


	प्रेस प्रकाशनी PRESS RELEASE
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Working Group for harmonising the role and operations of DFIs and Banks

The Reserve Bank of India today announced constitution of a Working Group with a view to harmonising the role and operations of development finance institutions (DFIs) and banks. Headed by Shri S.H. Khan, Chairman & Managing Director, Industrial Development Bank of India, the Working Group will have the following terms of reference:

- i. To review the role, structure and operations of DFIs and commercial banks in emerging operating environment and to suggest changes;
- ii. To suggest measures for bringing about harmonisation in the lending and working capital finance by banks and DFIs;
- iii. To examine whether DFIs could be given increased access to short-term funds and the regulatory framework needed for the purpose;
- iv. To suggest measures for strengthening of organisation, human resources, risk management practices and other related issues in DFIs and commercial banks in the wake of Capital Account Convertibility.
- v. To make such other recommendations as the Working Group may deem appropriate.

Other members on the Working Group include:

Shri M.S. Verma, Chairman, State Bank of India; Shri K.V. Karmath, Chief Executive Officer & Managing Director, Industrial Credit and Investment Corporation of India Ltd., Shri K.D. Agrawal, Chairman & Managing Director, Industrial Finance Corporation of India Ltd., Shri M.G. Bhide, Chairman & Managing Director, Bank of India and Shri A.T. Pannir Selvam, Chairman & Managing Director, Union Bank of India.

Shri V. Subrahmanyam, Executive Director, Reserve Bank of India will be the Member-Secretary to the Working Group. The Working Group is expected to submit its report within three months.

The demarcation of responsibilities between banks and DFIs relating to working capital finance and term finance followed in the pre-reform era is undergoing a major transformation in the post financial sector reform era. This has led to a blurring of the distinction between the lending operations of the two sets of institutions. On the resources side, DFIs' access to government guaranteed bonds (SLR bonds), which used to be their major source has been phased out and they are raising their resources almost entirely at market related interest rates. They have recently been given some access to short term funds subject to certain conditions. DFIs have been seeking to raise

the ceiling on their access to short term funds and remove the restrictive conditions so as to bring them on par with banks. On the other hand, banks too have been seeking a level-playing field in areas such as, reserve requirements on DFIs in relation to their short term funds. Capital Account Convertibility when introduced is likely to bring about further changes in the operating environment necessitating advance action on the part of banks and DFIs to strengthen their organisations. The Working Group has been set up in the light of these changes and keeping in view the need for evolving an efficient and competitive financial system.

(Alpana Killawala)
General Manager

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