information on the measures required to be taken by an unit in order to comply with the regulations in force. It will also assist industry to identify and prevent pollution at source; minimize waste through re-cycling and in general encourage the adoption of cleaner technologies.

3. The State Governments administer an Environment Clearance Procedure in respect of medium-sized industrial, mining, thermal power and tourism projects falling below the threshold specified in the Central EIA notification. The application procedure for State Environmental Clearance is comparable to the Initial Environmental Examination step in a standard EIA process at the Center.[4] After obtaining the Consent to Establish and the Environmental Clearance from the Central/state agency, a company can proceed with the erection of plant and building. However, prior to the commencement of operations a Consent to Operate certificate must be taken from the SPCB. This consent is normally valid for 1-2 years, and incorporates conditionalities covering monitoring and inspection. Any firm in operation should possess a consent to operate, except those of small-scale not belonging to the list of the 17 highly polluting categories. In addition, clearance under the Forest (Conservation) Act is required for the conversion of forest land for non-forest use, and clearance under the Coastal Regulation Zone Notification in respect of projects located along the coast.

4. The environmental clearance process described above appears to be a structured approach to incorporate environmental safeguards into project design and subsequent operations, and is generally in consistent with the Bank's Environmental Assessment requirements. The exceptions being: (a) the inclusion of asbestos processing as a prescribed project, and (b) the procedural issues relating to State Government Environmental Clearance. There is no uniform procedure for monitoring and enforcement, and each state adopts a different mechanism.[5] To streamline state and central government procedures, MOEF has started dialogue with the state governments and the process is expected to take at least a year, and will result in the delineation of responsibilities and listing of a separate list of projects.[6]

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[4] The thresholds differ from state to state. For example, in Tamil Nadu, all projects over Rs 50 million are referred to the State Environment Committee. Whereas in Maharashtra, even project above Rs 7.5 million are referred to the State Appraisal Committee.

[5] In Maharashtra, a 15 member State Appraisal Committee,chaired by the Secretary of the Department of Environment clears 15-20 projects a month, with an average clearance time of 3 months. The committee is serviced by a Technical Cell consisting of 3 professionals. In Tamil Nadu, three sectoral Sub-committees study the proposal and the preliminary scrutiny of the PCB, before making a recommendation to the State Environment Committee chaired by the Chief Minister. Secretary of the Department of Environment is the convener and there are two professionals in the cell. The committee clears 5-10 applications a month.

[6] The institutional capacity in the State Departments to undertake the clearance function is inadequate, and needs to be significantly strengthened both in terms of technical staff and resources. For example, Maharashtra and Tamil Nadu have 3 and 2 professional staff respectively to handle the clearance function. However, in Tamil Nadu the SPCB backstops the Technical Cell of the Department. Also there seems to be a conceptual idea to re-structure the SPCBs as Environment Protection Boards with an expanded mandate including EIA. The precise organizational form will certainly influence the eventual shape of the environmental clearance process in the country. The MOEF has formulated proposals to effect improvements to the EIA process which includes spatial and sector assessments, GIS application, networking and training.

Environmental Considerations in Project Appraisal by Financial Intermediaries

5. In the past, financial institutions did not perform any detailed analysis on the adequacy of the proposed pollution control measures, relying extensively on the Consent Permit or Clearance Letter. However, the closure of some large projects on environmental grounds under pressure of public litigation, have convinced IDBI and ICICI about the importance of vigilance for overall negative impacts of projects with hazardous operations. Growing litigation is also compelling financial institutions and commercial banks to become proactive and conscious of environment-related default risks. In addition to the standard submission of Consent Permits, both institutions now require firms to furnish separate details on the nature of pollution likely to be created by the project and the control measures proposed to be taken.

6. With their experience in implementing the Industrial Pollution Control Project, the level of environmental awareness and staff experience is on the increase in both the institutions. IDBI and ICICI have integrated environment as an appraisal function in the different Project Financing Departments. They have set up Environment Cells as part of their Technology Divisions. The project appraisal staff in the two institutions have undergone basic environmental training under the World Bank-financed Industrial Pollution Control Project. The EXIM Bank wholly serves the export community, and requires proponents to obtain environmental clearance, and in the past has financed pollution control measures as part of the project financing (e.g. leather tanning).

7. Four of the participating Commercial Banks--The Indian Bank, Dena Bank, The Indian Overseas Bank and Bank of India--recognized the potential risks arising from neglect of environmental concerns. They have confirmed that they also require applicants to submit consent permits from the SPCB for new projects, though this is not required in the case of expansion/modernization.

Specific Environment Safeguards Associated with the Project

8. The primary role of the financial intermediaries would be to ensure that the sub-projects in the FSDP conform to the statutory environmental requirements of GOI, the State Departments of Environment, and the State Pollution Control Boards. Further, in moving towards a coherent approach consistent with GOI's environmental requirements, a framework needs to be developed for the preparation of statements of environmental goals and the development of an environmental risk analysis capability within the participating banks/institutions to enhance the expertise of appraisal staff and loan officers in credit management and risk analysis.

9. **Adherence to environmental regulations** would be necessary for on-lending operations under the project. The current practice is that financial institutions and commercial banks require firms to obtain valid consents under environmental clearance prior to sanctioning term assistance. Reliance is placed entirely on the approvals by environment regulating agencies. Participating commercial banks should extend this practice in respect of working

capital loans financed under the sub-projects. Sub-projects involving asbestos, should not be financed under the FSDL.[7]

10. To encourage financial intermediaries to adopt best environmental practices in the long-term, the preparation of a Statement of Environment Goals would be made a mandatory eligibility criterion for PBs. The statement would include: objectives and scope; policy prescriptions to achieve the objectives; processes and institutional responsibilities; eligibility for business association; strategy to address specific environmental issues; and capacity building and skills training.

11. Finally, the project would assist participating financial institutions and commercial banks to develop and incorporate an Environmental Risk Analysis Program as part of their strategic planning, human resources development and credit risk management.[8] Such an analysis also would reduce liability risks. The program should: provide for staff training, screening of projects; set environmental guidelines and procedures; require an environmental review/analysis during appraisal; provide tools for the analysis, include loan documentation standards, and establish appropriate environmental risk assessment safeguards in loan commitments and disbursements.

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[7] The EIA notification requires investments of Rs. 10 million and above to obtain MOEF clearance. The World Bank recognizes that asbestos is a hazardous substance. Given the present weight of scientific opinion, the Bank prefers not to finance the manufacture or use of asbestos-containing products. Thus Financial Institutions and Commercial Banks should exclude financing of this category of sub-projects. Similarly, the World Bank would periodically update the current status on hazardous materials management.

[8] Environmental risk analysis is a tool, which is used in credit management and project appraisal, to predict potential environmental-related losses like client plant closures, unanticipated client compliance costs, or loss of collateral value.

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Procurement

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT: Financial Sector Development Project

BANK : INDIAN BANK

DESCRIPTION OF ITEM AND QUANTITY	MTHD OF PROC.	EST. COST RS.(Cr.)	1995 J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Computer (Microprocessor) for 21 branches	ICB	6.50					1	2	3	4		5		6
Supply, Erection and Commissioning of Computer (Microprocessor) for 102 branches	ICB	31.00												
Supply, Erection and Commissioning of Computer (Microprocessor) for 112 branches	ICB	34.00												
Supply, Erection and Commissioning of Computer (Microprocessor) for 65 branches	ICB	19.50												
Cabling and electrical works at branches for computerization (21 branches)	FA	0.50												
Cabling and electrical works at branches for computerization (102 branches)	FA	2.70												
Cabling and electrical works at branches for computerization (112 branches)	FA	2.80												
Cabling and electrical works at branches for computerization (65 branches)	FA	2.00												
Supply, Erection and Commissioning of UPS (and Batteries for 21 branches	ICB	1.20					1	2	3	4		5		6
Supply, Erection and Commissioning of UPS (and Batteries for 102 branches	ICB	5.50												

DESCRIPTION OF ITEM AND QUANTITY	1996 J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Computer (Microprocessor) for 21 branches	7	8		9	10	11						
Supply, Erection and Commissioning of Computer (Microprocessor) for 102 branches	1	2	3	4		5		6	7	8		9
Supply, Erection and Commissioning of Computer (Microprocessor) for 112 branches												
Supply, Erection and Commissioning of Computer (Microprocessor) for 65 branches												
Cabling and electrical works at branches for computerization (21 branches)												
Cabling and electrical works at branches for computerization (102 branches)												
Cabling and electrical works at branches for computerization (112 branches)												
Cabling and electrical works at branches for computerization (65 branches)												
Supply, Erection and Commissioning of UPS (and Batteries for 21 branches	7	8		9	10	11						
Supply, Erection and Commissioning of UPS (and Batteries for 102 branches	1	2	3	4		5		6	7	8		9

DESCRIPTION OF ITEM AND QUANTITY	1997 J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Computer (Microprocessor) for 21 branches												
Supply, Erection and Commissioning of Computer (Microprocessor) for 102 branches	10	11										
Supply, Erection and Commissioning of Computer (Microprocessor) for 112 branches	1	2	3	4		5		6	7	8		9
Supply, Erection and Commissioning of Computer (Microprocessor) for 65 branches											1	2
Cabling and electrical works at branches for computerization (21 branches)												
Cabling and electrical works at branches for computerization (102 branches)												
Cabling and electrical works at branches for computerization (112 branches)												
Cabling and electrical works at branches for computerization (65 branches)												
Supply, Erection and Commissioning of UPS (and Batteries for 21 branches												
Supply, Erection and Commissioning of UPS (and Batteries for 102 branches	10	11										

DESCRIPTION OF ITEM AND QUANTITY	1998 J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Computer (Microprocessor) for 21 branches												
Supply, Erection and Commissioning of Computer (Microprocessor) for 102 branches												
Supply, Erection and Commissioning of Computer (Microprocessor) for 112 branches	10	11										
Supply, Erection and Commissioning of Computer (Microprocessor) for 65 branches	3	4		5		6	7	8		9	10	11
Cabling and electrical works at branches for computerization (21 branches)												
Cabling and electrical works at branches for computerization (102 branches)												
Cabling and electrical works at branches for computerization (112 branches)												
Cabling and electrical works at branches for computerization (65 branches)												
Supply, Erection and Commissioning of UPS (and Batteries for 21 branches												
Supply, Erection and Commissioning of UPS (and Batteries for 102 branches												

DESCRIPTION OF ITEM AND QUANTITY	1999 J	F	M	A	M	J	J	A	S	O	N	D	2000 J	F	M	A
Supply, Erection and Commissioning of Computer (Microprocessor) for 21 branches																
Supply, Erection and Commissioning of Computer (Microprocessor) for 102 branches																
Supply, Erection and Commissioning of Computer (Microprocessor) for 112 branches																
Supply, Erection and Commissioning of Computer (Microprocessor) for 65 branches																
Cabling and electrical works at branches for computerization (21 branches)																
Cabling and electrical works at branches for computerization (102 branches)																
Cabling and electrical works at branches for computerization (112 branches)																
Cabling and electrical works at branches for computerization (65 branches)																
Supply, Erection and Commissioning of UPS (and Batteries for 21 branches																
Supply, Erection and Commissioning of UPS (and Batteries for 102 branches																

105.70

PROCUREMENT ACTIONS

1 INITIATE PREPARATION OF SPECIFICATIONS AND BID DOCUMENTS
2 TRANSMIT SPECIFICATIONS AND BID DOCUMENTS TO IDA
3 IDA CLEARANCE OF SPECIFICATION AND BID DOCUMENTS
4 ISSUE INVITATION TO BID
5 OPEN BIDS
6 TRANSMIT EVALUATION REPORT AND AWARD RECOMMENDATIONS TO IDA
7 IDA CLEARANCE OF RECOMMENDATIONS
8 AWARD CONTRACT
9 INITIAL DELIVERY AT SITE
10 ITERIM DELIVERIES AT SITE
11 FINAL DELIVERY AT SITE

METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT
DC - DIRECT CONTRACTING

Estimated Cost in Rs. Crores

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT: Financial Sector Development Project

BANK : INDIAN BANK

DESCRIPTION OF ITEM AND QUANTITY	MTHD OF PROC.	EST. COST RS.(Cr)	1995												1996												1997												1998												1999												2000			
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Supply, Erection and Commissioning of UPS (and Batteries) for 112 branches	ICB	6.00																									1	2	3	4		5		6	7	8		9	10	11																										
Supply, Erection and Commissioning of UPS (and Batteries) for 65 branches	ICB	3.50																																			1	2	3	4		5		6	7	8		9	10	11																
Supply of Air Conditioners for branches for computerization (21 branches)	LCB	0.20					1	2	3	4		5		6	7	8		9	10	11																																														
Supply of Air Conditioners for branches for computerization (102 branches)	LCB	0.70													1	2	3	4		5		6	7	8		9	10	11																																						
Supply of Air Conditioners for branches for computerization (112 branches)	LCB	0.80																									1	2	3	4		5		6	7	8		9	10	11																										
Supply of Air Conditioners for branches for computerization (65 branches)	LCB	0.60																																			1	2	3	4		5		6	7	8		9	10	11																
Supply, Erection and Commissioning of Communications Equipment, Hardware/Software - Admin. Offices (12 Comm. Equip., etc.)	ICB	4.80									1	2	3	4		5		6	7	8		9	10	11																																										
Supply, Erection and Commissioning of Communications Equipment, Hardware/Software - Admin. Offices (12 Comm. Equip., etc.)	ICB	3.00																			1	2	3	4		5		6	7	8		9	10	11																																
Supply, Erection and Commissioning of Communications Equipment, Hardware/Software - Admin. Offices (12 Comm. Equip., etc.)	ICB	3.00																													1	2	3	4		5		6	7	8		9	10	11																						

PROCUREMENT ACTIONS

1 INITIATE PREPARATION OF SPECIFICATIONS AND BID DOCUMENTS
2 TRANSMIT SPECIFICATIONS AND BID DOCUMENTS TO IDA
3 IDA CLEARANCE OF SPECIFICATION AND BID DOCUMENTS
4 ISSUE INVITATION TO BID
5 OPEN BIDS
6 TRANSMIT EVALUATION REPORT AND AWARD RECOMMENDATIONS TO IDA
7 IDA CLEARANCE OF RECOMMENDATIONS
8 AWARD CONTRACT
9 INITIAL DELIVERY AT SITE
10 ITERIM DELIVERIES AT SITE
11 FINAL DELIVERY AT SITE

METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT
DC - DIRECT CONTRACTING

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT: Financial Sector Development Project

BANK : INDIAN BANK

DESCRIPTION OF ITEM AND QUANTITY	MTHD OF PROC.	EST. COST RS.(Cr)	1995												1996												1997												1998												1999												2000			
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Supply, Erection and Commissioning of Communications Equipment, Hardware/Software - Admin. Offices (5 Comm. Equip., etc.)	ICB	1.00																																							1	2	3	4		5		6	7	8		9	10	11												
Supply, Erection and Commissioning of Communications Equipment, Hardware/Software for Branches	ICB	3.30									1	2	3	4		5		6	7	8		9	10	11																																										
Supply, Erection and Commissioning of Communications Equipment, Hardware/Software for Branches	ICB	14.00																			1	2	3	4		5		6	7	8		9	10	11																																
Supply, Erection and Commissioning of Communications Equipment, Hardware/Software for Branches	ICB	8.00																													1	2	3	4		5		6	7	8		9	10	11																						
Supply, Erection and Commissioning of Communications Equipment, Hardware/Software for Branches	ICB	7.80																																							1	2	3	4		5		6	7	8		9	10	11												
Supply, Erection and Commissioning of ATMS (15 numbers)	ICB	5.00				1	2	3	4		5		6	7	8		9	10	11																																														
Supply, Erection and Commissioning of ATMS (15 numbers)	ICB	5.00															1	2	3	4		5		6	7	8		9	10	11																																		
Supply, Erection and Commissioning of ATMS (5 numbers)	ICB	1.50																										1	2	3	4		55		6	7	8		9	10	11																									

PROCUREMENT ACTIONS

1. INITIATE PREPARATION OF SPECIFICATIONS AND BID DOCUMENTS
2. TRANSMIT SPECIFICATIONS AND BID DOCUMENTS TO IDA
3. IDA CLEARANCE OF SPECIFICATION AND BID DOCUMENTS
4. ISSUE INVITATION TO BID
5. OPEN BIDS
6. TRANSMIT EVALUATION REPORT AND AWARD RECOMMENDATIONS TO IDA
7. IDA CLEARANCE OF RECOMMENDATIONS
8. AWARD CONTRACT
9. INITIAL DELIVERY AT SITE
10. ITERIM DELIVERIES AT SITE
11. FINAL DELIVERY AT SITE

METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT
DC - DIRECT CONTRACTING

Estimated Cost in Rs. Crores

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT : Financial Sector Development Project

BANK : INDIAN BANK

DESCRIPTION OF ITEM AND QUANTITY	MTHD OF PROC.	EST. COST RS.(Cr)	1995												1996												1997												1998												1999												200		
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
Upgradation of Tandem Computers & Hardware/Software for EFT Centres	DC	2.90																																																														
Supply, Erection and Commissioning of two ATM Switches with Base 24 Software (including implementation costs)	ICB	8.50													1	2	3	4		5		6	7	8		9	10	11																																					
Supply, Erection and Commissioning of POS with Base 24 for 1 centre	DC	3.40																																																													
POS-100 Terminals	ICB	0.80				1	2	3	4		5		6	7	8		9	10	11																																													
Supply, Erection and Commissioning of POS with Base 24 Software for 1 centre	DC	3.40																																																													
POS-100 Terminals	ICB	0.80															1	2	3	4		5		6	7	8		9	10	11																																		
Supply, Erection and Commissioning of POS with Base 24 Software for 1 centre	DC	3.40																																																													
POS-100 Terminals	ICB	0.80																										1	2	3	4		5		6	7	8		9	10	11																							
Master/VISA Cards, Fees, Software, Equipment, etc.	DC	3.00																																																													
Modems (60 numbers)	LCB	0.30				1	2	3	4		5		6	7	8		9	10	11																																													
Modems (80 numbers)	LCB	0.50															1	2	3	4		5		6	7	8		9	10	11																																		
Computers for two Training Centres, including Systems Software	LCB	0.50				1	2	3	4		5		6	7	8		9	10	11																																													
Computers for four Training Centres, including Systems Software	LCB	0.80														1	2	3	4		5		6	7	8		9	10	11																																				

PROCUREMENT ACTIONS

1. INITIATE PREPARATION OF SPECIFICATIONS AND BID DOCUMENTS
2. TRANSMIT SPECIFICATIONS AND BID DOCUMENTS TO IDA
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5. OPEN BIDS
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7. IDA CLEARANCE OF RECOMMENDATIONS
8. AWARD CONTRACT
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10. ITERIM DELIVERIES AT SITE
11. FINAL DELIVERY AT SITE

METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT
DC - DIRECT CONTRACTING

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT : Financial Sector Development Project

BANK : INDIAN BANK

DESCRIPTION OF ITEM AND QUANTITY	MTHD OF PROC.	EST. COST RS.(Cr)	1995 J	F	M	A	M	J	J	A	S	O	N	D	1996 J	F	M	A	M	J	J	A	S	O	N	D
Computers for four Training Centres, Including Systems Software	LCB	0.9																								1
Swift Connection for Colombo Branch - Hardware and Software	DC	0.7																								
Remittance arrangement to ten correspondent Branches (Computer Hardware/Software)	LCB	0.6						1	2	3	4		5		6	7	8		9	10	11					

DESCRIPTION OF ITEM AND QUANTITY	1997 J	F	M	A	M	J	J	A	S	O	N	D	1998 J	F	M	A	M	J	J	A	S	O	N	D
Computers for four Training Centres, Including Systems Software	2	3	4		5		6	7	8		9	10	11											
Swift Connection for Colombo Branch - Hardware and Software																								
Remittance arrangement to ten correspondent Branches (Computer Hardware/Software)																								

DESCRIPTION OF ITEM AND QUANTITY	1999 J	F	M	A	M	J	J	A	S	O	N	D	2000 J	F	M	A
Computers for four Training Centres, Including Systems Software																
Swift Connection for Colombo Branch - Hardware and Software																
Remittance arrangement to ten correspondent Branches (Computer Hardware/Software)																

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PROCUREMENT ACTIONS

1 INITIATE PREPARATION OF SPECIFICATIONS AND BID DOCUMENTS
2 TRANSMIT SPECIFICATIONS AND BID DOCUMENTS TO IDA
3 IDA CLEARANCE OF SPECIFICATION AND BID DOCUMENTS
4 ISSUE INVITATION TO BID
5 OPEN BIDS
6 TRANSMIT EVALUATION REPORT AND AWARD RECOMMENDATIONS TO IDA
7 IDA CLEARANCE OF RECOMMENDATIONS
8 AWARD CONTRACT
9 INITIAL DELIVERY AT SITE
10 ITERIM DELIVERIES AT SITE
11 FINAL DELIVERY AT SITE

METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT
DC - DIRECT CONTRACTING

Table

Summary of Proposed Procurement Arrangements

Financial Sector Development Project

BANK : Indian Bank

S. No.		Project Element	Procurement Method				Total Cost (in Rupees Crores)
			ICB	LCB	Others	NBF	
			Value in Rupees Crores				
1		Capitalization/Backstop Facility	35.000		620.800		655.800
		Sub-Total	35.000		620.800		655.800
2		Site Preparation Works			8.000		8.000
		Sub-Total			8.000		8.000
3		Goods and Equipment					
		Computers	91.000	2.400	2.500		95.900
		Communications Equipment	44.900				44.900
		ATMs/POSs	22.400				22.400
		Software for the above			14.300		14.300
		Other Equipment and Books, etc. Journals, Audio/Video Cassettes	16.200	3.500			19.700
		Sub-Total	174.500	5.900	16.800		197.200
4		Consultancies and Training					
		Policy Support			4.000		4.000
		Implementation Support			4.000		4.000
		Capacity Building			4.200		4.200
		Sub-Total			12.200		12.200
5		Miscellaneous					
	a)	Incremental Salaries			0.900		0.900
	b)	Operating Costs			49.600		49.600
		Sub-Total			50.500		50.500
		Total	209.500	5.900	708.300		923.700

Note *Other methods include force account, prudent shopping, engagement of consultants and training and capitalization/bank stop facility, etc.*

NBF : Not Bank Financed

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT : Financial Sector Development Project

BANK : Allahbad Bank

DESCRIPTION OF ITEM AND QUANTITY	MTHD OF PROC	EST. COST RS (Cr.)
Supply, Erection and Commissioning of Computers and Systems Software		
Package 1	LS	1.07
Package 2	ICB	17.00
Package 3	ICB	17.00
Package 4	ICB	17.40
Site Preparation Civil/Electrical	FA	13.46
Supply of Air Conditioners		
Package 1	LCB	2.90
Package 2	LCB	2.90
Package 3	LCB	2.90
Supply, Erection and Commissioning of UPS		
Package 1	LS	1.05
Package 2	ICB	2.00
Package 3	ICB	2.00
Package 4	ICB	2.00
Application Software for Computer	LS/DC	8.07
Supply, Erection and Commissioning of Communications Equip.		
Package 1	ICB	2.00
Package 2	ICB	2.00
Package 3	ICB	1.75
Supply, Erection and Commissioning of ATMs		
Package 1	LS	1.00
Package 2	ICB	3.00
Package 3	ICB	3.00
Package 4	ICB	3.20
Office Equipment	LS	3.00
Training Equipment and Furniture	LS/DC	0.40
Books, Journals, Cassettes	DC	0.50

1995	J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Computers and Systems Software												
Package 1												
Package 2				1	2	3	4		5		6	7
Package 3												
Package 4												
Site Preparation Civil/Electrical												
Supply of Air Conditioners												
Package 1				1			4		5		6	8
Package 2												
Package 3												
Supply, Erection and Commissioning of UPS												
Package 1												
Package 2				1	2	3	4		5		6	7
Package 3												
Package 4												
Application Software for Computer												
Supply, Erection and Commissioning of Communications Equip.												
Package 1												
Package 2												
Package 3												
Supply, Erection and Commissioning of ATMs												
Package 1												
Package 2											1	2
Package 3												
Package 4												
Office Equipment												
Training Equipment and Furniture												
Books, Journals, Cassettes												

1996	J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Computers and Systems Software												
Package 1												
Package 2	8				11							
Package 3					1	2	3	4		5		6
Package 4												
Site Preparation Civil/Electrical												
Supply of Air Conditioners												
Package 1				11								
Package 2					1			4		5		6
Package 3												
Supply, Erection and Commissioning of UPS												
Package 1												
Package 2	8				11							
Package 3					1	2	3	4		5		6
Package 4												
Application Software for Computer												
Supply, Erection and Commissioning of Communications Equip.												
Package 1				1	2	3	4		5		6	7
Package 2												
Package 3												
Supply, Erection and Commissioning of ATMs												
Package 1												
Package 2	3	4		5		6	7	8				11
Package 3												1
Package 4												
Office Equipment												
Training Equipment and Furniture												
Books, Journals, Cassettes												

1997	J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Computers and Systems Software												
Package 1												
Package 2												
Package 3	7	8				11						
Package 4						1	2	3	4		5	
Site Preparation Civil/Electrical												
Supply of Air Conditioners												
Package 1												
Package 2	8				11							
Package 3					1				4		5	
Supply, Erection and Commissioning of UPS												
Package 1												
Package 2												
Package 3	7	8				11						
Package 4						1	2	3	4		5	
Application Software for Computer												
Supply, Erection and Commissioning of Communications Equip.												
Package 1	8				11							
Package 2					1	2	3	4		5		6
Package 3												
Supply, Erection and Commissioning of ATMs												
Package 1												
Package 2												
Package 3	2	3	4		5		6	7	8			
Package 4												
Office Equipment												
Training Equipment and Furniture												
Books, Journals, Cassettes												

1998	J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Computers and Systems Software												
Package 1												
Package 2												
Package 3												
Package 4	6	7	8				11					
Site Preparation Civil/Electrical												
Supply of Air Conditioners												
Package 1												
Package 2												
Package 3		6	8			11						
Supply, Erection and Commissioning of UPS												
Package 1												
Package 2												
Package 3												
Package 4	6	7	8				11					
Application Software for Computer												
Supply, Erection and Commissioning of Communications Equip.												
Package 1												
Package 2	7	8				11						
Package 3						1	2	3	4		5	
Supply, Erection and Commissioning of ATMs												
Package 1												
Package 2												
Package 3	11											
Package 4	1	2	3	4		5		6	7	8		
Office Equipment												
Training Equipment and Furniture												
Books, Journals, Cassettes												

1999 / 2000	J 1999	F	M	A	M	J	J	A	S	O	N	D	J 2000	F	M	A
Supply, Erection and Commissioning of Computers and Systems Software																
Package 1																
Package 2																
Package 3																
Package 4																
Site Preparation Civil/Electrical																
Supply of Air Conditioners																
Package 1																
Package 2																
Package 3																
Supply, Erection and Commissioning of UPS																
Package 1																
Package 2																
Package 3																
Package 4																
Application Software for Computer																
Supply, Erection and Commissioning of Communications Equip.																
Package 1																
Package 2																
Package 3	6	7	8				11									
Supply, Erection and Commissioning of ATMs																
Package 1																
Package 2																
Package 3																
Package 4		11														
Office Equipment																
Training Equipment and Furniture																
Books, Journals, Cassettes																

PROCUREMENT ACTIONS

1 INITIATE PREPARATION OF SPECIFICATIONS AND BID DOCUMENTS
2 TRANSMIT SPECIFICATIONS AND BID DOCUMENTS TO IDA
3 IDA CLEARANCE OF SPECIFICATION AND BID DOCUMENTS
4 ISSUE INVITATION TO BID
5 OPEN BIDS
6 TRANSMIT EVALUATION REPORT AND AWARD RECOMMENDATIONS TO IDA
7 IDA CLEARANCE OF RECOMMENDATIONS
8 AWARD CONTRACT
9 INITIAL DELIVERY AT SITE
10 INTERIM DELIVERIES AT SITE
11 FINAL DELIVERY AT SITE

METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT

Estimated Cost in Rs. Crores

Table

Summary of Proposed Procurement Arrangements

Financial Sector Development Project

BANK : Allahbad Bank

S. No.		Project Element	Procurement Method				Total Cost (in Rupees Crores)
			ICB	LCB	Others	NBF	
			Value in Rupees Crore				
1		Capitalization/Backstop Facility	19.000		344.000		363.000
		Sub-Total	19.000		344.000		363.000
2		Site Preparation Works			13.460		13.460
		Sub-Total			13.460		13.460
3		Goods and Equipment					
		Computers	51.400		1.070		52.470
		Communications Equipment	5.750				5.750
		ATMs/POSs	9.200		1.000		10.200
		Software for the above			8.570		8.570
		Other Equipment and Books, etc. Journals, Audio/Video Cassettes	6.000	8.700	4.950		19.650
		Sub-Total	72.350	8.700	15.590		96.640
4		Consultancies and Training					
		Policy Support			2.000		2.000
		Implementation Support			2.000		2.000
		Capacity Building			0.900		0.900
		Sub-Total			4.900		4.900
5		Miscellaneous					
	a)	Incremental Salaries					
	b)	Operating Costs			24.700		24.700
		Sub-Total			24.700		24.700
		Total	91.350	8.700	402.650		502.700

Note *Other methods include force account, prudent shopping, engagement of consultants and training and capitalization/bank stop facility, etc.*

NBF : Not Bank Financed

NR/gs-File

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT : Financial Sector Development Project

BANK : Syndicate Bank

DESCRIPTION OF ITEM AND QUANTITY	MTHD. OF PROC.	EST. COST RS. (Cr.)	1995												1996											
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Supply/Erection and Commissioning of Micro Processors with Systems Software for Branches																										
Package 1	ICB	3.70			1	2	3	4		5	6	7	8			11										
Package 2	ICB	8.90														1	2	3	4		5	6	7	8		
Package 3	ICB	9.50																								
Package 4	ICB	10.10																								
Package 5	ICB	10.70																								
Supply, Licensing, Installation and Implementation of Application Software for Branches																										
Package 1	DC	0.60											8			11										
Package 2	DC	0.40																						8		
Package 3	DC	0.40																								
Package 4	DC	0.40																								
Package 5	DC	0.50																								
Supply/Erection and Commissioning of Micro Processors with Systems Software for replacement at Administrative Offices																										
Package 1	LCB	0.40			1	2	3	4		5	6	7	8			11										
Package 2	ICB	0.80														1	2	3	4		5	6	7	8		
Package 3	ICB	0.90																								
Package 4	ICB	0.90																								
Package 5	DC	0.30																								
-do- for upgradation of Computers in selected Offices																										

DESCRIPTION OF ITEM AND QUANTITY	1997												1998											
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Supply/Erection and Commissioning of Micro Processors with Systems Software for Branches																								
Package 1																								
Package 2	11																							
Package 3	1	2	3	4		5	6	7	8			11												
Package 4												1	2	3	4		5	6	7	8			11	
Package 5																				1	2	3	4	
Supply, Licensing, Installation and Implementation of Application Software for Branches																								
Package 1																								
Package 2	11																							
Package 3									8			11												
Package 4																				8			11	
Package 5																								
Supply/Erection and Commissioning of Micro Processors with Systems Software for replacement at Administrative Offices																								
Package 1																								
Package 2	11																							
Package 3	1	2	3	4		5	6	7	8			11												
Package 4												1	2	3	4		5	6	7	8			11	
Package 5																								
-do- for upgradation of Computers in selected Offices																								

DESCRIPTION OF ITEM AND QUANTITY	1999												2000			
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Supply/Erection and Commissioning of Micro Processors with Systems Software for Branches																
Package 1																
Package 2																
Package 3																
Package 4																
Package 5	5	6	7	8			11									
Supply, Licensing, Installation and Implementation of Application Software for Branches																
Package 1																
Package 2																
Package 3																
Package 4																
Package 5				8			11									
Supply/Erection and Commissioning of Micro Processors with Systems Software for replacement at Administrative Offices																
Package 1																
Package 2																
Package 3																
Package 4																
Package 5																
-do- for upgradation of Computers in selected Offices																

PROCUREMENT ACTIONS

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METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
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FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT : Financial Sector Development Project

BANK : Syndicate Bank

DESCRIPTION OF ITEM AND QUANTITY	MTHD. OF PROC	EST. COST RS. (Cr.)	1995												1996												1997												1998												1999												2000			
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Supply, Licensing, Installation and Application Software at Administrative Offices																																																																		
Package 1	DC	0.24											8			11																																																		
Package 2	DC	0.24																						8			11																																							
Package 3	DC	0.24																																	8			11																												
Package 4	DC	0.24																																													8			11																	
Package 5	DC	0.24																																																				8			11									
Supply, Erection and Commissioning of UPS Systems for Branches	LS	0.70																																																																
Supply, Erection and Commissioning of UPS Systems for Branches																																																																		
Package 1	ICB	1.50			1	2	3	4		5	6	7	8			11																																																		
Package 2	ICB	1.60													1	2	3	4		5	6	7	8			11																																							
Package 3	ICB	1.70																								1	2	3	4		5	6	7	8			11																												
Package 4	ICB	1.90																																			1	2	3	4		5	6	7	8			11																		
Civil Electrification and Data Cabling work for Branches																																																																		
Package 1	FA	0.90																																																																
Package 2	FA	1.60																																																																
Package 3	FA	1.70																																																																
Package 4	FA	1.60																																																																
Package 5	FA	1.90																																																																

PROCUREMENT ACTIONS

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ICB - INTERNATIONAL COMPETITIVE BIDDING
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FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT : Financial Sector Development Project

BANK : Syndicate Bank

DESCRIPTION OF ITEM AND QUANTITY	MTHD. OF PROC.	EST. COST RS. (Cr.)	1995												1996												1997												1998												1999												2000			
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Supply, Erection and Commissioning of Communication and Networking Infrastructure																																																																		
Package 1	LCB	0.50							1	2	3	4		5	6	7	8			11																																														
Package 2	LCB	0.60															1	2	3	4		5	6	7	8			11																																				
Package 3	LCB	0.70																										1	2	3	4		5	6	7	8			11																											
Package 4	ICB	1.00																																					1	2	3	4		5	6	7	8			11																
Package 5	ICB	1.10																																														1	2	3	4		5	6	7	8			11							

PROCUREMENT ACTIONS

1 INITIATE PREPARATION OF SPECIFICATIONS AND BID DOCUMENTS
2 TRANSMIT SPECIFICATIONS AND BID DOCUMENTS TO IDA
3 IDA CLEARANCE OF SPECIFICATION AND BID DOCUMENTS
4 ISSUE INVITATION TO BID
5 OPEN BIDS
6 TRANSMIT EVALUATION REPORT AND AWARD RECOMMENDATIONS TO IDA
7 IDA CLEARANCE OF RECOMMENDATIONS

9 INITIAL DELIVERY AT SITE
10 ITERIM DELIVERIES AT SITE
11 FINAL DELIVERY AT SITE

METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT

Table

Summary of Proposed Procurement Arrangements

Financial Sector Development Project

BANK : Syndicate Bank

S. No.		Project Element	Procurement Method				Total Cost (in Rupees Crores)
			ICB	LCB	Others	NBF	
			Value in Rupees Crore				
1		Capitalization/Backstop Facility	25.000		393.600		418.600
		Sub-Total	25.000		393.600		418.600
2		Site Preparation Works			7.700		7.700
		Sub-Total			7.700		7.700
3		Goods and Equipment					
		Computers	45.500	0.400	0.300		46.200
		Communications Equipment	2.100	1.800			3.900
		ATMs/POSs					0.000
		Software for the above			3.500		3.500
		Other Equipment and Books, etc.	6.700		0.700		7.400
		Journals, Audio/Video Cassettes					
		Sub-Total	54.300	2.200	4.500		61.000
4		Consultancies and Training					
		Policy Support			0.200		0.200
		Implementation Support			0.100		0.100
		Capacity Building			1.300		1.300
		Sub-Total			1.600		1.600
5		Miscellaneous					
	a)	Incremental Salaries					
	b)	Operating Costs			15.200		15.200
		Sub-Total			15.200		15.200
		Total	79.300	2.200	422.600		504.100

Note *Other methods include force account, prudent shopping, engagement of consultants and training and capitalization/bank stop facility, etc.*

NBF : Not Bank Financed

NR/gs-File

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT : Financial Sector Development Project

BANK : DENA BANK

DESCRIPTION AND QUANTITY	MTHD. OF PROC.	EST. COST RS.(Cr.)	1995												1996											
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Microprocessors with Software for Branches	ICB	2.00			1	2	3	4		5	6	7	8		11											
Supply, Erection and Commissioning of Microprocessors with Software for Branches	ICB	2.20											1	2	3	4		5	6	7	8		11			
Supply, Erection and Commissioning of Microprocessors with Software for Branches	ICB	5.00																			1	2	3	4		5
Supply, Erection and Commissioning of Microprocessors with Software for Branches	ICB	5.00																								
Supply, Erection and Commissioning of Microprocessors with Software for Branches	ICB	4.20																								
Supply, Erection and Commissioning of Computer Systems Software/other utilities for Training purposes	LS	1.80																								
Supply, licensing, installing, implementation de-bugging of Application Software including RDBMS at Main Offices, and Branches	DC/LS	7.00																								
Supply, licensing, installing, implementation de-bugging of Application Software at Regional Office, Head Office, Special Branches	DC/LS	2.00																								

DESCRIPTION AND QUANTITY	1997												1998											
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Microprocessors with Software for Branches																								
Supply, Erection and Commissioning of Microprocessors with Software for Branches																								
Supply, Erection and Commissioning of Microprocessors with Software for Branches	6	7	8		11																			
Supply, Erection and Commissioning of Microprocessors with Software for Branches						1	2	3	4		5	6	7	8		11								
Supply, Erection and Commissioning of Microprocessors with Software for Branches																			1	2	3	4		5
Supply, Erection and Commissioning of Computer Systems Software/other utilities for Training purposes																								
Supply, licensing, installing, implementation de-bugging of Application Software including RDBMS at Main Offices, and Branches																								
Supply, licensing, installing, implementation de-bugging of Application Software at Regional Office, Head Office, Special Branches																								

DESCRIPTION AND QUANTITY	1999												2000			
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Supply, Erection and Commissioning of Microprocessors with Software for Branches																
Supply, Erection and Commissioning of Microprocessors with Software for Branches																
Supply, Erection and Commissioning of Microprocessors with Software for Branches																
Supply, Erection and Commissioning of Microprocessors with Software for Branches																
Supply, Erection and Commissioning of Microprocessors with Software for Branches	6	7	8		11											
Supply, Erection and Commissioning of Computer Systems Software/other utilities for Training purposes																
Supply, licensing, installing, implementation de-bugging of Application Software including RDBMS at Main Offices, and Branches																
Supply, licensing, installing, implementation de-bugging of Application Software at Regional Office, Head Office, Special Branches																

PROCUREMENT ACTIONS

1 INITIATE PREPARATION OF SPECIFICATIONS AND BID DOCUMENTS
2 TRANSMIT SPECIFICATIONS AND BID DOCUMENTS TO IDA
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5 OPEN BIDS
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7 IDA CLEARANCE OF RECOMMENDATIONS
8 AWARD CONTRACT

9 INITIAL DELIVERY AT SITE
10 INTERIM DELIVERIES AT SITE
11 FINAL DELIVERY AT SITE

METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT

Estimated Cost in Rs. Crores

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : **INDIA**

PROJECT: **Financial Sector Development Project**

BANK: **DENA BANK**

DESCRIPTION AND QUANTITY	MTHD. OF PROC.	EST. COST RS.(Cr.)	1995												1996											
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Computer Systems Software/other utilities for Training purposes	LS	0.50																								
Civil, Electrical and Data Cabling of Work for Branches	FA	10.00																								
Supply, Erection and Commissioning of UPS System	ICB	0.40			1	2	3	4		5	6	7	8		11											
Supply, Erection and Commissioning of UPS System	ICB	0.65											1	2	3	4		5	6	7	8		11			
Supply, Erection and Commissioning of UPS System	ICB	0.70																			1	2	3	4		5
Supply, Erection and Commissioning of UPS System	ICB	1.00																								
Supply, Erection and Commissioning of UPS System	ICB	1.00																								
Supply, Erection and Commissioning of ATMS at Branches	ICB	2.20			1	2	3	4		5	6	7	8		11											
Supply, Erection and Commissioning of ATMS at Branches	ICB	8.20											1	2	3	4		5	6	7	8		11			
Supply, Erection and Commissioning of ATMS at Branches	ICB	3.20																			1	2	3	4		5
Supply, Erection and Commissioning of ATMS at Branches	ICB	4.30																								

DESCRIPTION AND QUANTITY	1997												1998											
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Computer Systems Software/other utilities for Training purposes																								
Civil, Electrical and Data Cabling of Work for Branches																								
Supply, Erection and Commissioning of UPS System (0.40)																								
Supply, Erection and Commissioning of UPS System (0.65)																								
Supply, Erection and Commissioning of UPS System (0.70)	6	7	8		11																			
Supply, Erection and Commissioning of UPS System (1.00)						1	2	3	4		5	6	7	8		11								
Supply, Erection and Commissioning of UPS System (1.00)																		1	2	3	4		5	6
Supply, Erection and Commissioning of ATMS at Branches (2.20)																								
Supply, Erection and Commissioning of ATMS at Branches (8.20)																								
Supply, Erection and Commissioning of ATMS at Branches (3.20)	6	7	8		11																			
Supply, Erection and Commissioning of ATMS at Branches (4.30)							1	2	3	4		5	6	7	8		11							

DESCRIPTION AND QUANTITY	1999												2000			
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Supply, Erection and Commissioning of Computer Systems Software/other utilities for Training purposes																
Civil, Electrical and Data Cabling of Work for Branches																
Supply, Erection and Commissioning of UPS System (0.40)																
Supply, Erection and Commissioning of UPS System (0.65)																
Supply, Erection and Commissioning of UPS System (0.70)																
Supply, Erection and Commissioning of UPS System (1.00)																
Supply, Erection and Commissioning of UPS System (1.00)	7	8		11												
Supply, Erection and Commissioning of ATMS at Branches (2.20)																
Supply, Erection and Commissioning of ATMS at Branches (8.20)																
Supply, Erection and Commissioning of ATMS at Branches (3.20)																
Supply, Erection and Commissioning of ATMS at Branches (4.30)																

PROCUREMENT ACTIONS

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10 INTERIM DELIVERIES AT SITE
11 FINAL DELIVERY AT SITE

METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT

Estimated Cost in Rs. Crores

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT: Financial Sector Development Project

BANK : DENA BANK

DESCRIPTION AND QUANTITY	MTHD OF PROC.	EST. COST RS.(Cr.)	1995												1996												1997												1998												1999												2000			
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Supply, Erection and Commissioning of Cash/ Cheque Dispensers with Software at Branches	ICB	1.60							1	2	3	4		5	6	7	8		11																																																
Supply, Erection and Commissioning of Cash/ Cheque Dispensers with Software at Branches	ICB	1.80																	1	2	3	4		5	6	7	8		11																																						
Supply, Erection and Commissioning of Cash/ Cheque Dispensers with Software at Branches	ICB	2.20																										1	2	3	4		5	6	7	8		11																												
Supply, Erection and Commissioning of Cash/ Cheque Dispensers with Software at Branches	ICB	2.20																																																	1	2	3	4		5	6	7	8		11						
Supply of Air Conditioners at Branches and other Offices	LCB	0.37						1	2	3	4		5	6	7	8		11																																																	
Supply of Air Conditioners at Branches and other Offices	LCB	0.53											1	2	3	4		5	6	7	8		11																																												
Supply of Air Conditioners at Branches and other Offices	LCB	0.60																			1	2	3	4		5	6	7	8		11																																		
Supply of Air Conditioners at Branches and other Offices	LCB	0.50																														1	2	3	4		5	6	7	8		11																								
Purchase of Books and Journals for various Deptt., Branches, etc.	DC	0.93																																																															
Purchase of Audio/Video Cassettes for Training purposes	DC	0.12																																																														
Supply of Air Conditioners at Branches and other Offices	LCB	0.50																																											1	2	3	4		5	6	7	8		11											

PROCUREMENT ACTIONS

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10 ITERIM DELIVERIES AT SITE
11 FINAL DELIVERY AT SITE

METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT: Financial Sector Development Project

BANK : DENA BANK

DESCRIPTION AND QUANTITY	MTHD. OF PROC.	EST. COST RS.(Cr.)	1995												1996												1997												1998												1999												2000			
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Acquiring Leased Lines and Dial-up Lines from MTNL/DoT as per Government rules	DC	0.80																																																																
Supply, Erection and Commissioning of Communications Equip. like Modems, Routers, Bridges, Muxes, Hubs, Switches, Pads, NMS and other Communications Equip. including Swift	ICB	2.10																																1	2	3	4		5	6	7		8			11																				
Supply, Erection and Commissioning of Communications Equip. like Modems, Routers, Bridges, Muxes, Hubs, Switches, Pads, NMS and other Communications Equip. including Swift at RO/HO, and Branches	ICB	1.05																																												1	2	3	4		5	6	7		8			11								
Supply, Erection and Commissioning of Communications Equip. like Modems, Routers, Bridges, Muxes, Hubs, Switches, Pads, NMS and other Communications Equip. including Swift at RO, HO, and Branches	ICB	0.65																																																1	2	3	4		5	6	7		8			11			
Procuring Custom-made CORE Network Software, different protocols and communications application software	LS	1.40																																																														
Supply, Erection and Commissioning of Microprocessors for RO, HO and special Branches	LS	0.50																																																														

PROCUREMENT ACTIONS

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METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT

Estimated Cost in Rs. Crores

Table

Summary of Proposed Procurement Arrangements

Financial Sector Development Project

BANK : Dena Bank

S. No.		Project Element	Procurement Method				Total Cost (in Rupees Crores)
			ICB	LCB	Others	NBF	
			Value in Rupees Crore				
1		Capitalization/Backstop Facility	16.000		300.500		316.500
		Sub-Total	16.000		300.500		316.500
2		Site Preparation Works			10.000		10.000
		Sub-Total			10.000		10.000
3		Goods and Equipment					
		Computers	18.400		2.800		21.200
		Communications Equipment	3.800		0.800		4.600
		ATMs/POSs	20.700				20.700
		Software for the above			10.400		10.400
		Other Equipment and Books, etc. Journals, Audio/Video Cassettes	3.750	2.500	1.050		7.300
		Sub-Total	46.650	2.500	15.050		64.200
4		Consultancies and Training					
		Policy Support			2.600		2.600
		Implementation Support			3.000		3.000
		Capacity Building			3.000		3.000
		Sub-Total			8.600		8.600
5		Miscellaneous					
	a)	Incremental Salaries			2.400		2.400
	b)	Operating Costs			16.200		16.200
		Sub-Total			18.600		18.600
		Total	62.650	2.500	352.750		417.900

Note *Other methods include force account, prudent shopping, engagement of consultants and training and capitalization/bank stop facility, etc.*

NBF : Not Bank Financed

NR/gs-File

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT : Financial Sector Development Project

BANK : INDIAN OVERSEAS BANK

DESCRIPTION OF ITEM AND QUANTITY	MTHD OF PROC.	EST. COST RS.(Cr.)	1995												1996												1997												1998												1999												200		
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
Supply, Erection and Commissioning of Communications Equip.																																																																
Package 1	ICB	8.00															1	2	3	4		5		6	7	8			11																																			
Package 2	ICB	2.50																																									1	2	3	4		5		6	7	8			11											
Package 3	LCB	0.50									1	2	3	4		5		6	7	8			11																																											
Application Software for Communication																																																																
Package 1	DC	0.50																																																														
Package 2	DC	0.30																																																														
Supply, Erection and Commissioning of ATMS	ICB	1.30											1	2	3	4		5		6	7	8			11																																									
Office Equipment	LS	0.45																																																														
Training Equipment	LS	0.40																																																														
Books, Audio/Video Cassettes	DC	0.25																																																														
Supply, Erection and Commissioning of Computers																																																																
Package 1	ICB	8.00																	1	2	3	4		5		6	7	8			11																																		
Package 2	ICB	8.00																																							1	2	3	4		5		6	7	8			11														
Package 3	ICB	3.90						1	2	3	4		5		6	7	8			11																																														
Package 4	ICB	2.20											1	2	3	4		5		6	7	8			11																																									
Electrical Cabling and Civil Works	FA	1.20																																																														
Supply, Erection and Commissioning of UPS																																																																
Package 1	ICB	3.50															1	2	3	4		5		6	7	8			11																																			
Package 2	ICB	3.20																																							1	2	3	4		5		6	7	8			11														
Package 3	LCB	0.40							1	2	3	4		5		6	7	8			11																																													
Package 4	LCB	0.40										1	2	3	4		5		6	7	8			11																																										
Supply of Air Conditioners	LCB	0.30						1			4	5		8			11																																															

PROCUREMENT ACTIONS

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METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT

Estimated Cost in Rs. Crores

Table

Summary of Proposed Procurement Arrangements

Financial Sector Development Project

BANK : Indian Overseas Bank

S. No.		Project Element	Procurement Method				Total Cost (in Rupees Crores)
			ICB	LCB	Others	NBF	
			Value in Rupees Crores				
1		Capitalization/Backtop Facility	25.000		443.100		468.100
		Sub-Total	25.000		443.100		468.100
2		Site Preparation Works			1.200		1.200
		Sub-Total			1.200		1.200
3		Goods and Equipment					
		Computers	22.100				22.100
		Communications Equipment	10.500	0.500			11.000
		ATMs/POSs	1.300				1.300
		Software for the above			0.800		0.800
		Other Equipment and Books, etc.	6.700	1.100	1.100		8.900
		Journals, Audio/Video Cassettes					
		Sub-Total	40.600	1.600	1.900		44.100
4		Consultancies and Training					
		Policy Support			1.000		1.000
		Implementation Support			1.000		1.000
		Capacity Building			1.200		1.200
		Sub-Total			3.200		3.200
5		Miscellaneous					
	a)	Incremental Salaries					
	b)	Operating Costs			11.300		11.300
		Sub-Total			11.300		11.300
		Total	65.600	1.600	460.700		527.900

Note *Other methods include force account, prudent shopping, engagement of consultants and training and capitalization/bank stop facility, etc.*

NBF : Not Bank Financed

NR/gs-File

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT : Financial Sector Development Project

BANK : BANK OF INDIA

DESCRIPTION OF ITEM AND QUANTITY	MTHD. OF PROC.	EST. COST RS. (Cr.)	1995 J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Micro-processors with system software														
Package 1	ICB	16.25			1	2	3	4		5		6	7	8
Package 2		21.25												1
Package 3		21.25												
Package 4		11.25												
-do-, for foreign branches	DC/LS	14.00												
Electrical Works at Site	FA	2.00												
Supply of Air Conditioners														
Package 1	LCB	0.50					1	4		5		6	8	
Package 2		0.50												
Package 3		0.50												
Package 4		0.50												
Supply, Erection and Commissioning of UPS														
Package 1	ICB	3.00			1	2	3	4		5		6	7	8
Package 2		4.00												1
Package 3		4.00												
Package 4		3.00												
Application Software														
Package 1	DC/LS	2.00												
Package 2		2.00												
Package 3		1.00												
Package 4		1.00												
Supply, Erection and Commissioning of Communication Equip.														
Package 1	ICB	3.00												
Package 2		7.00												
Package 3		7.00												
Communication Software	DC/LS	2.00												

DESCRIPTION OF ITEM AND QUANTITY	1996 J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Micro-processors with system software												
Package 1			11									
Package 2	2	3	4		5		6	7	8			11
Package 3												1
Package 4												
-do-, for foreign branches												
Electrical Works at Site												
Supply of Air Conditioners												
Package 1		11										
Package 2		1	4		5		6	8			11	
Package 3												
Package 4												
Supply, Erection and Commissioning of UPS												
Package 1			11									
Package 2	2	3	4		5		6	7	8			11
Package 3												1
Package 4												
Application Software												
Package 1	8		11									
Package 2										8		11
Package 3												
Package 4												
Supply, Erection and Commissioning of Communication Equip.												
Package 1			1	2	3	4		5		6	7	8
Package 2									1	2	3	4
Package 3												
Communication Software												

DESCRIPTION OF ITEM AND QUANTITY	1997 J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Micro-processors with system software												
Package 1												
Package 2												
Package 3	2	3	4		5		6	7	8			11
Package 4												1
-do-, for foreign branches												
Electrical Works at Site												
Supply of Air Conditioners												
Package 1												
Package 2												
Package 3		1	4		5		6	8			11	
Package 4												
Supply, Erection and Commissioning of UPS												
Package 1												
Package 2												
Package 3	2	3	4		5		6	7	8			11
Package 4												1
Application Software												
Package 1												
Package 2												
Package 3										8		11
Package 4												
Supply, Erection and Commissioning of Communication Equip.												
Package 1			11									
Package 2		5		6	7	8			11			
Package 3								1	2	3	4	
Communication Software												

DESCRIPTION OF ITEM AND QUANTITY	1998 J	F	M	A	M	J	J	A	S	O	N	D
Supply, Erection and Commissioning of Micro-processors with system software												
Package 1												
Package 2												
Package 3												
Package 4	2	3	4		5		6	7	8			11
-do-, for foreign branches												
Electrical Works at Site												
Supply of Air Conditioners												
Package 1												
Package 2												
Package 3												
Package 4		1	4		5		6	8			11	
Supply, Erection and Commissioning of UPS												
Package 1												
Package 2												
Package 3												
Package 4	2	3	4		5		6	7	8			11
Application Software												
Package 1												
Package 2												
Package 3												
Package 4										8		11
Supply, Erection and Commissioning of Communication Equip.												
Package 1												
Package 2												
Package 3	5		6	7	8			11				
Communication Software												

DESCRIPTION OF ITEM AND QUANTITY	1999 J	F	M	A	M	J	J	A	S	O	N	D	2000 J	F	M	A
Supply, Erection and Commissioning of Micro-processors with system software																
Package 1																
Package 2																
Package 3																
Package 4																
-do-, for foreign branches																
Electrical Works at Site																
Supply of Air Conditioners																
Package 1																
Package 2																
Package 3																
Package 4																
Supply, Erection and Commissioning of UPS																
Package 1																
Package 2																
Package 3																
Package 4																
Application Software																
Package 1																
Package 2																
Package 3																
Package 4																
Supply, Erection and Commissioning of Communication Equip.																
Package 1																
Package 2																
Package 3																
Communication Software																

PROCUREMENT ACTIONS

1 INITIATE PREPARATION OF SPECIFICATIONS AND BID DOCUMENTS
2 TRANSMIT SPECIFICATIONS AND BID DOCUMENTS TO IDA
3 IDA CLEARANCE OF SPECIFICATION AND BID DOCUMENTS
4 ISSUE INVITATION TO BID
5 OPEN BIDS
6 TRANSMIT EVALUATION REPORT AND AWARD RECOMMENDATIONS TO IDA
7 IDA CLEARANCE OF RECOMMENDATIONS
8 AWARD CONTRACT
9 INITIAL DELIVERY AT SITE
10 ITERIM DELIVERIES AT SITE
11 FINAL DELIVERY AT SITE

METHOD OF PROCUREMENT

ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
FA - FORCE ACCOUNT

FORM NO. 1933
(1-83)

PROCUREMENT SCHEDULE FOR EQUIPMENT AND MATERIALS

COUNTRY : INDIA

PROJECT : Financial Sector Development Project

BANK : BANK OF INDIA

DESCRIPTION OF ITEM AND QUANTITY	MTHD. OF PROC.	EST. COST RS. (Cr.)	1995												1996												1997												1998												1999												2000			
			J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Supply, Erection and Commissioning of ATMs																																																																			
Package 1	ICB	3.00			1	2	3	4		5		6	7	8			11																																																		
Package 2		3.00											1	2	3	4		5		6	7	8			11																																										
Package 3		3.00																							1	2	3	4		5		6	7	8			11																														
Package 4		3.00																																			1	2	3	4		5		6	7	8			11																		
Supply, Erection and Commissioning of POS Equipment																																																																				
Package 1	ICB	1.00												1	2	3	4		5		6	7	8			11																																									
Package 2		1.00																								1	2	3	4		5		6	7	8			11																												
Package 3		1.00																																				1	2	3	4		5		6	7	8			11																
Package 4		1.00																																										1	2	3	4		5		6	7	8			11										
Mastercard/Visacard	DC	0.50															8		11																																																
Software		0.50																											8		11																																				
Misc. Office Equipment	LS	16.50																																																																		
Training Equipment	LS	2.00																																																																		
Books, Periodicals,	DC	0.50																																																																		
Audio/Video Cassettes	DC																																																																			

PROCUREMENT ACTIONS

1 INITIATE PREPARATION OF SPECIFICATIONS AND BID DOCUMENTS
2 TRANSMIT SPECIFICATIONS AND BID DOCUMENTS TO IDA
3 IDA CLEARANCE OF SPECIFICATION AND BID DOCUMENTS
4 ISSUE INVITATION TO BID
5 OPEN BIDS
6 TRANSMIT EVALUATION REPORT AND AWARD RECOMMENDATIONS TO IDA
7 IDA CLEARANCE OF RECOMMENDATIONS
8 AWARD CONTRACT
9 INITIAL DELIVERY AT SITE
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ICB - INTERNATIONAL COMPETITIVE BIDDING
LCB - LOCAL COMPETITIVE BIDDING
LS - LOCAL SHOPPING
DC - DIRECT CONTRACTING
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ANNEX XII

INDIA

FINANCIAL SECTOR DEVELOPMENT PROJECT

Documents in Project File

1. Government of India, Ministry of Finance, "Report of the Committee on the Financial System" (Narasimham Committee Report), November 1991.

2. Government of India, Ministry of Finance, "Public Sector Commercial Banks and Financial Sector Reform: Rebuilding for a Better Future", Discussion Paper, December 1993.

3. Government of India, Ministry of Finance, "Report of the Committee on Reforms in the Insurance Sector" (Malhotra Committee Report), January 1994.

4. Reserve Bank of India, Circular No. BP.BC.129/21.04.043-92, April 27, 1992.

5. Reserve Bank of India, Circular No. BP.BC.95/21.04.043-92, December 17, 1992.

6. Reserve Bank of India, Circular No. BP.BC.95/21.04.048-93, March 23, 1993.

7. Reserve Bank of India, Circular No. BP.BC.195/21.04.048-93, November 24, 1993.

8. Reserve Bank of India, Circular No. BP.BC.8/21/04.043/94, February, 1994.

9. Government of India, Budget Documents, 1992/93, 1993/94 and 1994/95.