



Module-C Unit-4

JAIIB PAPER-1

Indian Economy and Indian Financial System (IE & IFS)



JAIIB IE & IFS Module C Unit 4 - Development Financial Institutions

Evolution Of Development Financial Institutions In India

- DFIs were established mainly to cater to the demand for long-term finance by the industrial sector.
- **1948:** 1st DFI - Industrial Finance Corporation of India (IFCI),

Followed by setting up of State Financial Corporations (SFCs) at the State level, after passing of the State Financial Corporations Act, 1951.

- **1955:** Industrial Credit and Investment Corporation of India (ICICI Ltd.)
- **1956:** Life Insurance Corporation of India (LIC)
- **1958:** Refinance Corporation for Industries Ltd. (later taken over by IDBI)
- **1963:** Agriculture Refinance Corporation (precursor of ARDC and NABARD)
- **1964:** UTI and IDBI
- **1969-70:** Rural Electrification Corporation Ltd. and HUDCO Ltd.
- **1971:** Industrial Reconstruction Corporation of India Ltd. (precursor of IIBI Ltd.)
- **1972:** GIC
- **2021:** National Bank for Financing Infrastructure and Development (NaBFID)

1964: Although the powers to regulate financial institutions had been made available to RBI

- **1974:** Under the newly inserted Chapter IIIB of RBI Act, the definition of term 'financial institution' was made precise and comprehensive by amendment to the RBI Act {Section 45-I (c)}

Set up after 1974.

- **1981:** NABARD
- **1982:** EXIM Bank (functions carved out of IDBI)
- **1986:** SCICI Ltd. (Shipping Credit and Investment Company of India Ltd) (set up by ICICI Ltd. in 1986 and later merged with ICICI Ltd. in 1997),
- **1986:** PFC Ltd. (Power Finance Corporation Ltd) and IRFC Ltd. (Indian Railway Finance Corporation).
- **1987:** IREDA Ltd. (Indian Renewable Energy Development Agency Ltd)

- **1988:** RCTC Ltd. (Risk Capital and Technology Finance Corporation) and TDICI Ltd. (Technology Development and Investment Corporation of India) (later known as IFCI Venture Capital Funds Ltd. and ICICI Venture Funds Management Ltd.)
- **1988:** NHB
- **1989:** TFCI Ltd. (Tourism Finance Corporation of India) (set up by IFCI)
- **1989:** SIDBI (also carved out of IDBI)
- **1997:** IDFC Ltd.
- Apart from the fact that DFIs cater to the financial needs of different sectors, there are some significant differences among them. While most of them extend direct finance, some extend indirect finance and are mainly refinancing institutions, viz., SIDBI, NABARD and NHB - which also have a regulatory and supervisory role.

Gaps In The Post-Independence Financial System

As India launched into the road of development, post-independence, a number of gaps emerged in the then-existing banking system and capital markets, which needed to be filled up. *These were:*

- Commercial banks had traditionally confined themselves to financing working capital requirements of trade and industry and abstained from providing long-term finance.
- Several malpractices, such as misuse of funds, excess speculation, and manipulations were unearthed. Owing to this, the investors were not interested in investing in the capital market.
- The managing agency houses, which had served as supplementary to the capital market, showed their apathy to investments, in risky ventures.
- There were a limited number of issue houses and underwriting firms that sponsored issue of bonds and other securities.

Objectives Of Development Financial Institutions

The objectives of development banks include the following:

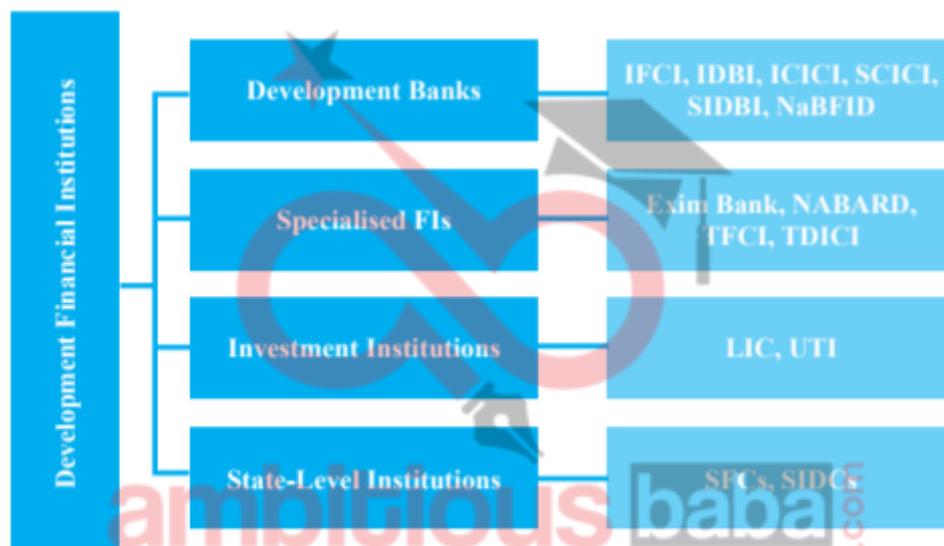
- To serve as an agent of development in various sectors, viz., industry, agriculture, and international trade.
- To accelerate growth of the economy.
- To allocate resources to high priority areas.
- To foster rapid industrialisation, particularly in the private sector, so as to provide employment opportunities as well as higher production.
- To foster Public – Private Partnership (PPP)
- To develop entrepreneurial skills.
- To promote the development of rural areas.
- To finance housing, small-scale industries, infrastructure, and social utilities.

- Planning, promoting, and developing industries to fill the gaps in industrial sector.
- Coordinating the working of institutions engaged in financing, promoting or developing industries, agriculture, or trade.
- Rendering promotional services, such as stimulating project ideas, undertaking feasibility studies, and providing technical, financial, and managerial assistance for the implementation of projects.

Classification Of DFIS

DFIs can be classified into four categories,

- Development Banks,
- Specialised Financial Institutions,
- Investment Institutions
- State-Level Financial Institutions.



Role Of DFIS In The Indian Economy

Term Loan: The DFIs for industrial development extended term loan for setting up new units as also for expansion, modernisation, and rehabilitation of existing units.

Assistance: The DFIs could extend assistance to almost all industries, resulting in a well-diversified asset portfolio.

- **Tenor of the financial assistance was usually up to 10 years, with suitable initial moratorium periods.**
- **Mortgage charge over fixed assets of the assisted company, was provided as loan security.**

The DFIs were funded by Government provided equity capital and preferential market access for raising medium-/long-term resources.

Preferential access was in the form of channelising multilateral funding lines, fund flow from National Industrial Credit-Long-term Operations.

(NIC-LTO) of Reserve Bank of India, issuance of Statutory Liquidity Ratio (SLR) and tax-saving bonds, and suitable enablers to attract funds available through capital gains and investment allowance reserves.

There were also provisions made in the Income Tax Act, which enabled access to medium and long-term resources, which supplemented their other fund-raising avenues.

DFIs were also permitted to intermediate external commercial borrowings (ECBs) market, for on-lending.

Industrial Finance Corporation Of India (IFCI)

July 1, 1948 :The Government of India established the Industrial Finance Corporation of India (IFCI)

- Enactment of the Industrial Finance Corporation Act, 1948.
- First Development Financial Institution of India

Purpose: Propel economic growth, through development of infrastructure and industry.

Since then, IFCI has contributed significantly to the economy, through its incessant support to projects in all the three spheres of growth and development

- Manufacturing,
- Infrastructure & services
- agriculture and allied sectors.

The Liberalisation of the Indian Economy, in 1991, made significant changes in the Indian Capital Markets and the Financial System.

To aid raising of funds directly through capital markets, the constitution of IFCI was changed from a statutory corporation to a company, under the Indian Companies Act, 1956.

- **October 1999:** Name of the company was changed to 'IFCI Limited',
- **Authorised share capital of the IFCI:** Only Rs. 10 crores at the initial stage
- Authorised capital of IFCI was increased to Rs. 250 crores [the Industrial Finance Corporation (Amendment) Act 1986]



Financial Activities of IFCI

- **Project financing is the core business of IFCI.**
- **Main objective:** To fund green-field projects.
- Financial assistance was provided, by way of medium or long-term credit, for setting up new projects, expansion/diversification schemes, modernisation/balancing schemes of existing projects.
- Provided by way of rupee loans, loans in foreign currencies, underwriting of/direct subscription to shares and debentures, providing guarantee for deferred payments and loans.

Financial services

- IFCI provided tailor-made assistance, to meet specific needs of corporates, through specifically designed schemes.
- The various fund-based products offered were equipment finance, equipment credit, equipment leasing, supplier's/buyer's credit, leasing and hire purchase concerns, working capital term loans, short-term loans, equipment procurement, instalment credit, and others. The fee-based services offered by it, were guarantees and letters of credit.

Corporate advisory services

IFCI provided advisory services in the areas of

- Projects,
- Infrastructure,
- Corporate finance,
- Investment banking, a
- Corporate restructuring.

It provided customised services, in areas of

- Investment appraisals,
- Corporatisation,
- Disinvestment,
- Business restructuring
- Bid-process management,
- Formation of joint ventures.

Corporate advisory services to foreign investors

IFCI provided a whole range of services to prospective foreign investors, namely,

- Facilitating the foreign business entities through information services;
- Necessary office infrastructure for the start-up operations of the organisation, coordination for obtaining the required approvals/clearances from the government departments/ regulators/ statutory agencies;
- Inputs on markets, materials, and manpower available in the country;
- Inputs on available manufacturing facilities;
- Syndication services for obtaining the required capital;
- Research inputs and information regarding tax incentives;
- Tariff protections, and opportunities available for acquisitions, mergers, and amalgamations.

Industrial Credit and Investment Corporation Of India (ICICI)

- **Established:** In 1955, at the initiative of the World Bank, the Government of India and representatives of Indian industry.
- **Principal objective:** To create a development financial institution, for providing medium-term and long-term project financing to Indian businesses.
- The IFCI and SFCs had confined themselves to lending activities and kept away from underwriting and investing in business, though they were authorised to subscribe for the shares and debentures of the companies and to undertake underwriting business.
- Therefore, a large number of emerging enterprises faced chronic problems, in raising funds in the capital market.
- Besides, they were not in a position to secure the desired amount of loan assistance from the financial institutions, due to their thin equity base.
- To fill these gaps, the ICICI was established.
- **Until the late 1980s,** : primarily focused on project finance, providing long-term funds to a variety of industrial projects.
- With the liberalisation of the financial sector in India, in the 1990s: transformed its business, from a development financial institution offering only project finance, to a diversified financial services provider that, along with its subsidiaries and other group companies, offered a wide variety of products and services.
- As India's economy became more market-oriented and integrated with the world economy, the ICICI capitalised on the new opportunities, to provide a wider range of financial products and services, to a broader spectrum of clients.

- **1994** : ICICI Bank, as a part of the ICICI group.
- **1999** : ICICI became the first Indian company and the first bank or financial institution from non-Japan Asia, to be listed on the New York Stock Exchange.
- The issue of universal banking, which in the Indian context meant conversion of long-term lending institutions such as ICICI into commercial banks, had been discussed at length, in the late 1990s.
- Conversion into a bank offered ICICI, the ability to accept low-cost demand deposits and offer a wider range of products and services, and greater opportunities for earning non-fund-based income, in the form of banking fees and commissions.
- **March 2002**: ICICI Bank, to create the first universal bank in India.

Objectives of ICICI

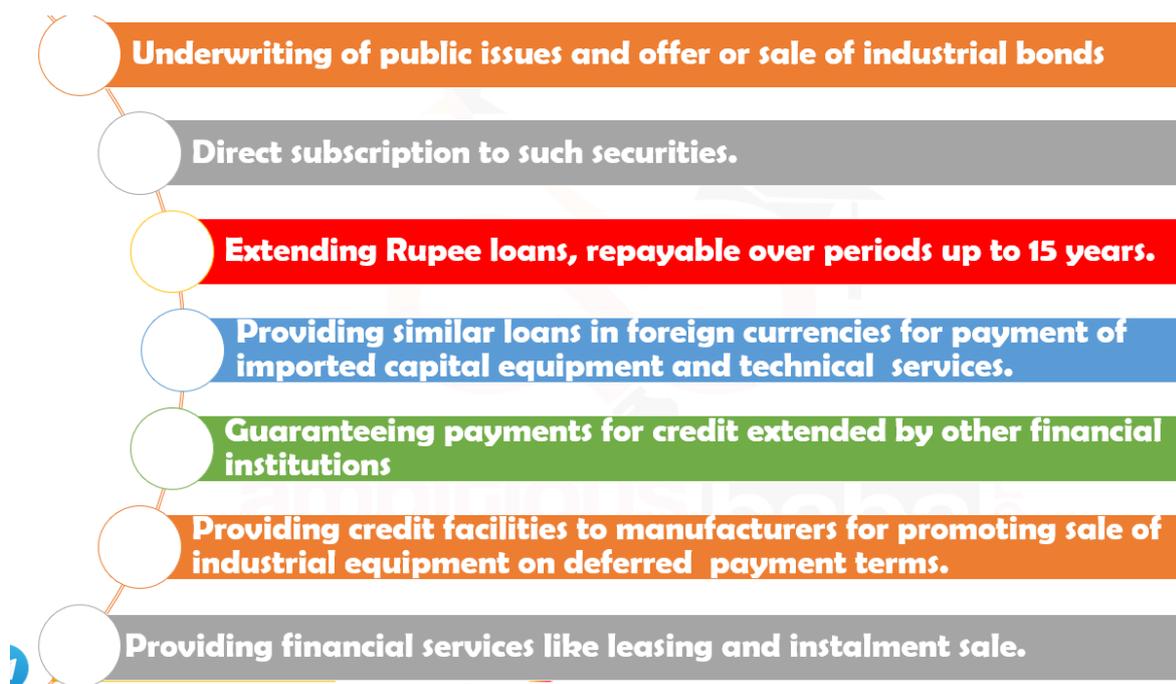
To meet the needs of the industry for permanent and long-term funds in the private sector. In general, the objectives of the Corporation were:

- To assist in creation, growth and modernisation of business enterprises in the non-public sector.
- To stimulate private ownership of industrial entities and to promote and assist in the expansion of markets.
- To provide equipment finance.
- To provide finance for rehabilitation of industrial units.

Functions of ICICI

- Providing finance in the form of long-term and medium-term loans and equity participation.
- Sponsoring and underwriting new issues of shares and other securities
- Guaranteeing loans availed by enterprises from other lenders
- Providing project advisory services to private sector companies in the pre-investment stage on Government policies and procedures, feasibility studies and joint venture search, and to Central and State Governments on specific policy related issues.

Types of financial assistance of ICICI



- **1973:** ICICI started a Merchant Banking Division, for advising its clients on raising finances in suitable forms and on restructuring of financial structures, in existing companies.
- It also advised clients on amalgamation proposals.
- Assistance was provided in preparing proposals for submission to financial institutions and banks and for negotiating with them for loans, underwriting, etc.
- Played the role of Managers to issues of capital raising and assistance was also provided for completion of formalities connected with the public issues and of legal formalities for raising loans.
- **In 1982,** the ICICI gave a new dimension to its Merchant Banking Division, by offering to provide counselling for industrial investments in India, to Non-Resident Indians.

Institutions Set Up/Promoted by ICICI

- **Venture Funds Co. Ltd:** for the promotion of green field projects and risk capital investment and joined the other financial institutions, in setting up Stock Holding Corporation of India Ltd (SHCIL), Credit Rating Information Services of India Ltd (CRISIL) and OTC Exchange of India Ltd.
- **March 1995:** ICICI Brokerage Services Ltd, which is a 100% subsidiary of I-SEC. It commenced its securities brokerage activities in 1996 and is registered with the National Stock Exchange of India Limited and the Bombay Stock Exchange.
- **1997:** ICICI Credit, which later renamed as ICICI Personal Financial Services Limited in 1999, which offered a comprehensive range of products and services to retail customers.

- **ICICI Capital Services Ltd.** : Originally set up as SCICI Securities Ltd., as a wholly owned subsidiary of erstwhile SCICI Ltd., in 1994. Its objective was to provide stock broking services to institutional clients and undertaking activities such as underwriting, primary market placements and distribution, industry and company research, etc. It became a wholly owned subsidiary of ICICI in April 1996.
- ICICI promoted the Housing Development Finance Corporation (HDFC), to provide long-term finance to individuals in middle- and lower-income groups for the construction and purchase of residential homes.
- **Credit Rating Information Services of India Ltd. (CRISIL):** Set up in association with Unit Trust of India (UTI), to provide credit rating services to the corporate sector.

Industrial Development Bank Of India (IDBI)

- **Purpose:** To accelerate the industrial development in the country.
- There was a lack of co-ordination between the different institutions and it led to overlapping and duplication in their efforts. At the same time, some very large projects of national importance required financial support.
- In order to realise this objective, the IDBI was established in 1964, as a wholly owned subsidiary of Reserve Bank of India.
- Act as an apex institution, co-coordinating functions of all the financial institutions, into a single integrated movement of development banking and supplementing their resources for industrial financing and as an agency for providing financial support to all viable projects of national **importance, whose access to existing institutional sources were limited.**
- The ownership was transferred to Central Government on February 16, 1976.
- Changing its organizational structure to that of a state-owned autonomous corporation.
- The IDBI Act was amended, in the year **1994, to permit public ownership up to 49%.**
- **1995:** Raised more than Rs. 2,000 crores through its first initial public offer (IPO), reducing the stake of the government to 72%.
- **June 2000:** A part of the equity shareholding of the government was converted into preference share capital, which was redeemed in March 2001, resulting into further reduction of government stake to 58%.

Financial Resources of IDBI

- **Share Capital:** IDBI was formed with an authorised capital of Rs. 50 crores, which was increased subsequently on a number of occasions. In October, 1994, Government of India amended certain provisions of IDBI Act and under the

provisions of the modified Act, the authorised capital of the bank was increased to Rs. 2,000 crores, which could further be increased to Rs. 5,000 crores.

- **Borrowings:** IDBI was authorised to raise its resources through borrowings from Government of India, Reserve Bank of India and other financial institutions.

Functions of IDBI The main functions of IDBI were as follows:

- To co-ordinate the activities of other development financial institutions providing term finance to the industrial sector and to act as an apex institution.
- To provide refinance to financial institutions, granting medium and long-term loans to industries.
- To provide refinance to scheduled banks.
- To provide technical and administrative assistance for promotion, management or growth of industries.
- To undertake market surveys and techno-economic studies, for the development of industries.
- To grant direct loans and advances to industrial concerns. IDBI was empowered to finance all types of industrial concerns, engaged or proposed to be engaged in the manufacture, preservation or processing of goods, mining, hotel industry, fishing, shipping transport, generation and distribution of power, etc.
- To render financial assistance to industrial concerns. IDBI operated various schemes of assistance viz., Direct Assistance Scheme, Soft Loans Scheme, Technical Development Fund Scheme, Refinance Industrial Loans Scheme, Bill Re-Discounting Scheme, Seed Capital Assistance Scheme, Overseas Investment Finance Scheme and Development Assistance Fund.

Operations of IDBI

Since its inception in 1964, IDBI extended its operations to various areas of industrial sector



Direct Assistance

Direct financial assistance includes project finance assistance, soft-loan assistance, assistance under technical development fund scheme and rehabilitation assistance for sick units.

Project Finance Assistance:

Under project finance scheme, IDBI extended direct assistance to industrial concerns in the form of:

- Project loans
- Subscription to and/or underwriting of issues of shares and debentures.
- Guarantee for loans and deferred payments.
- Financial assistance under this scheme was granted for setting up new projects as well as for expansion and modernisation and renovation of existing units.
- IDBI introduced special schemes for industrialisation of backward areas. In a scheme introduced in 1969, it offered concessional rates of interest and longer repayment periods.
- These concessions were made available to small and medium scale units. In collaboration with the IFCI and the ICICI, IDBI also extended concessional rupee loans up to Rs. 2 crores and underwriting assistance up to Rs.1crore.

Soft Loan Scheme

- **In 1976 :** Introduced the soft loan scheme to provide financial assistance to product units in selected industries, viz., cement, cotton, textiles, jute, sugar and certain engineering industries for modernisation.
- This scheme is implemented by IDBI with financial participation by IFCI and ICICI.

Technical Development Fund Scheme

- **March, 1976 :** The Government of India introduced the TDF Scheme for issue of import licenses for import of small value balancing equipment, technical knowhow, foreign consultancy services and drawings and designs by industrial units, to enable them achieve fuller capacity utilisation, technological up gradation and higher exports.
- **1977:** IDBI introduced a scheme for providing matching rupee loans to industrial units, to enable them to utilise import licenses issued, under the TDF scheme.

Rehabilitation Assistance to Sick Units

- The problem of growing industrial sickness in India was a cause of worry. It adversely affected production, employment, generation of income and utilisation of productive resources.
- With a view to reducing the financial sickness amongst industries, IDBI devised the Refinance Scheme for Industrial Rehabilitation.

- Units which had been financed by State Financial Corporations or State Industrial Development Corporations and were classified as sick were eligible under this scheme, for support.

Indirect Assistance

Refinance assistance for Industrial Loans

- IDBI provided refinance facility against term loans granted by the eligible credit institutions to industrial concerns, for setting up of industrial projects as also for their expansion, modernisation and diversification.
- It provided refinance support to commercial banks, RRBs, State Cooperative Banks, State Financial Corporations, State Industrial Development Corporations and other institutions extending term loan assistance to industrial units.

Rediscounting of Bills

- **1965:** Rediscounting facility of machinery bills was introduced.
- Purpose: to help indigenous machinery manufacturers and their purchases.
- The purchaser of machinery accepted bills of exchange or promissory notes of the seller and undertook to make the payment in instalments.
- The seller could get the bills discounted with his banker- who in turn, could rediscount the bills with IDBI. The scheme was extended for expansion and diversification of existing units also.

Seed Capital Assistance:

- With a view to supporting first generation entrepreneurs who had the skills but lacked financial resources, IDBI launched its Seed Capital Assistance Scheme, in September, 1976.

Small Industries Development Bank Of India (SIDBI)

- **Established:** In 1990, under an act of parliament, the Small Industries Development Bank of India Act, 1989.
- The charter establishing SIDBI envisaged SIDBI to be the principal financial institution, for the promotion, financing and development of industries in the small-scale sector and to coordinate the functions of other institutions, engaged in similar activities.
- Commenced its operations on April 2, 1990, as a subsidiary of IDBI, by taking over the outstanding portfolio and activities of IDBI, pertaining to the small-scale sector.

SIDBI has been playing the following basic rules

- Financing
- Promotion
- Development and
- Coordination for orderly growth of the MSME sector.

Functions of SIDBI

- It provides direct and indirect finance to the MSME sector.
- It refinances loans that are extended by the Primary Lending Institutions (PLIs – like banks) to the MSME units.
- It discounts and rediscounts bills.
- It also helps in expanding marketing channels for the products of MSME sector, both in the domestic as well as international markets.
- It offers services like factoring, leasing, etc., to the industrial concerns in the MSME sector.
- It promotes employment-oriented industries, particularly in semi-urban areas, for creating employment opportunities and thus, checking the migration of people to urban areas.
- It initiates steps for modernisation and technological upgradation of current units.
- It enables the timely flow of credit for working capital as well as term loans to MSME units in conjunction with the commercial banks

Financing Facilities Offered by SIDBI

Direct Finance

- SIDBI offers working capital assistance, term loan assistance, foreign currency loans, finance against receivables, equity support, energy saving schemes for the MSME sector, etc., under its various direct finance loan schemes.

Indirect Finance

- SIDBI offers indirect assistance by providing refinance to PLIs, comprising of banks, State Level Financial Institutions, etc. The key objective of the refinancing schemes is to raise the resource position of the PLIs, which would, in turn, enable the flow of credit to the MSME sector.

Micro Finance

- SIDBI also offers microfinance to small businessmen and entrepreneurs for establishing their business.

Direct Finance Loan Schemes Offered by SIDBI

Loan Scheme	Loan Amount	Loan Tenure
SIDBI Make in India Soft Loan Fund for MSMEs (SMILE)	Minimum loan size – Rs.10 lakh for Equipment Finance and Minimum Loan Size for Others – Rs.25 lakhs	Up to 10 years, including 3-year moratorium
Smile Equipment Finance (SEF)	Minimum loan amount is Rs. 10 lakhs	Up to 72 months
Loans under partnership with OEM (Original Equipment Manufacturer)	Up to Rs.1 crore	Up to 5 years
Working Capital (Cash Credit)	Depends upon the financial appraisal	As per the terms and conditions of the facility

SIDBI – Loan for Purchase of Equipment for Enterprise's Development (SPEED)	Up to 100% of the machinery cost subject to maximum of Rs.1 crore for New to Bank (NTB) customers and up to Rs.2 crores for existing customers of SIDBI.	Up to 2-5 years including moratorium of up to 3-6 months
SIDBI-Loan for Purchase of Equipment for Enterprise's Development Plus (SPEED PLUS)	Up to 100% of the machinery cost subject to maximum of Rs.2 crores for New to SIDBI customers and up to Rs.3 crores for existing customers of SIDBI.	Up to 2-5 years including moratorium of up to 3-6 months
Top Up Loan for Immediate Purposes (TULIP)	30% of existing exposure or 20% of net sales, subject to maximum of Rs.2 crores	Up to 5 years including 6-month moratorium
SIDBI Term-Loan Assistance for Rooftop Solar PV Plants (STAR)	Rs.10 lakhs to Rs. 2.5 crores	Up to 5 years including 3-6 months moratorium
SIDBI Assistance to Facilitate Emergency Response Against Coronavirus (SAFE)	Up to Rs.50 lakhs	Up to 5 years
SIDBI Assistance to Facilitate Emergency Response Against Coronavirus Plus (SAFE PLUS)	Up to Rs.100 lakh	Repayable over 4-months
Timely Working Capital Assistance to Revitalise Industries in Times of Corona Crisis (TWARIT)	Up to 20% of total outstanding loans with SIDBI up to Rs.25 crores	Up to 4 years including 1 month moratorium

Indirect Finance Schemes of SIDBI

Under Indirect Finance, there are schemes where financial assistance is provided to banks, NBFCs, and Small Finance Banks (SFBs). These include the following:

- **Refinance to Banks, NBFCs, and SFBs:** Refinance is provided to Banks, NBFCs and SFBs.
- **Assistance to NBFCs:** NBFCs which include the loan companies as well that are registered with RBI help in providing financial assistance to enterprises in the MSME sector.
- **Assistance to Small Finance Banks (SFBs):** In order to strengthen the equity and resource base of SFBs, this scheme was introduced. This scheme focuses on providing refinance support to SFBs.

Micro-Lending Schemes of SIDBI

There are three main schemes under Micro Lending namely, Micro Lending Development, Responsible Finance Initiatives and Beyond Microfinance.

- **Micro-Lending Development:** The objective of Micro-Lending Development is to create an institution and provide micro-financial services to the people who are economically weak.
- **Responsible Finance Initiatives:** In the light of promoting cooperation and the right lending practices in the financial sector, this loan scheme comes as a big support to banks and other financial institutions in the country.
- **Beyond Microfinance:** This loan scheme helps the entrepreneurs to graduate from microfinance to a larger ticket size loan, at affordable rates.

Export-Import Bank Of India (EXIM BANK)

- **Established:** Export-Import Bank Act, 1981, which was passed in September 1981 and it commenced its operations in March, 1982.
- **wholly owned by the Government of India**
- **Purpose:** Financing, facilitating, and promoting foreign trade in India.
- Principal financial institution in the country for coordinating working of institutions engaged in financing exports and imports.
- Exim Bank is an apex institution, which promotes foreign trade and, in addition to a number of domestic offices, it has nine overseas offices.

Functions of Exim Bank





Products and Services of Exim Bank

- Exim Bank has a number of products and services that it has developed for facilitating international trade for exporters and importers from India.



National Bank For Agriculture And Rural Development (NABARD)

- With the widening of the role of bank credit from “agricultural development” to rural development, the Government proposed to have a more broad-based organisation at the apex level, to extend support and give guidance to credit institutions in matters relating to the formulation and implementation of the rural development programmes.

- Recommendations of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), **headed by Shri B Sivaraman**,
- **July 1982:** National Bank for Agriculture and Rural Development (NABARD), by an Act of Parliament, to take over the functions of the Agricultural Refinance and Development Corporation (owned by RBI and refinancing the LT loans provided by various RFIs) and the refinancing functions of RBI, in relation to cooperative banks and RRBs.

Credit, promotional and development functions

- **Credit Functions:** Refinance support
- **Grant Support:** Implementing various promotional and development programmes for the growth of agriculture and rural development activities, by providing grant support from out of various funds maintained by it.
- **Institutional Development functions:** NABARD provides policy, financial as well as technical support to rural credit cooperatives, as a part of institutional development efforts.
- **Supervisory Functions:** Section 35 of the Banking Regulation Act, 1949 NABARD conducts statutory inspection of the State Cooperative Banks (StCB), District Central Cooperative Banks (DCCBs) and Regional Rural Banks

National Housing Bank

- The Sub-Group on Housing Finance for the Seventh Five Year Plan (1985-90) identified the non-availability of long-term finance to individual households and recommended the setting up of a national level institution.
- The Committee of Secretaries considered the recommendation and set up the High-Level Group under the Chairmanship of Dr. C. Rangarajan, the then Deputy Governor, RBI, to examine the proposal and recommended setting up of the National Housing Bank, as an autonomous housing finance institution.
- While presenting the Union Budget for 1987-88 on February 28, 1987 announced the decision to establish the National Housing Bank (NHB), as an apex level institution for housing finance.
- Following this announcement, the National Housing Bank Bill (91 of 1987) providing the legislative framework for the establishment of NHB, was passed by Parliament in the winter session of 1987 and with the assent of the Hon'ble President of India on December 23, 1987, became an Act of Parliament.
- The National Housing Policy, 1988 envisaged the setting up of NHB as the Apex level institution for housing.
- Set up on July 9, 1988 under the National Housing Bank Act, 1987.
- Reserve Bank of India contributed the entire paid-up capital when the bank was initially setup.
- In the year 2019, RBI had divested its share in the bank and now the bank is fully owned by GOI.
- The general superintendence, direction and management of the affairs and business of NHB vest, under the Act, in a Board of Directors.

Basic functions of the NHB

- As “to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support to such institutions and for matters connected therewith or incidental thereto ...”

Objectives

- To promote a sound, healthy, viable and cost-effective housing finance system
- To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups
- To augment resources for the sector and channelise them for housing
- To make housing credit more affordable
- To regulate the activities of housing finance companies
- To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock

National Bank For Financing Infrastructure And Development (NaBFID) 2021

- NaBFID is regulated and supervised as an All India Financial Institution (AIFI) by the Reserve Bank under Sections 45L and 45N of the Reserve Bank of India Act, 1934.
- It is the 5th AIFI after EXIM Bank, NABARD, NHB and SIDBI.
- The NaBFID Act is meant to establish the National Bank for Financing Infrastructure and Development to support the development of long-term non-recourse infrastructure financing in India including development of the bonds and derivatives markets necessary for infrastructure financing and to carry on the business of financing infrastructure and for matters connected therewith or incidental thereto.
- The NaBFID Act 2021 is **divided into 7 Chapters consisting of 48 Sections.**
- **Section 3 and 4 of the DFI** refer to the Establishment/incorporation of Institution and Purposes and objectives of Institution.
- **Section 5 states** that the authorised share capital of the Institution shall be 100 thousand crore rupees divided into 10 thousand crores of fully paid-up shares of ten rupees each.
 - Shares of the Institution may be held by the Central Government, multilateral institutions, sovereign wealth funds, pension funds, insurers, financial institutions, banks.
 - Central Government shall hold at least 26% of the shares at all times

- **Section 6 deals** with the composition and appointment of the Board of Directors and Management which will comprise of
 - 1 Chairperson,
 - 1 Managing director,
 - not more than 3 Deputy Managing Directors, two directors, to be nominated by the Central Government- who shall be the officials of the Central Government,
 - not exceeding 3 directors elected by the Shareholders and
 - not exceeding 3 independent directors.
- **Sections 7, 8 and 9:** Deal with the general management, delegation of powers and the term of office of the Board level functionaries.
- **Sections 18 and 19** deal with the prohibited functions and related party transaction for NaBFID.
- **Section 41 states** that the Bankers' Books Evidence Act, 1891, shall apply in relation to the Institution as if it were a bank as defined in section 2 of that Act.
- **Section 43**, no provision of law relating to the winding up of companies shall apply to the Institution and the Institution shall not be placed in liquidation save by order of the Central Government and in such manner as it may direct.

Section 3 and 4 of the DFI refer to the Establishment/incorporation of Institution and Purposes and objectives of Institution.

Section 5 states that the authorised share capital

Section 6 deals with the composition and appointment of the Board of Directors and Management

Sections 7, 8 and 9 : deal with the general management, delegation of powers and the term of office of the Board level functionaries.

Sections 18 and 19 deal with the prohibited functions and related party transaction for NaBFID.

Section 41 states that the Bankers' Books Evidence Act, 1891

section 43 Winding up cases

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