P.A.C No. 211

# PUBLIC ACCOUNTS COMMITTEE
# (1968-69)

(FOURTH LOK SABHA)

## FIFTY-FIFTH REPORT

**[Finance Accounts of Central Government, 1966-67 — Chapters I and II of Audit Report (Civil), 1968]**

**LOK SABHA SECRETARIAT**
**NEW DELHI**

*March, 1969/Phalguna, 1890 (Saka)*

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1st July, 1968 (FN)

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2nd July, 1968 (FN)

2nd July, 1968 (AN)

7th March, 1969 (AN)



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## PUBLIC ACCOUNTS COMMITTEE

### (1968-69)

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SECRETARIAT

Shri Avtar Singh Rikhy—*Joint Secretary.*

Shri K. Seshadri—*Under Secretary.*

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*Declared elected on the 19th August, 1968 *vice* Shri M. M. Dharia resigned from the Committee.

# INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Fifty-Fifth Report (Fourth Lok Sabha) on Finance Accounts of Central Government, 1966-67—Chapters I and II of Audit Report (Civil), 1968.

2. The Audit Report (Civil), 1968 was laid on the Table of the House on the 3rd April, 1968. The Committee examined the paragraphs included in Chapter I of the Audit Report at their sittings held on the 1st and 2nd July, 1968 (FN and AN). The Committee considered and finalised this Report at their sitting held on the 7th Macrh, 1969 (AN). Minutes of these sittings of the Committee from Part II* of the Report.

3. A statement showing the summary of the main conclusions/recommendations of the Committee is appended to the Report (Appendix VIII). For facility of reference, these have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the examination of these accounts by the Comptroller and Auditor General of India.

5. The Committee would also like to express their thanks to the Officers of the Ministry of Finance for the co-operation extended by them in giving information to the Committee.

NEW DELHI;
*March* 7, 1969
*Phalguna* 18, 1890 (*Saka*)

M. R. MASANI,
*Chairman,*
*Public Accounts Committee.*

*Not printed (One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library).

I

# BUDGETING AND CONTROL OVER EXPENDITURE

## BUDGET ESTIMATES AND ACTUALS

### Audit Report (Civil), 1968

*Audit Paragraph*

The Budget estimates and Actuals of Revenue Receipts, Expenditure met from Revenue and Expenditure on Capital Account during 1966-67 are shown below with the corresponding figures for the preceding two years.

| | | Budget | Actuals | Variations | Percentage of variations |
|---|---|---|---|---|---|
| | | | (In crores of rupees) | | |
| Revenue Receipts | 1964-65 | 2124·30 | 2229·08 | + 104·78 | +4·9 |
| | 1965-66 | 2345·86 | 2490·32 | +144.46 | +6·2 |
| | 1966-67 | 2711·38 | 2731·03 | +19·66 | +0·7 |
| Expenditure met from Revenue | 1964-65 | 2041·31 | 1955·21 | — 86·10 | —4·2 |
| | 1965-66 | 2116·48 | 2170·55 | + 54·07 | +2·5 |
| | 1966-67 | 2407·41 | 2503·24 | + 95·83 | +4·0 |
| Expenditure on Capital Account | 1964-65 | 970·48 | 946·33 | — 24·15 | —2·5 |
| | 1965-66 | 842·61 | 775·76 | — 66·85 | —7·9 |
| | 1966-67 | 952·38 | 1294·34 | +341·96 | +35·9 |

[Paragraph No. 1, Audit Report (Civil), 1968].

1.2. Though the total net variation in 1966-67 between the Budget Estimates and the Actuals of all revenues realised by way of taxes and duties in Rs. 16.31 crores, the actual variation between the Budget Estimates and the Actuals in so far as the principal Heads of Tax Revenues of Customes Union Excise, Corporation Tax and Taxes on

Income other than Corporation Tax only are concerned, works out to Rs. 14·16 crores. The figures are as follows:—

(In crores of rupees)

| | Budget Estimates | Actuals | Variation | Percentage |
|---|---|---|---|---|
| I. Customs . . . | 560·20 | 585·37 | 25·17 | 4·49 |
| II.* Union Excise . . | 1010.59 | 1033·77 | 23·18 | 2·29 |
| III. Corporation Tax . . | 372·07 | 330.80 | (—)41·27 | (—)11.09 |
| IV. Taxes on Income other than Corporation Tax . . | 162·45 | 169·53 | 7·08 | 4·36 |

*Excludes the share of net proceeds assignable to States.

[CF Uaragraph No. 4, Audit Report (Civil) on Revenue Receipts, 1968].

1.3. The following are the Budget estimates and Actuals of some of the Taxes for the year 1966-67:

(In crores of rupees)

| | Budget Estimates | Actuals | Variation | Percentage |
|---|---|---|---|---|
| Estate Duty* 1966-67 . . . . . | 0·30 | 1·72 | 1·42 | 473·33 |
| Wealth Tax 1966-67 . . . . . | 14·00 | 10·73 | (—)3·27 | (—)23·36 |
| Gift Tax 1966-67 . . . | 1·29 | 1·75 | 0·46 | 35·66 |

*Represents net figures.

[CF Paragraph No. 5 of Audit Report (Civil) on Revenue Receipts, 1968].

1.4. In his evidence before the Committee, the Finance Secretary stated that the variation of Rs. 144 crores between the estimates and actuals of Revenue Receipts for the year 1965-66 was not real inasmuch as an addition of Rs. 110 crores was the result of the Finance Act passed in September, 1965. Likewise, an addition of Rs. 22 crores was due to the re-introduction of the emergency insurance scheme. The real variation between the budget estimates and actuals for the year 1965-66, thus, came down to Rs. 12 crores only. In 1966-67, the actual variation was only Rs. 10 crores in that, out of the total excess of Rs. 20 crores during that year, an amount of Rs. 10 crores became allocable to States.

1.5. As to the measures taken by the Ministry to bring about a closer approximation between the estimates and the actuals of revenue, the Finance Secretary stated, "Over the years we have tried to improve the technique of estimation; we have tax planning cells both in the Direct Taxes Board and in the Indirect Taxes Board. Then we get forecasts from the Ministries which we also get re-checked, with regard to production, with the Director General of Technical Development." Asked whether the improvement in estimation during the year 1966-67 was expected to continue, the Finance Secretary stated, "I am very much hopeful that the improvement will not only be maintained but should be bettered."

**1.6. While the Committee are glad to note that overall revenue receipts during the year 1966-67 approximated closely to the budget estimates, they find that there were wide variations during that year between the estimates and actuals under some of the Principal Heads of Tax Revenues. Under the head 'Corporation Tax', the realisation was less than the estimates by Rs. 41.27 crores (11.09 per cent of the estimates) while, under the head 'Customs', the realisation exceeded the estimates by Rs. 25.17 crores (4.49 per cent of the estimates). In regard to some of the individual direct taxes, the variations were still wider, being 473.33 per cent, 23.36 per cent and 35.66 per cent under the Estate Duty, Wealth Tax and Gift Tax respectively. This indicates that there is scope for improvement in the technique of estimation by the Tax Planning Cells in the Boards of Direct Taxes and Indirect Taxes.**

**The Committee hope that the recent trend towards realistic estimation of revenues would be not only sustained but improved upon so that the estimates under the different heads correspond more closely to the actuals.**

## Expenditure met from Revenue

*General Administration*

1.7. Under 'General Administration', the expenditure increased from Rs. 17·84 crores in 1961-62 to Rs. 26·93 crores in 1966-67, despite the ban on creation of posts for non-plan purposes which had been in existence for a number of years.

1.8. The Committee desired to know the main factors responsible for the increase in expenditure under this Head. The Joint Secretary (Department of Expenditure) stated that in 1964-65 the expenditure on 'General Administration' was Rs. 17·94 crores, while in 1967-68, it was Rs. 25·60 crores. Of the total increase in expenditure of about Rs. 8 crores under this Head, an increase of Rs. 3 crores was attributable to increase in Dearness Allowance.

1.9. The Finance Secretary added that the increase in expenditure had come down from Rs. 3·98 crores in 1965-66 to Rs. 2·61 crores in 1966-67. Of this increase, as much as Rs. 1·09 crores was attributable to two rounds of increases in dearness allowance. If the increase in expenditure on account of dearness allowance was excluded, the overall increase in expenditure on 'General Administration' would not be very substantial. He further stated that the figures of General Administration also included "expenditure on general administration in Union Territories where due to increasing tempo of administration, there is increase in the growth of Administrative expenditure."

1.10. The Committee desired to know the measures taken by Government to effect economy in expenditure. The Finance Secretary stated, "We have been taking all possible steps to put a curb. There are absolute bans and qualitative bans. The staff inspection teams are going into staff strength in different Ministries and Departments and their reviews have resulted in some reduction. We would like that even this rate of growth get arrested but in view of the growing activities and the increasing complications of administration one does not see as to how the reduction, which has already been effected, could be substantially improved upon."

**1.11. The Committee would like Government to keep under constant watch the expenditure on 'General Administration' and to explore the scope for further economies. A systematic study of the staffing pattern in the major departments of Government should be undertaken by the Staff Inspection Unit of the Ministry of Finance on a phased programme and posts found surplus as a result of the study should be surrendered.**

### Savings over Voted Grants/Charged Appropriations

*Audit Paragraph*

1.12. The table given below shows the amount of Original and Supplementary Grants and Appropriations, the actuals expenditure and the savings during the year 1966-67:—

| | | Total Grants/ Appropriations | Actual Expenditure | Savings | |
|---|---|---|---|---|---|
| | | | | Amount | Percentage |
| | | (In crores of rupees) | | | |
| Voted Grants— | | | | | |
| Original . . <br> Supplementary | 2606·23 <br> 817·52 | 3423·75 | 3199·18 | 224·57 | 6·56 |
| Charged Appropriations | | | | | |
| Original . . <br> Supplementary | 8179·95 <br> 1502·45 | 9682·40 | 9674·58 | 7·82 | 0·08 |
| TOTAL . | | 13106·15 | 12873·76 | 232·39 | 1·77 |

The saving of Rs. 232·39 crores represents 1·77 per cent of the total amount of voted grants and charged appropriations as against 2.25 per cent in the previous year; it was the net result of savings in 149 grants/appropriations amounting to Rs. 241.82 crores and excesses in 29 grants/appropriations amounting to Rs. 9.43 crores.

In 35 grants, the savings exceeded 10 per cent of the funds provided and that in 22 of these cases, the savings exceeded 20 per cent. It was also noticed that out of the total saving of Rs. 229·66 crores under voted grants, the saving in 7 grants accounted for a saving of Rs. 184·12 crores.

[*Paragraph No.* 30, *Audit Report* (*Civil*), 1968]

**1.13. The Committee have been repeatedly impressing upon Ministries/Departments the need to frame realistic estimates. During the year 1966-67, the savings that occurred in 22 Grants exceeded 20 per cent of the total grant. Savings in seven Grants alone amounted to Rs. 184.12 crores. The Committee would like to reiterate that estimating on the safe side is as much open to objection as estimating on the low side. Indeed, from one point of view, 'safe' estimating is even more objectionable, as it inflates unnecessarily the requirements of resources, and, in the process, might well lead to needless additional taxation. The Committee trust that effective steps will be taken by the Ministry of Finance to ensure that the Ministries/Departments frame more realistic estimates.**

1.14. In his evidence before the P.A.C. (1966-67), the Secretary, Department of Expenditure had stated that the Administrative Ministries had been advised to set up an effective Finance & Accounts Wing in their Budgetary Cell, so that their Internal Finance Advisers could keep track of the progress of expenditure. He had also assured the Committee that the Ministry of Finance themseuves proposed to undertake a special review in the month of January every year so as to see the progress of expenditure.

1.15. In a note subsequently furnished to the Committee, the Ministry of Finance have stated:

> "Soon after the Ministry of Finance was examined by the P.A.C. in December, 1966, suitable instructions were issued to all the Ministries to take necessary steps for ensuring that regular reviews of the progress of expenditure are made, so that the gap between budget grants and actual expenditure is minimised as far as possible. The Financial Advisers have also been instructed to conduct a review for the purpose early in January each year."

**1.16. The Committee would like to watch the results through future Audit Reports.**

### Surrender of Savings

*Audit paragraph*

1.17. Under the rules, savings occurring within a grant/appropriation are required to be surrendered as soon as the possibility of such savings is envisaged without waiting till the end of the year.

During the year, out of the total saving in all grants and appropriations amounting to Rs. 232·39 crores, a sum of Rs. 188·22 crores was surrendered. Almost the entire amount was surrendered in March, 1967. During the last three years also, bulk of the savings was surrendered towards the bag end of the financial year.

[*Paragraph No.* 34, *Audit Report* (*Civil*), 1968]

1.18. In para 1·12 of their 68th Report (Third Lok Sabha), the Public Accounts Committee (1966-67) had pointed out that the bulk of the savings had been surrendered at the end of the financial year (1964-65) and desired that the Ministry of Finance should issue necessary instructions to ensure that the provisions of the rules in this regard are strictly complied with by the Administrative Ministries/Departments.

1.19. Pursuant to the above recommendation of the P.A.C. (1966-67), the Ministry of Finance (Department of Economic Affairs) had stated as follows:

> "Necessary instructions in this regard were issued in the Ministry's O.M. No. F8 (9)-B/61, dated 22nd October, 1962. They are being reiterated."

1.20. From the Audit Reports* (Civil), 1964—1967, the Committee observe that during the years 1962-63, 1963-64, 1964-65 and 1965-66 also, practically the entire surrenders were made towards the fag end of the financial year.

**1.21. The Committee have been repeatedly urging Ministries/Departments to surrender savings as soon as the possibility of such savings is envisaged without waiting till the end of the year. The Ministry of Finance had also issued instructions to this effect in October, 1962. The Committee are pained to observe that there has been no improvement in the matter, and there has hardly been a year in which practically the entire surrender was not made in the month of March. This shows that the instructions issued by the Ministry of Finance have had no effect on the Ministries. The Committee would like the Ministry of Finance to take effective steps to ensure that the provisions of the rules in this regard are strictly compiled with by the Ministries.**

*Para 30 of Audit Report (Civil), 1964.
Para 29 of Audit Report (Civil), 1965.
Para 33 of Audit Report (Civil), 1966.
Para 30 of Audit Report (Civil), 1967.

## II
## DEBT POSITION

*Audit Paragraph*

2.1. (a) The following table indicates the outstandings under "Public Debt" and "Unfunded Debt" at the end of 1955-56, 1965-66 and 1966-67:—

(In crores of rupees)

| | 31 March 1956 | 31 March 1966 | 31 March 1967 |
|---|---|---|---|
| *Public Debt* | | | |
| (*i*) Market loan . . . . | 1,545 | 3,466 | 3,612 |
| (*ii*) Floating Debt . . . | 808 | 1,953 | 2,609 |
| (*iii*) Loans from foreign sources % . | 111 | 2,591 | **4,633 |
| *Unfunded Debt* | | | |
| (*i*) Small Savings Collections . | 575 | 1,537 | 1,655 |
| (*ii*) Provident Fund, Income Tax, Annuity Deposits, etc. . . | 183 | 669 | 736 |
| (*iii*) Deposit by U.S. Government of their counterpart funds created under P.L. 480 . . . | .. | 561 | 558 |
| TOTAL . . . . . | 3,222 | 10,768 | 13,803 |

The loan liability has been increased by Rs. 1317 crores as a result of devaluation in June, 1966.

(b) The net balance at the credit of various Reserve Funds Deposit Accounts etc., in the Deposit Section of the Government Account as shown below also constitute liabilities of Government.

%Excludes Rs. 20.62 crores representing unexpired liabilities for British Government 5% War Loan, 1929—47, the liability for which remains suspended.

**The outstanding balances as on the date of devaluation in respect of 138 loans (including 12 loans under process of finalisation) out of 172 loans have been reconciled with the Ministry of Finance. The closing balance have, therefore, been worked ou after including the effect of devaluation on the figures available in accounts.

| | 31 March 1956 | 31 March 1966 | 31 March 1967 |
|---|---|---|---|
| Deposits bearing interest . . . | 188·96 | *275·37 | 262·86 |
| Deposits not bearing interest . . | 233·14 | *683·29 | 1144·36 |
| TOTAL . . . | 422·10 | *958·66 | 1407·22 |

(c) Details of Debt transactions for the year 1966-67 are given below:—

(In crores of rupees)

| | Receipts | Repayments | Net Increase |
|---|---|---|---|
| (i) Market Loans . . . | 328·72 | 183·04 | 145·68 |
| (ii) Floating Debt . . | 8212·77 | 7556·70 | 656·07 |
| (iii) Loans from foreign sources . | 864·26 | 159·42 | 704·84 |
| (iv) Unfunded Debt— | | | |
| Small Savings Collections . . | 526·44 | 408·20 | 118·24 |
| Provident Funds etc. . . | 119·50 | 70·21 | 49·29 |
| Compulsory Deposits . . | 0·04 | 0·79 | 0·75 |
| Income Tax Annuity Deposits . | 32·35 | 4·72 | 27·63 |
| Deposits by U.S. Government of their counterpart funds under P.L. 480, etc. . . . . | 406·98 | 409·64 | —2·66 |
| TOTAL . . . . . | 10491·06 | 8792·72 | 1698·34 |

[*Paragraph No.* 9, *Audit Report* (*Civil*), 1968]

2.2. In para 1.25 of their 68th Report (Third Lok Sabha), the Public Accounts Committee (1966-67) had expressed concern over the growing burden and on servicing of foreign debt. A similar apprehension was also expressed by the Estimates Committee. In their Eleventh Report (Fourth Lok Sabha), that Committee pointed out that "the payments in 1965-66, *i.e.*, during the last year of

*Differs from the corresponding figures shown in para 9 of the Audit Report (Civil), 1967 due to subsequent corrections.

the Third Plan, on account of foreign debt servicing have been of the order of Rs. 154 crores and constitute nearly 30 per cent of the total foreign assistance (excluding U.S. commodity assistance) received during that year. This percentage is likely to increase year after year with the maturing of fresh obligations with little prospect of increase in the overall quantum of aid." Sounding "a note of caution", the Committee made the following suggestions:

(i) Government should not "in their anxiety to fill the gap in their resources........rush into loans for short-term periods on commercial rates."

(ii) Government should keep in view the gestation period of projects financed out of external resources and "the nature and quantum of resources to be generated thereby to pay back the loans. While scrutinising proposals for setting up new undertakings with external assistance, Government should ensure that, as far as possible, they generate resources to repay the instalments of principal and interest on loans contracted therefor."

(iii) While contracting fresh loans Government should "bear in mind the increased burden on servicing foreign loans consequent on the devaluation of the rupee."

(iv) Efforts "should be made to secure as much of the loan on long-term and non-project basis as possible."

2.3. In reply to the observations made by the Public Accounts Committee in their 68th Report (Third Lok Sabha), the Ministry of Finance had submitted a note as under:

"The Government are conscious of the strain caused on our foreign exchange resources by the current heavy debt service payments. It is now evident that with our rapidly growing population and other serious problems a really massive investment effort is necessary for which a continued inflow of substantial foreign assistance is essential. The present situation about the burden of repayment is due in part to the relatively stiff terms on which some of our earlier loans were contracted. Generally, the foreign loans obtained by us during the Second Plan and the initial stages of the Third Plan periods carried relatively harder terms of repayment and the effect of this will continue to be felt for some years to come.

"While the fresh loans to be obtained now and in the future would further add to the burden, every effort is being made to mitigate the effects by obtaining loans on softer terms. These efforts have proved successful upto a point and periods of repayment have become longer and the interest rates lower for the more recent loans. For example, a larger proportion of the loans from U.S.A. is now from the U.S.A.I.D. and is repayable in 40 years including a grace period of 10 years. (The interest during the grace period is 1 per cent and thereafter 2·5 per cent). The recent loans from U.K. are interest-free and repayable over 26 years with a seven year grace period. Likewise a larger part of the loans now being extended from Canada is also interest-free and for fifty years being repayable over a period of 40 years after the expiry of a grace period of 10 years. The International Development Association (an associate of the World Bank) extends loans with repayment over a period of 50 years, inclusive of a moratarium for the first ten years. These loans are interest-free but service charges @ ¾ of 1 per cent per annum are payable on the amounts drawn and outstanding from time to time.

"Attention has also been given to the aspects of direct debt relief. In recognition of our situation, some countries have already shown willingness to provide us relief in our debt payment. For instance, Canada cancelled the oustanding payments falling due in 1966-67 and 1967-68 in respect of the 1958 Wheat Loans totalling about Canadian $ 10 million (Rs. 6·94 crores) and has also agreed to postpone to 31st March 1968 the repayments of principal of the order of Canadian $ 0·8 million due from India to Canada. U.K. allowed refinancing in 1966-67 of an amount of £8·2 million. (The mechanism for this was that £8·2 million out of the assistance that was extended in 1966-67 was used to pay that amount of debt charges due in 1966-67 to the U.K. so that the payment in effect is postponed by 26 years.). For 1967-68, they have agreed to relieve India of debt payments of £11·5 million currently due to them. Efforts are continuing to persuade the other members of the Aid India Consortium to afford debt relief in 1967-68. Japan and Germany have shown a willingness in principle. Besides the World Bank has arranged in conjunction with the members of the Aid India Consortium a study of our debt payment position, for consideration not only of the possible rescheduling of past loans but also the possible improvement of the terms of lending in future by countries not already giving very favourable terms.

"Efforts are being made to increase exports and reduce reliance on imports in order to increase our capacity to meet debt payments; new investments are undertaken with this consideration which is also borne in mind in allocation of all scarce resources. Efforts are also made to get the best out of investments already made and this too will improve performance of economy in general, including improvement in balance of payments."

2.4. Taking note of the steps taken for re-scheduling of loans in consultation with the World Bank, the Committee enquired about the results of the efforts in this regard. A note on this point furnished by Government is reproduced below:

"India's external debt service burden has been increasing in the past few years. It will continue to be heavy during the next few years. The hump of debt service payments that we have now reached is due to the fact that in the earlier years in which we took aid, aid was generally available on relatively hard terms. Subsequently the international concept of appropriate terms of aid has changed and aid has been generally available to developing countries in more recent years on softer terms. However, the earlier hard loans have cast a heavy burden on us. Since it is generally recognised that for our development effort, there will have to be a flow of capital from the developed countries to India, it becomes important to see that the net inflow is not unduly impaired by the outflow on account of debt servicing. Besides, whereas most of the aid is tied to purchases from the donor countries, debt servicing has to be done (except in the case of the East European countries) with untied free foreign exchange. Thus, besides the quantitative limitation on the net availability of aid mentioned earlier, there is also a qualitative deterioration inasmuch as, with more debt servicing payments, lesser amounts of free foreign exchange is available to us for free use for imports from countries and for items not covered by aid. It is in this context of a desire to improve both quantitatively and qualitatively our total external resources, that we approached, through the World Bank, the Consortium countries requesting them to consider some form of debt relief. We have held a clean record of honouring all our obligations and the Deputy Prime Minister has reiterated several times that we would continue to do so. The debt relief request was thus a request in the context of and as a form of development aid. The Consortium members considered this among themselves and the World Bank as the convenor and the Secretariat of the Consortium requested Mr. Guindey, a French financial expert, to examine the matter."

2.5. "As a result of internal discussion among Consortium members of the recommendation made by Mr. Guindey, the Consortium members agreed at the meeting held on May 23-24, 1968 to provide, in the first instance, debt relief of $ 100 million for 1968-69. This was subject to, where necessary, legislative approvals. The members also agreed to consider favourably a similar amount of debt relief for the following two years. The amounts of debt relief offered by the various members of the Consortium for 1966-67, 1967-68 and their share in the debt relief exercise for 1968-69 is given in Table I. Table II indicates the terms of debt relief offered by the Consortium members for 1968-69.

TABLE I

DEBT RELIEF

(US $ Million)

| | Consortium Member | 1966-67 | 1967-68 | 1968-69 |
|---|---|---|---|---|
| 1. | Austria | 0·88 | 0·45 | 1·40 |
| 2. | Belgium | .. | .. | 0·90 |
| 3. | Canada | 8·05 | 1·91 | 1·20 |
| 4. | France | .. | .. | 5·00 |
| 5. | Germany | .. | 7·25 | 27·50 |
| 6. | Italy | .. | .. | 5·50 |
| 7. | Japan | 2·50 | 6·11 | 16·83 |
| 8. | Netherlands | .. | .. | 0·58 |
| 9. | United Kingdom | 22·96 | 32·48 | 18·00 |
| 10. | United States | .. | .. | 8·73 |
| 11. | IBRD. | .. | 15·00 | 15·00 |
| | TOTAL | 34·39 | 63·19 | 100·64 |

## TABLE II

### Terms of Debt Relief for 1968-69

| | Name of Consortium Member | Amount of Debt Relief US $ Million | | Terms |
|---|---|---|---|---|
| 1. | Austria . | 1·4 | 0·5 | grant (by reduction of interest) |
| | | | 0·9 | 24 years maturity, including 7 years grace, at 3%. |
| 2. | Belgium* . . | 0·9 | | 25 years maturity including 7 years grace, at 3%. |
| 3. | Canada . . | 1·2 | 0·37 | grant |
| | | | 0·83 | postponement for 10 years at 6%. |
| 4. | France . . | 5·0 | | 12 years, including 3 years grace, with interest at 3½%. |
| 5. | Germany . . | 27·5 | 4·9 | grant (by reduction of interest) 25 years maturity, including 7 years grace, at 3%. |
| 6. | Italy* . . | 5·5 | | 12 years maturity, including 3 years grace, at 4%. |
| 7. | Japan . . | 16·8 | | 12 years maturity, including 3 years grace, at 4%. |
| 8. | Netherlands . . | 0·6 | | grant (by reduction of interest) |
| 9. | United Kingdom . | 18·0 | | 25 years maturity, including 7 years grace, zero interest. |
| 10. | United States . | 8·7 | | postponement for 10 years zero interest. |
| 11. | I. B. R. D. . . | 15·0 | | postponement for 10 years with interest at the rate specified in applicable loan agreements. |
| | Total . . | 100·6 | | |

*Agreement not yet signed.

2.6. The Committee enquired whether, in view of the growing debt burden, any study had been conducted of the performance of public sector undertakings with large foreign exchange component, as suggested in their 68th Report (Third Lok Sabha). A note on the results of the study conducted by Government of 25 public sector undertakings appears at Appendix I. The following table indicates at a glance the foreign exchange utilised in these undertakings, their export earnings etc.:

| | 1965-66 | 1966-67 |
|---|---|---|
| (A) *Profitability* | (Rs. in crores) | |
| (*i*) Capital employed on production | 1538 | 1792 |
| (*ii*) Net profit after depreciation but before interest on loans and tax | 39 | 35 |
| (*iii*) Return on capital employed | 2·5% | 1·9% |
| (B) *Foreign exchange* | | |
| (*i*) Foreign exchange utilised | 913 | 1021 |
| (*ii*) Role of foreign loans/credit in financing foreign exchange | 580 | 661 |
| (*iii*) Foreign exchange earnings by exports etc. | 26 | 53* |
| (*iv*) Foreign exchange savings by reduction avoidance of imports | 227 | 269 |
| (*v*) Total foreign exchange earnings and savings | 253 | 322 |

*Value of foreign exchange earnings by exports etc. during 1967-68 — Rs. 74 crores.

2.7. The World Bank in their annual Report (1968) had considered the problem arising out of the need to service the growing external debt of the country. The following observations were made by them in this regard:

"As Chairman of the India Consortium and with the co-operation of the Government of India, the Bank undertook to explore the possibility of easing the situation created by the fact that in the past years India had incurred large amounts of debt on terms that were inappropriate to the country's economic position. Following an assessment of the problem and of the possibility for constructive action by Mr. Guillaume Guindey, formerly Director General of the Bank for International Settlements, as a consultant to the Bank, a rescheduling of India's debts to members of the Consortium was arranged affecting about $100 million or 25 per cent of debt service payments due during the present Indian Fiscal year ending April, 1969. Members of the Consortium also agreed to consider favourably a similar amount of debt relief for the following two years.

"The debt servicing problem of India is among other factors the result of combination of slow export growth and the relatively hard terms of some past aid. Between 1960 and 1967 India's merchandise export increased at an average annual rate of merely 2·8 per cent. Only during the last ten years has the country received large amounts of aid on concessionary terms. Moreover, the volume of such aid, while large in absolute amounts, has been too small in relation to her capital requirements. Consequently, India's debt service payments on foreign debt, including suppliers' credits, rose from about 15% of merchandise exports in 1961 to about 28% in 1967, adding to the severe constraints on the balance of payments. During the past year the debt servicing problem has been a major concern of India's consortium . . . Rurther debt relief action may be necessary in future; however, the long-term solution of India's debt problem depends basically upon the effectiveness of overall economic policies, including policies to expand the volume of aid given on concessionary terms and on an improvement in external market conditions for India's exports."

2.8. Summing up the overall position in regard to developing countries, the World Bank have made the following observations:

"If the capital continues to be provided to the developing countries on the present average terms, debt servicing difficulties may seriously affect many developing countries, and may also pose additional problems for aid-providing countries. Many developing countries will find it necessary to allocate an increasing share of export earnings to service debt. This problem could become even more acute if the bulk of gross bilateral aid continues to be tied to projects or to specified commodity purchases, while external debt service payments are made in free foreign exchange. At the same time, the aid-providing countries will have to increase gross disbursements merely to maintain a constant net flow of financial resources to developing countries after deduction of amortization and interest payments. For example, the Development Assistance Committee (DAC) of OECD made an illustrative estimate that, merely to maintain the flow of public capital to developing countries net of amortization and interest at the same level and on the same average terms as in 1965, the gross official capital flow from DAC member countries would have to be increased from $5,750 million in 1965 to $7,820 million in 1975 and $10,180 million in 1985. These calculations demonstrate the close relationship between the terms of development finance provided at present and the gross amount required in the future. The harder the terms of present aid, the higher the future gross amount required merely to maintain a constant net amount. Since legislative authorization is generally required for gross rather than for net appropriations, a steep increase in gross aid requirements may also sharply increase the existing difficulties in raising aid levels from budgetary sources. In present circumstances, it is indeed doubtful that such a steep increase in the volume of gross-aid would seem, a realistic prospect. Both from the point of view of creditors and debtors, the prospects emphasize the importance of softening the terms of development assistance, as well as of taking measures to improve the overall economic performance and in particular the export performance of developing countries."

**2.9. The Committee note that servicing of external debt has become a problem of major dimensions and that payments on this account "rose from about 15 per cent of merchandise exports in 1961 to about 28 per cent in 1967, adding to the severe constraints on the balance of payments." As pointed out by the World Bank in its annual report for 1968, this situation is the legacy of past years in which the country incurred "large amounts of debt on terms that were inappropriate to the country's economic position." The Committee are glad to observe that, as a result of efforts initiated by Government, it has been possible to reschedule debt obligations affecting about 25 per cent of the debt service payments due in 1968-69 and that the prospects of reschduling of debt obligations for the next two years are promising. The Committee would, however, like**

**to point out that this can at best be only a palliative. In the ultimate analysis, as pointed out by the World Bank, the solution to the problem has to be found by making the "overall economic policies" effective and expanding exports by a series of bold and forward-looking measures. The Committee note in this connection that the export performance of public sector undertakings, in which large amounts of foreign capital have been channelised, has not been impressive. Out of 25 undertakings in which foreign exchange utilised upto end of 1966-67 was Rs. 1021 crores, the export earnings that materialised were only Rs. 26 crores in 1965-66 and Rs. 53 crores in 1966-67. These were accounted for by 7 out of the 25 undertakings, Air India alone accounting for Rs. 19 crores in 1965-66 and Rs. 30 crores in 1966-67. The Committee would like Government to examine how best the performance of these undertakings could in this respect be geared up.**

**2.10. In view of the growing burden of external debt, the Committee would also like Government to bear in mind the salutary principles enunciated by the Estimates Committee in their Eleventh Report (Fourth Lok Sabha). The effort should be to secure as much of foreign loan as possible "on long-term and non-project basis" so that "in their anxiety to fill the gap in their resources", Government do not "rush into loans for short-term periods on commercial rates which the present state of India's economy can hardly bear." Where loans are tied to projects "Government should ensure that, as far as possible, they generate the resources to repay the instalments of principal and interest on loans contracted for as and when they fall due."**

*Devaluation of Pound Sterling and Government of India Liabilities.*

2.11. The Committee enquired how the recent devaluation of £ sterling had affected Government's liabilities in respect of loans expressed in term of £ Sterling. The Special Secretary (Economic Affairs) stated that so far as the U.K. was concerned, India's loan obligations would automatically come down in terms of Rupees. But there were other countries which had not devalued their currencies. In terms of India's loan agreements with them, the debt had been linked with the Sterling. Some of these countries were maintaining balances in India on the date of the Devaluation. India had urged these countries to scale down their balances.

2.12. The Committee asked for details about loans obtained from foreign countries which were expressed in terms of a third currency like Sterling or dollar. They also enquired whether the outstandings in respect of these loans were written up after devaluation of the rupees and written down thereafter, when the pound Sterling was also devalued. In a note furnished to the Committee the Ministry of Finance have stated:

"Loans received from foreign countries and international institutions can be classified under the following categories:

(i) Loans which are expressed in the currencies of the countries granting the loans to be repaid in the currencies of those countries;

(ii) Loans which are expressed in the currencies of the countries granting the loans but are to be repaid in rupees; and

(iii) Loans which are expressed in rupees and are also repayable in rupees.

The devaluation of the rupees did not have any effect on the outstanding in respect of the loans falling in category (i) as far as the amounts in foreign currencies were concerned as we had to pay only the same amounts of foreign currencies as we had to pay prior to devaluation. However, in terms of rupees the outstanding liabilities increased to the extent of the devaluation."

1.13. In respect of loans under category (ii) also, there was no change in so far as the liabilities in terms of foreign exchange were concerned but the liabilities in terms of rupees increased on account of devaluation.

2.14. Loans falling under category (iii) were not affected by devaluation, except certain loans from East European countries the position in respect of which is explained below.

"In some cases although the loan amounts are expressed in terms of dollars for facility of linking with the pledges made at the Consortium meetings or otherwise, all the operations namely drawals, payment of interest and service charges and repayment of principal are carried out in the currency of the country granting the loan. In these cases the loans are not linked to a third country currency like the dollar, but only dollar equivalent of the total amount of the loan granted is indicated for facility of linking. Any change in the parity rate of the dollar would not have any effect on the outstandings in respect of such loans.

"Under the general pattern of the Economic Cooperation Credit Agreements with the Socialist Countries, the quantum of the Credit is expressed either in Indian rupees or in the currency of the lending country. However, in the case of the First Yugoslav Credit of January, 1960 the quantum of the credit was indicated in U.S. dollars in the Agreement. Repayments towards principal and payments of interest under these credits are made in Indian rupees. It is also provided in the agreements, that in case of any change in the gold parity of the rupees, which is indicated, the debt liability, in terms of rupees, will revalued. However, in the case of the First Yugoslav Credit, it was stipulated that in the event of a change in the parity rate of the Indian rupees in terms of the British Pound Sterling, the *outstanding* Balance would be adjusted *proportionately.*

"In the case of loans from the World Bank and the International Development Association, the amounts are expressed in dollars, but repayments are to be effected in the currencies in which the loan amounts have been utilised. These loans being available for utilisation in respect of purchase from any member country of the World Bank and Switzerland, utilisation in the currencies of the respective countries is with reference to the purchases from each country. Dollar equivalents of the disbursements in the respective currencies are worked out by the two institutions and the accounts are maintained in dollars by them. Corresponding accounts are maintained in rupees in India. At the time repayments become due sufficient amounts in dollars or pound sterling are placed at the disposal of the World Bank or I.D.A., as the case may be, who in turn purchase the required currencies for discharging the debt liabilities. Any variations in the parity rate of the currencies concerned will be reflected in the purchase price of these currencies at the relevant time.

"Consequent to the devaluation of the rupee, which brought about a variation in the parity rate with all the currencies, the outstanding balances under all the loans, except those expressed in rupees and repayable in rupees (not covered by gold parity Clause), were written up. A Statement showing the increase/decrease in terms of rupees in respect of outstanding balances under foreign loans on account of the devaluation of rupees in June, 1966 and Pound Sterling and Danish Kroner in November, 1967 is at Appendix II .

"When the Pound Sterling, and a few other currencies, were devalued in November, 1967, the outstanding balances, in terms of rupees were stepped down in our books to the extent the amounts payable were expressed in the affected currencies. As indicated earlier the upward or downward adjustments will be reflected only in the rupee accounts and the accounts in foreign currency remain unaffected where the loans are expressed in foreign currency and are repayable in foreign currency.

"Amongst the foreign loans for economic development, there was only one loan which was expressed in a third currency and the settlement of which was related to the variations in the par values of a third currency. This was the First Yugoslav Credit, where the amount was expressed in U.S. dollars but the prices in the individual contracts financed under the loan were to be expressed in rupees.

The Accounting arrangement relating to this loan required that in the event of a change in the parity rate of the Indian rupee in terms of the British Pound Sterling all the outstanding balances would be adjusted proportionately. The outstanding balance under this credit on the date of devaluation of the Pound Sterling was Rs. 20·83 crores which when reduced with reference to the new parity rate would work out to Rs. 17.86 crores, the reduction being Rs. 2.97 crores. After the devaluation of the Pound Sterling, the Yugoslav authorities were asked to write down the balances but they did not agree on the ground that Pound Sterling was to serve as a protecting currency and that so long as no change took place in the par value of the rupee the question of any revaluation of the balances did not arise. This question is still under discussion with Yugoslav Government. Meanwhile the payment of interest and repayments of principal are being effected with reference to the new rate of exchange between the rupee and the Pound Sterling which the Yugoslav authorities have been accepting under protest."

**2.15. The Committee note that the terms of the First Yugoslav Credit obtained by the Government of India provided for the quantum of credit being related to the parity rate of the Indian rupee in terms of the British Pound. With the devaluation of the rupee, the balances of this loan were written up. However, the question of writing down of the balances by Rs. 2.97 crores following the devaluation of the pound is still under discussion, though the Government of India is effecting the payment of interest and the repayment of principal only with reference to the new parity rate between rupee and pound. The Committee would like to be apprised in due course of the outcome of the negotiations now in progress.**

2·16. The amounts of loans received from foreign sources and outstanding at the end of 1966-67 are indicated below :—

(in crores of Rupees)

| Source | Amount of loan authorised | Loan received | | Loan repaid | | Loan outstanding at the end of 1966-67** | Rate of Interest |
|---|---|---|---|---|---|---|---|
| | | During 1966-67 | Upto end of 1966-67* | During 1966-67 | Upto end of 1966-67* | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| U.S.A. . . . . . | 2380·67 | 516·58 | 1969·32 | 38·26 | 111·92*** | 2458·45 | 2½% to 5¾% |
| U. S. S. R. . . . | 742·69 | 38·40 | 369·51 | 39·82 | 127·47 | 371·82 | 2½% |
| West Germany . . . | 414·25 | 41·95 | 357·34 | 19·21 | 128·35 | 350·41 | 3% to 6¾ % |
| Canada . . . . . . | 86·73 | 9·92 | 41·67 | 2·33 | 16·13 | 36·41 | 4¼% to 6% |
| Japan . . . . . . | 190·07 | 38·60 | 109·17 | 6·48 | 14·77 | 130·83 | 5¾% to 6% |
| U. K. . . . . . . | 422·31 | 88·77 | 381·57 | 23·39 | 52·74 | 513·80 | (A) |
| International Bank for Reconstruction and Development . | 265·52 | 3·74 | 234·96 | 17·38 | 68·83 | 269·51 | 4 % to 6% |
| International Development Association | 508·05 | 96·25 | 267·47 | .. | .. | 379·48 | No interest is charged. A service charge |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | of 3/4% is payable on the amount outstanding. |
| Poland . . . . . | 41·30 | 4·14 | 8·74 | 1·10 | 1·21 | 10·12 | 2 1/2% |
| Switzerland . . . | 24·50 | 3·66 | 9·36 | 0·12 | 0·12 | 13·21 | 3 3/4 % above the official discount rate of Swiss Bank. |
| Yugoslavia . . . | 81·43 | 5·64 | 15·18 | 2·86 | 4·48 | 15·15 | 3% |
| Rhodesia and Nayasaland | 1·33 | .. | 1·33 | 0·42 | 1·22 | 0·42 | (B) |
| Netherlands . . . | 19·92 | 5·25 | 12·81 | .. | .. | 17·24 | 5 3/4% |
| Czechoslovakia . . . | 63·10 | 5·59 | 15·55 | 0·04 | 0·04 | 21·46 | 2 1/2% |

(A) Credit from Messrs. Lazard Bros. and Company carries interest at 1% above the U. K. Bank Rate (with a minimum of 4 1/2% per annum).

(B) The amount of loan received represents credit for miscellaneous stores received on deferred payment basis.

*Figures upto 5-6-1966 are at pre-devaluation rates and after 5-6-1966 at post-devaluation rates.

**The closing balances have been worked out after including effect of devaluation of the figures available in accounts.

***These loans include seven loans sanctioned under P. L. 480, the balance of which are not required to be stepped up as a result of devaluation.

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|
| Newzealand . . . . | 0·33 | .. | 0·33 | 0·10 | 0·17 | 0·31 | 5% |
| Austria . . . . | 12·02 | 2·66 | 6·00 | 0·52 | 0·88 | 6·85 | 5½% to 6% |
| Kuwait . . . . . . | 34·19 | .. | 34·19 | 3·81 | 18·71 | 26·56 | 4¾ % |
| Denmark . . . . | 4·48 | 2·26 | 2·86 | 0·13 | 0·23 | 2·98 | 4 to 5% |
| Bahrain . . . . . . | 7·86 | .. | 7·86 | 3·44 | 3·44 | 7·42 | (C) |
| Sweden . . . . . . | 5·69 | 0·82 | ·82 | .. | .. | 0·82 | |
| Loans for construction/acquisition of buildings by Indian Mission abroad . . . | .. | 0·03 | 0·03 | 0·01 | 0·01 | @0·02 | |
| TOTAL . | 5306·44 | 864·26 | 3846·07 | 159·42 | 550·72 | 4633·27 | |

(C) A sum of Rs. 7·86 crores representing value of Special Indian rupee notes and Indian coins which ceased to be legal tender in Baharain from October, 1965 was transferred to the Government of India and the amount so transferred treated as a loan from the Government of Bahrain.

@ This amount has not been stepped up as a result of devaluation.

[Paragraph No. 13 (*a*), Audit Report (Civil), 1968]

2.17. The Table above would show that out of a total of Rs. 5,306 crores of loan authorised, only Rs. 3,846 crores had been drawn upto the end of 1966-67, the shortfall in drawal being 1460 crores.

2.18. The Commitee enquired whether the shortfall in the drawal of the authorised loans was due to defective budgeting. The Special Secretary (Economic Affairs) stated that, at the time of framing budget estimates, they had certain expectations as to the dates by which the loan agreements would be signed. But the loan agreements could not be signed by the expected dates. Even when loan agreements were signed, the projects did not proceed according to expectation. Consequently, the actual imports of equipment were less than originally envisaged. In 1967-68, a large part of the aid was for the import of commodities and spare parts. A recessionary trend in the economy was responsible for less drawal. In reply to a question, he added: "We do not want to incur the debt unless we are sure that the purpose for which it will be utilised is worthwile. We have in the last three or four years been careful about taking up new projects. Although the money has been pledged, the debt has not been incurred. We have not been in a hurry to incur the debt. It is not a question of utilisation, but it is a question of incurring the debt. I would regard it as a plus point, because it is a loan not a gift."

2.19. The committee drew attention to Unstarred Question No. 18 answered in Lok Sabha on the 22nd July, 1968 about the non-utilisation of loans aggregating Rs. 1,246 crores offered by various countries. Government had, in the course of their reply, stated that "of the sum of Rs. 1.246 crores unordered as on 31st December, 1967, Rs. 857 crores pertain to loans signed in the years 1966 and 1967. The latter figure also includes Rs. 236 crores provided by U.S.S.R. for the Fourth Five Year Plan projects still to be finalised." Government had also indicated in their reply that "an important element that shows up as the difference between the loan amounts signed and the amounts ordered, arises from the fact that certain East European countries have granted loans for projects which are to be finalised in the context of the Fourth Five Year Plan. While this has the advantage of advance indication of the aid that is available thus facilitating consideration of the projects, until the projects are finalised, the allocations are made, the preliminaries to ordering are completed and orders are actually placed, the amounts are shown statistically as not utilised in the sense of ordering." Taking note of this position, the Committee asked for a statement showing the following details about each of the loans obtained from East European countries unto 31st December, 1967:

(i) Name of the country;

(ii) Date on which agreement was signed;

(iii) Validity period of the loan;

(iv) Project/projects for which the loans were obtained;

(v) Stage of finalisation of the projects, showing progress in preparation of project report, clearance of project by Planning Commission, Administrative Ministry and Finance and the firm budget provision, if any, made for the projects;

(vi) Whether equipment/stores for projects covered could be procured within the validity period of the loan.

2.20. The information furnished by the Ministry of Finance is at Appendix III. The following points emerge therefrom:

(i) In respect of the Second Polish credit for Rs. 15·50 crores for which agreement was signed on 16th November, 1962, for certain specific projects, as also credit for 12 Fourth Plan Projects for 300 Million roubles for which agreement was signed on 10th December, 1966 "information is being collected from Administrative Ministries/Project authorities" about the stage of finalisation of the projects.

(ii) In respect of a Hungarian credit, for which agreement was signed on 15th June, 1966 to "finance the cost of projects to be mutually agreed upon", "the projects have not yet been chosen", though the terminal date for contracting against the loan is 31st December, 1970.

2.21. The question of slow utilisation of external aid was considered by the Estimates Committee in their Eleventh Report (Fourth Lok Sabha). Reviewing the overall position in this regard, that Committee made the following observations:

"The Committee observe that, whatever be the method of assessment, utilisation of external assistance has not exceeded 52 per cent during the Second Plan and 64 per cent during the Third Plan. Though there has been slight improvement in utilisation during the Third Plan as compared to the Second Plan, the Committee feel that overall utilisation was still very low. they hope the Government would keep under constant review the machinery and procedures of negotiations for aid and its utilisation and would remove all impediments coming in the way of expeditious utilisation of aid for accelerating the pace of industrialisation and economic growth."

2.22. After a detailed study of the sectoral utilisation of external assistance, that Committee came to the following conclusions:

"The Committee are constrained to note that out of the total external assistance authorised during the Third Plan period for Power Projects, Steel and Steel Projects, Port Development and Agricultural Development, less than 50 per cent was utilised by the end of the Plan period. The reasons furnished by the Government for slow utilisation in these fields indicate that, at least, in some cases, delays could have been avoided or at least minimised by advanced preparatory action as in the case of Power Projects, by detailed planning and timely decisions as in the case of Calcutta and Bombay ports."

**2.23. The Committee cannot help feeling that the pace of utilisation of external assistance has been rather slow. This is exemplified by the fact that in respect of the Hungarian credit for Rs. 25 crores obtained under an agreement signed on 15th June, 1966 "to finance projects mutually agreed upon", "the projects have not yet been chosen," though the terminal date for "contracting" under the agreement is 31st December, 1970. It is also regrettable that the Ministry of Finance has yet no information whether, in respect of credits amounting to Rs. 250 crores for Fourth Plan Projects negotiated with the U.S.S.R. in December, 1966, and the Second Polish credit for Rs. 15.50 crores obtained in November, 1962, the projects concerned have been investigated and cleared for implementation. These instances of delay in utilisation of credit are not exhaustive but illustrative and no attribution of blame to any particular party is intended. While the Committee appreciate the Government's anxiety to be circumspect about the choice of projects to be financed out of foreign assistance, they are unable to understand why the choice of projects and other preliminaries to be gone through for utilisation of external credits should take so much time. The Committee would like Government to investigate the reasons for non-utilisation of external credits and to take remedial action. They would also like to emphasise the need for advance preparatory action on projects to be financed out of foreign credits.**

*Switch Deals*

2.24. The Committee enquired whether Government had any occasion to ask the Directorate of Enforcement or any other investigating authority to investigate cases of exports to other countries under barter or tied credit being diverted to third countries, depriving India of free foreign exchange that would have been earned by direct exports. They also wanted to know whether any private exporters in this country were found to be involved in such cases of diversion. The Finance Secretary stated: "There have been a few cases in which the Directorate of Enforcement has had to make enquiries and even searches. In all there would be about 18—20 cases of that nature. We can give the value of what is involved. But I think that these transactions which are popularly known as switch deals are not as extensive as might be thought on account of some of these irregularities which have been found. Nearly sixty per cent of this kind of trade with rupee arrangements is with Government of the U.S.S.R. and that Government exercises a great deal of strictness and control. Not one of the cases detected so far has brought about any irregularity in respect of the barter trade with the Government of the U.S.S.R. With regard to other countries, the mechanism is that there is a trade plan worked out on the basis of that country's requirements of our traditional commodities. This is followed up by trade agreements, and there is no reason to think that arrangements according to these trade agreements are not being maintained. However, wherever irregularities have come to notice, we have had the full cooperation of the contracting States in taking action against the parties who may be indulging in wrong practices."

2.25. From a note subsequently furnished by Government, it is seen that as a result of investigations carried out by the Enforcement Directorate and Customs authorities, penal action against some exporters was taken for exporting/attempting to export goods valued at Rs. 16·90 lakhs to places other than the declared destination. The goods were exported/to be exported in terms of Trade and Payment Agreements executed by the Government of India with the Governments of Yugoslavia, Hungary, Czechoslovakia, East Germany and Tunisia. The parties concerned have appealed against the penalties imposed. It is also seen that in respect of certain other transactaions involving goods valued at about Rs. 2.6 crores, there are *prima facie* cases of contravention of the Foreign Exchange Regulations Act/Customs Act and that these are at various stages of adjudication.

2.26. As regards the safeguards taken by Government against irregularities of this type, the Finance Secretary stated that they were thinking of imposing a condition of customs clearance at the other end. But they had been advised by the Law Ministry that it would not be legal or proper to ask the exporter in this country to give an undertaking regarding customs clearance at the other end. The Committee enquired whether any measures were being taken to ensure that exports to such countries were not far in excess of their requirements so that there was no surplus left with them to be diverted to other countries. The Special Secretary, Department of Economic Affairs stated: "When we enter into trade negotiations every year, we bear in mind what our normal capacity to export for each market would be. In some cases we lay down the figures and when the limit is exceeded, we take it up with them. It is a continuous process. The Trade agreements signed every year will give an idea of the things which we think they should import." He further stated: "We have our trade representatives in Western Europe, in Amsterdam and in Germany and we ask them to be on the look-out. It is not a problem peculiar to Eastern Europe. When we enter into barter deals even with West European countries, the same kind of situation arises." In reply to another question, the Finance Secretary stated that the diversion of exports that had come to notice related to traditional items of exports.

2.27. The Committee note in this connection that, in reply to an Unstarred Question No. 3667, laid on the Table of Lok Sabha on the 12th August, 1968, the following information was furnished by Government in regard to 'Switch deals':—

> "It is a fact that the Enforcement Directorate are investigating some cases of exports made by Indian exporters, where the goods were declared as for shipment to East European countries against rupee payment under the relevant Trade and Payments Agreements with such countries. Investigations made disclose that apparently the goods were destined for countries in convertible currency areas.
>
> On the basis of investigations, adjudication proceedings were initiated by the Enforcement Directorate against some firms. These proceedings have, however, been stayed by the Calcutta High Court, on application by the parties. Investigations against some more firms are in progress. It will not be in public interest to disclose further details at this stage."

**2.28. The Committee are disturbed to learn that goods valued at Rs. 2.6 crores meant for export against rupee payments under Trade & Payments Agreements executed with Yugoslavia, Hungary, East Germany, Czechoslovakia and Tunisia were diverted or attempted to be diverted to convertible currency areas. As the cases are at**

**various stages of adjudication, the Committee would like to reserve their comments at this stage. They would like to be apprised of the final outcome of the various proceedings now in progress. The Committee would also urge Government to study carefully, in the light of the findings now available, the modus operandi adopted by the parties so that loopholes in the existing regulations and procedures could be plugged. Government would also do well to consider how best they could make a more realistic assesment of the import requirements of countries with whom rupee payment arrangements are executed, so that the scope for diversion of exports is eliminated.**

**Payment of Commitment Charges**

*Audit Paragraph*

2.29. In paragraph 19 of their 39th Report (1964-65) and paragraph 1·25 of their 54th Report (1965-66), the Public Accounts Committee had desired that every effort should be made to minimise the payment of commitment charges by utilisation of loans from the International Bank for Reconstruction and Development within the original time-schedule, that in cases of loans for capital equipment involving long delivery periods a more realistic time-schedule should be prepared and that in cases where the World Bank is not in a position to give loans direct to the industries concerned, and the Government have to step in as an intermediary, Government should make available the foreign loans received by them to the parties concerned on such terms and conditions as will not result in a loss to the public exchequer.

Similarly, agrrements with Canada (in case of one agreement only), the Federal Republic of Germany and the Export Import Bank of U.S.A. also provide that the Government of India will have to pay commitment charges on the undrawn amounts of loans from the dates of authorisation of the loans, or later dates as might be mutually agreed upon (between the lending Governments Agencies and the Government of India) till the loans are completely drawn or portions of them are cancelled. Commitment charges are also paid on loans from the Government of Netherlands but in this case commitment charges are not payable on the total undrawn balance of the loan but only on the amount drawn in a particular month and credited to a special account for purposes of disbursement to the suppliers etc., on behalf of Government of India.

During the years 1964-65, 1965-66 and 1966-67 commitment charges aggregating Rs. 62·60 lakhs were paid by Government to

**the World Bank and other Foreign Governments, etc., as detailed below:—**

| Name of Government/Agency/sanctioning the loan | Rate of commitment charges | Amount (in lakhs of rupees) | |
|---|---|---|---|
| International Bank for Reconstruction and Development | 3/4 % p.a. | 30·13 | (This includes Rs. 1·29 lakhs paid on account of extensions / cancellations of the loan agreements). |
| Government of Federal Republic of Germany | $\frac{1}{4}$% p.a. | 27·79 | |
| Export-Import Bank of Washington | $\frac{1}{2}$% p.a. | 2·15 | |
| Government of Netherlands | $\frac{1}{8}$% p.a. | 1·99 | |
| Government of Canada | $\frac{3}{4}$% p.a. | 0·54 | |
| TOTAL | | 62·60 | |

Out of Rs. 62·60 lakhs, a sum of Rs. 11·92 lakhs was paid on behalf of certain Industries, where the Government had to step in as an intermediary for the purpose of the loan.

The Ministry of Finance intimated in December, 1967 that necessary instructions had been issued in February, 1967 to the effect that in future, while dealing with cases of loans for projects, efforts should be made to devise a suitable arrangement by which the incidence of commitment charges will fall on the projects which are the beneficiaries of the loans and not on the public exchequer.

[Paragraph No. 13(b) Audit Report (Civil), 1968].

2.30. In a note furnished to the Committee, the Ministry of Finance have stated that the total commitment charges paid during 1967-68 amounted to Rs. 33.92 lakhs. Out of this, only Rs. 0.17 lakh pertained to industries where Government had to step in as an intermediary.

The overall position in regard to payment of commitment charges for the preceding three years ending 1966-67 was indicated by the Ministry as follows:

| | 1964-65 | 1965-66 | 1966-1967 |
|---|---|---|---|
| | (Figures in Lakhs of Rs.) | | |
| I. Non-project Loans | 3.18 | 3.76 | 5.78 |
| II. Project Loans | 12.73 | 10.19 | 26.96 |

2.31. Indicating the break-up of the commitment charges paid for the foregoing period in respect of project loans, the Ministry of Finance appraised the Committee of the following position:

"The total amount of Rs. 49·88 lakhs paid under the project loans fall under the following broad categories:

| | Rs. |
|---|---|
| (a) IBRD loan for collieries (S.No. 10) . . | 11·54 |
| (b) Power Transmission Loan (S.No. 10) . . | 15·02 |
| (c) DM 82 m. (selected projects) and DM 40 m. (selected projects) from Germany (S. No. 20 and 21) | 2·22 |
| TOTAL | 22·78 |

2.32. As regards the steps taken by Government to reduce payment of commitment charges, the Ministry have stated in the aforesaid note:

"... .Instructions have been issued to all concerned, *vide* Office Memorandum No. F. 5(1)/66-FBI dated 4th February, 1967 enjoining on them the ned for keeping in view the observations and recommendations of the Public Accounts Committee contained in para 19 of the 39th Report (Third Lok Sabha) and the 54th Report. With the same circular, a check list for projects has also been circulated to assist the various Ministries in formulating their proposals for arranging for credits for projects so that only schemes which are ready in all respects are covered under foreign credits. While on the one hand emphasis has been laid on making realistic estimates of foreign exchange needed and the time to be taken for completing the projects, it has also been laid down that wherever specific foreign loans are arranged for projects, the incidence of commitment charge should be on the projects and not on the exchequer."

"Efforts are also under way to get the element of commitment charges dropped by the foreign lending countries and agencies and we have achieved success in two cases, namely, Netherlands and Canada where it has been dropped."

2.33. Referring to the commitment charges paid in respect of non-project loans, the Committee enquired why the burden of these charges could not be passed on to the beneficiaries of these loans. It was explained to the Committee that "the foreign exchange that became available under the loans were made available against payments in private sector as also to various Government departments." "We farm it out", the Special Secretary, Finance explained during evidence." to a large number of people who are importing raw materials, components etc . . . . We give them a licence. Really we are not passing on the loan to them. I cannot ask a man who has paid cash to pay interest." Explaining the position further, Government have stated in a note: "So far as the licensee is concerned, he is purchasing foreign exchange from the Reserve Bank of India paying spot cash. He does not get the benefit of deferred payments. The rupees collected by Government become part of Government's capital budget receipts. The Government uses them in accordance with the budgeted uses of capital funds, with which it is merged . . . Therefore, there is no question of charging him (the importer) interest or any other financing charges. To the Government which pays interest and commitment charges over a course of years for the spot cash that it has acquired, the benefit lies in that it would otherwise have had to raise money inside the country, which also costs, for the purpose of carrying out the budgeted outlays and development."

2.34. Taking up the question of commitment charges on project loans, the Committee enquired why the burden of these charges could not be passed on to the projects. Government have explained:

"Commitment charges, which are normal part of the cost of borrowing—and not a penalty—have been borne by the Government of India as the loans have been to them. The projects pay the rupee equivalents to the Government from their own resources, which, in the case of public sector projects are augmented by investments and loans from the Government the terms relating to which are settled with reference to the internal conditions and without necessarily linking with the terms applicable to loans received from abroad. If we were to bring about a link between the terms obtained by the Government in respect of international borrowing and the terms on which the foreign exchange becoming available is passed on to the projects it will be difficult to resist the demand that the soft terms applicable to some loans, and even grants should be made available to the projects on exactly the same terms.

"The four loans referred to by the Committee are all project tied loans. In the case of project loans utilisation is spread over a longer period than in the case of non-project loans, because of the longer delivery periods required in respect of capital goods, equipment plant and machinery. In recognition of this factor terminal dates are fixed with reference to the completion of the imports. Commitment charges are however, payable from the beginning on undrawn balances and even if the utilisation proceeds according to the schedules fixed initially payment of some commitment charges is inevitable. In one sense, interest takes over where commitment charge ends.

"The IBRD Power Transmission loan agreement was signed on 11-6-1965 for a total amount of $ 70 million. Commitment charges became payable from the dates on which respective amounts were earmarked for the various electricity undertakings *viz.* the State Electricity Boards etc. The amount became effective when an undertaking was furnished to the World Bank in respect of each Board to maintain a commercial system of accounts and to ensure a reasonable return on the capital invested. The undertakings were based on financial projections for a number of years worked out by each undertaking and policy regarding tariff and electricity duties anticipated by them. The various portions of the loan were effective between July, 1965 and January, 1966. Also, under the procedures of the World Bank loan the economic and technical feasibility of the sub-projects are to be established to the satisfaction of the Bank. The sub-projects intended to be taken up when the loan was negotiated had undergone considerable changes due to the changing economic and industrial situation by the end of the Third Plan and by the commencement of 1966-67. Certain simplified procedure were negotiated with the World Bank to avoid having to obtain individual clearances in respect of about 300 sub-stations and 8,000 miles of transmission lines broken down into sub-projects. It was only after June, 1966 that the stage was set for preparing and getting approved specifications, conditions for invitation of tenders and contracts and terms of contracts. Contracting has been completed to the extent of $ 57 million. Since it was found that due to better indigenous availability of electrical equipment of the desired kind and due to a postponement of the proposed 400 KV line in West Bengal, lesser foreign exchange will be needed, $ 12 million of the loan was also got cancelled in order not to continue to pay commitment charges. Deliveries are expected to take place in the course of the next two years and will be completed by the middle of 1970.

"The agreement for the DM 396 million loan for Rourkela was signed on 26-4-1963. Drawals up to the end of June, 1968 amounted to DM 359.8 million. Considering that the terminal date was fixed as 31-12-1968, there has been no undue delay in the utilisation of this loan.

"The agreement in respect of the DM 40 million loan for selected projects was signed on 13-5-1965 and the terminal date for utilisation is 31-3-1969. Up to the end of June. 1968 drawals under this loan have reached a figure of DM 32 million and the balance is expected to be drawn by the terminal date as the deliveries in respect of two projects covered under the loan are going on according to schedule.

"The Exim Bank loan agreement for $ 12.75 million was signed on 12-12-1966 and the terminal date is 31-3-1969. Drawals up to 30-6-1968 have amounted to $ (10) million. In this case also there has been no undue delay in the utilisation.

"Commitment charges in respect of these projects have not been passed on as the loans were contracted and allocations made prior to the issue or orders concerning the earlier recommendations of the Committee."

**2.35. The Committee have earlier in this report referred to the slow pace of utilisation of external credit. One direct consequence of this has been the payment of commitment charges to some of the lending countries or international institutions. The amount of such charges paid for the four years ending 1967-68 was over Rs. 95 lakhs.**

While the Committee appreciate that such charges could not possibly be totally avoided, they would like to reiterate their recommendation in paragraph 1.25 of their 54th Report (Third Lok Sabha) that the payments on this account should be minimised. The Committee would in this connection like to invite attention to the observations of the Estimates Committee in para 4.38 of their 11th Report (Fourth Lok Sabha) about "the need for advance detailed planning and realistic assessment of requirements so as to reduce to a minimum the payment of commitment charges."

## III

## LOANS AND ADVANCES BY THE CENTRAL GOVERNMENT

*Audit Paragraph*

3.1. Details of the loans and advances outstanding against State Governments, Foreign Governments etc. at the end of 1965-66 and 1966-67 are given below. The Statement does not include the amount due from the Government of Pakistan on account of their share of pre-partition debt.

| Loans | Amount outstanding on 31st March, 1966 | Loans paid during 1966-67 | Loans repaid during 1966-67 | Amount outstanding on 31st March, 1967 |
|---|---|---|---|---|
| | | (In crores of rupees) | | |
| State Governments . . | *4012·46 | 915·41 | 280·47 | 4647·40 |
| Union Territory Governments . | 40·61 | 15·48 | 0·83 | 55·26 |
| Foreign Governments . . | 27·65 | 45·49 | 48·44 | **33·20 |
| Local Funds, Municipalites, etc | 119·75 | 41·85 | 7·10 | 154·50 |
| Government Corporations Non-Governments Institutions etc. | 1335·30 | 380·18 | 75·19 | (a)1641·49 |
| Government Servants . . | 11·63 | 8·64 | 6·38 | (a) 13·94 |
| Cultivators . . . . . | 1·14 | 0·23 | 0·14 | 1·23 |
| TOTAL . | *5548·54 | 1407·28 | 418·55 | **6547·02 |

3.2. The loans and advances given to the State Governments were primarily meant to enable the State Governments to finance their portion of the Plan expenditure. A portion of the Plan expenditure in the State Sector was also met by them out of grants-in-aid paid by the Central Government.

[Paragraph No. 15, Audit Report (Civil) 1968].

*The balance as on 31st March, 1966 differs from that shown in para 14 of the Audit Report, 1967 on account of *pro-forma* corrections.

**The balance increased *pro-forma* on account of effect of devaluation of the rupee with effect from 6th June, 1966.

(*a*) The balance as on 31st March, 1967 increased on account of *pro-forma* adoption of the balances on the reorganisation of the composite State of Punjab.

3.3. While examining the utilisation of Central assistance to State Governments, the P.A.C. (1966-67), in para 1.37 of their Sixty-Eighth Report (Third Lok Sabha) had desired to know the action taken by the State Governments on the instructions issued by the Ministry of Finance in October, 1964 that with effect from the year 1965-66, the final adjustments of Central assistance to State Governments for Plan schemes would be on the basis of the audited figures of expenditure.

3.4. In a note furnished to the Committee, the Ministry of Finance had stated as under:

"Under the revised procedure laid down in the Ministry of Finance letter No. F.2(19)-PII|60 dated the 9th October, 1964, final adjustments of Central assistance to States, with effect from the year 1965-66, have to be done with reference to audited figures of expenditure on Plan schemes. In order to facilitate audit check, the State Governments were requested to publish at the commencement of each year, a statement of schemes included in the Annual Plan, arranged according to the Heads of Development, indicating the provisions made for each scheme, under the various Heads of Account. The intention behind this was to secure a link between Plan schemes and the Budget Heads of Accounts under which the expenditure is booked. The State Governments were also requested to furnish to the Accountants General figures by the 31st December, 31st March and 31st August for the period ending 30th September, 31st December and 31st March respectively. The Statements of expenditure were to include details of expenditure on schemes showing the provision made and the Heads of Accounts under which the expenditure was accounted for the Plan outlay for the relevant Head of Development and the total expenditure under the Heads of Development arranged schemewise. In the case of local bodies and other institutions receiving loans and grants from the State Governments, audit was to be completed on the basis of utilisation certificates.

"In accodance with instructions issued to State Accountants General by the Comptroller and Auditor General, audit certificates are to be submitted to Government of India by the end of September of the second succeeding financial year. The certificates for the year 1965-66 were thus due by the end of September, 1967.

"While all the State Governments have published the 'Budget-Plan links' for the year 1965-66, they have not yet been able to furnish all the statements of expenditure for the year to the Accountants General with the result that the final adjustments of assistance on the basis of audited certificates could not be made so far. State Governments have been regularly reminded to, expedite necessary action in the matter; the last reminder having issued on the 15th June, 1968. As 1965-66 is the first year for which the new procedure is being applied, State Governments appear to be experiencing some difficulties in supplying the expenditure statements to the Accountants General. A point on which clarification was required related to the States' share of expenditure on Centrally sponsored schemes. The Comptroller and Auditor General has, at our request, issued the necessary clarification to the State Accountants General and this has also been brought to the notice of the State Governments. The Accountant General, Kerala has already sent the audit certificate for 1965-66 and it may now be expected that the audit certificates in respect of other States will be received early. Necessary action to make the final adjustments of payments of Central assistance will then be initiated."

3.5. Taking note of the foregoing position, the Committee enquired about the progress made in the final adjustment of Central assistance to States for the year 1965-66, on the basis of audit certificates. The Joint Secretary, Ministry of Finance stated: "On the State Plan side, so far as 1965-66 is concerned, the final adjustment has not yet taken place," and stated that audit certificates were awaited. When the Committee drew attention to the fact that Accountant General, Kerala had already furnished the certificate, the witness stated that the Audit certificate furnished by the Accountant General, Kerala was not complete in that it related only to State Plan Schemes and did not include the State's share of the Centrally-sponsored schemes. The Ministry had requested the Comptroller & Auditor General of India to issue instructions in respect of the States' shares of the Centrally-sponsored schemes, besides the instructions in respect of State Plan Schemes already issued by him. The Accountant General, Kerala had also raised the query whether the instructions issued by the Comptroller and Auditor General would relate only to the year 1966-67 or also cover the earlier period. The Ministry had urged that the instructions should cover the 1965-66 accounts also.

3.6. The Committee note in this connection that the Finance Commission had considered the question of delay in adjustment of Plan assistance due to the time taken by State Governments in rendering expenditure figures to Audit. In para 41 of their Interim Report, the following observations have been made by the Commission:

> "Under the existing arrangement for release of Plan assistance, except for expenditure on multi-purpose river projects where quarterly payments are made on the basis of estimated expenditure monthly ways and means advances are made to State Governments during the first ten months of the year on the basis of annual budget estimates and the residual amount is released in March on the basis of departmental figures of actuals for nine months and departmental estimates of expenditure for the last quarter. The Plan assistance actually due for the year is finally adjusted on the basis of audited figures which generally become available long after the close of the year. This procedure, we understand, follows a recommendation of the Central Public Accounts Committee. We think that the delay in the final adjustment of Plan assistance should not normally result in any ways and means difficulty, unless there have been large increases in Plan expenditure actually incurred as compared with the departmental actuals for nine months and estimated expenditure for the last quarter. The disparity between the two could be substantially narrowed down, if the State Governments arrange for speedy reconciliation of departmental actuals with the accounts maintained by the Accountants-General during the course of the year. Efforts should also be made to reduce the time taken for completion of audit."

3.7. The Committee also note that in their report on 'Machinery for Planning', the Administrative Reforms Commission had considered the difficulties in the implementation of the existing pattern of Central assistance to the States for Centrally aided Plan schemes. The following criticism was taken note of by them in this regard:

> "The procedure and pattern of the scheme is complex and delays in decision are caused thereby. The readjustment of grants and loans in the light of actual expenditure is a time-consuming process."

3.8. Outlining some of the remedial measures necessary, the Commission have made the following observations:

"The system of providing Central assistance should be so altered that while the needs of national priorities and objectives are adequately taken care of, the States will be left with an incentive to husband their resources properly for investing them in programmes suited to their own requirements within, of course, the structure of the National Plan and subject to the National priorities. There can be no getting away from the fact that planning, under our present conditions, requires Central direction, financing and even determination even though economic and social planning falls in the Concurrent List. Central supervision over the formulation of State Plans and their implementation cannot, therefore, be done away with. The Constitution itself embodies certain broad national objectives and also prescribes certain directive principles of State policies. The Central Government cannot therefore divest itself of the overall responsibility for seeing that the relevant Constitutional provisions are observed. Apart from all this, it is inevitable that the Centre should concern itself with those parts of the State Plan which flow from or which affect the execution of national policies or the overall development of the economy of the country both in the agricultural and industrial fields. In order to encourage States to follow certain policies even in the State's field and in the light of national objectives or policies, it has become necessary and it will continue to be so, for the Central Government to take interest in the formulation and implementation of certain State schemes. Schemes of Central assistance to States have to cater to all these requirements, care being taken to ensure that they are framed in such a manner as not to fetter unduly the discretion of State Governments or to cramp the initiative and cloud the judgment of the States in regard to matters in the State fields.

"On a consideration of all these, we think it necessary that the targets of the State Plans and the financial outlay required for achieving them should first be realistically fixed. The proposed financial outlay should be of a magnitude that can be covered by the State's own resources supplemented by the Central assistance. The amount of Central assistance will naturally be determined by the resources position of the Centre and its own programmes for plan expenditure. Out of the total Central assistance, the amount which should be given in the form of loans should first be fixed. This loan assistance will be earmarked for specific projects or parts of specific projects. Some schemes would be such that they would involve elements of revenue as well as capital expenditure. In such cases, the loan assistance should be earmarked for the capital element of these composite projects. The balance left out of the total assistance after providing for loans would be available for assistance in the shape of grants and loans in the light of actual expenditure is have been fixed in accordance with pre-determined patterns. We suggest that these patterns be abolished. For certain selected schemes of groups of schemes of basic national importance, the amount of grant assistance might be fixed at 100 per cent and tied thereto. The balance of the grant assistance might then be allocated between other schemes pro rata. While this amount will be distributed between various schemes, the amount allocated need not be tied to those schemes. In other words, it should be possible for the States to reappropriate the amount between the various schemes for which assistance is not required to be 'tied'."

**3.9. The Committee are concerned over the fact that ways and means advances given to the State Governments to defray expenditure on Plan schemes during 1965-66 have still not been finally adjusted on the basis of audited figures of expenditure on the schemes. According to the procedure prescribed by Government, the adjustment was to be completed by 30th September, 1967 on the basis of audit certificates to be furnished by the State Accountants-General. However, due to difficulties experienced by the State Governments in supplying expenditure statements to the Accountants-General, the issue of audit certificates has been held up. The Committee would in this connection like Government to take note of the observations of the Finance Commission about the need for State Governments to arrange for "speedy reconciliation" of their expenditure figures with those of the Accountants-General and initiate necessary action in this respect. The Committee would also like Government to consider, in consultation with the Comptroller & Auditor General, how far the existing pattern of assistance renders final accounting of Plan expenditure incurred by the State Governments a time-consuming and cumbersome process and whether a simplification of the scheme for assistance on the lines suggested by the Administrative Reforms Com-**

**mission would facilitate speedier accounting and more expeditious adjustment of the advances given to State Governments.**

3.10. The Committee desired to know the amount of pre-partition debt due from Pakistan and steps taken to recover it. The Joint Secretary (Economic Affairs), stated that their estimate of the amount due from Pakistan on this account was Rs. 300 crores. The last negotiations with Pakistan in this behalf, which took place in 1960, did not produce any result.

**3.11. The Committee desire that the question of early re-payment of the aforesaid pre-partition debt should be taken up with the Government of Pakistan for expeditious settlement.**

**Delay in re-payment of loans by State Governments**

*Audit Paragraph*

3.12. Some of the State Government's have not been regular in repaying the loans advanced to them by the Central Government although the terms and conditions of repayment in respect of these loans have been settled. The amount of principal and interest remaining overdue from the State Governments at the end of 1966-67 are given below.

| Name of the State Government | Amount outstanding as on 31st March, 1967 | | Earliest period to which the arrears relate |
|---|---|---|---|
| | Principal | Interest | |
| | (In crores of rupees) | | |
| (1) | (2) | (3) | (4) |
| Gujarat | .. | 0·01 | 1954-55 |
| Jammu and Kashmir | 14·38 | 9·14 | 1959-60 |
| | Principal of Rs. 0·02 crore recovered in 1967-68. The Government of India have agreed (December, 1966) to postpone the recovery of the instalments of loans from the Government of Jammu and Kashmir for the year 1964-65, 1965-66, and 1966-67, as well as such protion of interest for these years as is necessary to meet the deficit of the Government of Jammu and Kashmir. | | |

| (1) | (2) | (3) | (4) |
|---|---|---|---|
| Madhya Pradesh | .. | (*a*) | 1966-67 |
| Madras | 0·76 | 0·36 | 1961-62 |
| | For development of Handloom Industry. | | |
| Orissa | 0·03 | 0·01 | 1960-61 |
| | | (Recovery in 1967-68) | |
| Punjab | (*b*) | 0·01 | 1965-66 |
| West Bengal | 0·27 | 3·67 | 1966-67 |
| | (Rs. 0·02 crore (Principal) and Rs. 0·01 crore (Interest) recovered in 1967-68. | | |

The above figures do not include the arrears in respect of loans granted to State Governments for rehabilitation of displaced persons in respect of which the State Governments have been paying to the Government of India only the amounts actually realised from the displaced persons.

[Paragraph No. 17, Audit Report (Civil) 1968].

3.13. In the course of evidence, the Joint Secretary, Department of Economic Affairs, stated that only two major items were outstanding—one relating to the State of Jammu and Kashmir and the other relating to the State of West Bengal.

3.14. As regards West Bengal, the Special Secretary (Economic Affairs) stated that the outstanding payment related to the interest on loan relating to the Damodar Valley Corporation. The contention of the State Government was that "the particular liability for interest was not taken into account by the last Finance Commission." In reply to a question whether this was being referred to the Fifth Finance Commission which had since been set up, it was stated: "The State Government will automatically bring up the matter before the Finance Commission."

(a) The actual amount which represent penal interest is Rs. 35,968

(*b*) The actual amount is Rs. 42,885.

3.15. As to the reasons for heavy outstandings against the State of Jammu and Kashmir, the Finance Secretary stated: "The finances of Jammu and Kashmir are in a very difficult position—I should think—for the last 16 or 17 years......From time to time, reviews are undertaken as to what can be done. Their problems have been growing in such a manner that it becomes very difficult not to extend further accommodation." As to the remedial measures, he stated: "Over the last 1½ years, we are getting them to reduce the subsidy on food, which used to come to very heavy bill." To a question whether the Central Government were also contributing towards the food subsidy, the Finance Secretary replied: "That was met by the State Government only. But that meant that at first they could not find any resources for the Plan, so that their entire Plan resources had to be met by the Central Government." Asked whether the loans given by the Central Government to the State Government were mostly for non-Plan schemes, the Finance Secretary stated: "Most of the loans have been given for the Plan, but there are also certain specific items, for instance, the Police and Home Guards had to be expanded. There is a normal scheme of assistance to other States. In the case of Jammu and Kashmir, something special had to be done." Further asked whether any loans given to the State Government had been written off in the past, the witness stated that some assistance (amounting to Rs. 9 crores) was given to the State in the earlier years after Independence. That was treated as a loan. The bulk of it (Rs. 6 crores) was being written off. No otaer loan given to the State Government had been written off.

**3.16. The Committee observe that some of the State Governments have not been regular in repaying loans advanced to them as well as interest due thereon. The amount overdue as on 31st March, 1967 was over Rs. 28 crores of which about Rs. 27 crores were due from the Governments of Jammu and Kashmir and West Bengal. The Committee note that the finances of Jammu & Kashmir "are in a very difficult position." They hope that as a result of the study by the Finance Commission, which,** inter alia **has been asked to report on "the scope for better fiscal management......by the States", the finances of this State will be stabilised. In regard to the other State, the Committee note that the liability for certain interest payment is in dispute and may be considered by the Finance Commission. The Committee trust that the matter will be sorted out expeditiously.**

3.17. The Committee enquired what steps the Central Government took to ensure that loans given to State Governments were utilised for the purposes for which they were given. The Joint Secretary, Department of Expenditure stated that apart from non-Plan loans, loans were given either for Centrally-sponsored schemes or for schemes included in the State Plans. As regards loans for the State Plans, he stated that these were given to States for the Plan as a whole rather than for individual schemes included therein. The allocation was made on the basis of heads of development, and releases were also made on that basis. He added that all the loans were "subject to statutory audit and all irregularities that are brought to notice by statutory audit in any report anywhere are taken note of and action taken." Asked whether the loans given for Plan purposes could be utilised for non-Plan purposes, the witness stated: "That is just impossible because it is only if the money is spent on the Plan that the loan or grant is available. We go on making on account payments and finally we make adjustments on the basis of actual expenditure." He added that in a few cases, where the State Governments had not utilised the loans in particular financial year or kept the funds for use in the following year, they had refunded the money. In reply to a question, he stated: "No instances have come to our notice where the loans were taken for one purpose and utilised for another purpose completely different from the one for which they have been given."

3.18. The Committee referred to paras 26—31 of the 25th Report of the Punjab Public Accounts Committee (1967-68) wherein mention had been made of serious irregularities in the sanctioning and execution of flood control schemes financed by loan assistance from the Centre. The State Public Accounts Committee had expressed grave concern that many of the schemes were started without obtaining clearance from the Government of India as prescribed under the Rules and in several cases the State Government paid no heed to the expressed advice or direction of the Government of India not to incur expenditure on certain projects. The Committee also referred to the Report of the U.P. Public Accounts Committee (1965-66) wherein they had drawn attention to the tendency on the part of several Departments to take up schemes without proper scrutiny merely for the sake of obtaining Central assistance. The Joint Secretary (Expenditure) stated: "I did not indicate complete satisfaction with the manner in which Central assistance is utilised. I was giving only the general over-all picture. We are giving Central assistance of the order of Rs. 650 to 700 crores. Out of this the various irregularities mentioned in all the Audit Reports will not cover more than Rs. 20 crores to 25 crores........A few mistakes and small defalcations (involving a few lakhs or a few thousands of rupees) may have occurred. I am not saying that these should be ignored completely. I was only talking of proportions or dimensions. When the expenditure is of the order of Rs. 2,000 crores, there will be a small range over which there will be need for investigation, inquiry and so on but I was drawing attention to the vast range where things are going on smoothly."

3.19. Besides the cases of irregularities in the utilisation of Central assistance mentioned in para 3.18 above, the Committee observe that there have been a few other instances highlighted in the Reports of the State Public Accounts Committees and Audit Reports on the Accounts of State Governments:

(i) In paras 59-60 of their Report, the Uttar Pradesh Public Accounts Committee (1965-66) have expressed concern at the fact that certain funds received from the Government of India for the construction buildings of Primary Health Centres, etc., were not utilised but placed in deposit accounts of the Public Works Department as a result of which the correct position regarding the expenditure on the works was not brought to the notice of the Legislature and the Government of India.

(ii) In para 78 of the Audit Report, 1966 on the Accounts of Uttar Pradesh Government, it has been mentioned that in respect of the Rural Manpower Programme, expenditure had been incurred on works outside the purview of the Scheme. The work was allotted to contractors which was not in keeping with the conditions attached to the Programme. It has been mentioned in para 104 of the Audit Report that a departmental evaluation of the vaccination scheme in five districts had revealed that wrong reports had been sent regarding the percentage of the population covered.

(iii) In para 18 of the Audit Report, 1966 on the Accounts of another State (Madras), it has been mentioned that in respect of the scheme for free distribution of books to poor and needy children, the State Government had not distributed the books free of cost. And subsequently when the State Government were requested by the Government of India to take steps for free distribution of books at least during the school year 1964-65, that too was not done.

3.20. In reply to a question whether loans were sanctioned by the Central Government after going into the details of the particular schemes in the State Plans, the Finance Secretary stated: "Every year very detailed exercises are undertaken State-wise and Scheme-wise by the Planning Commission and representative of the Finance Ministry along with state representatives so that it is on the basis of whatever is established, whatever is necessary that we give assistance." In reply to another question, the Joint Secretary, Department of Expenditure stated: "While during the detailed discussions, we go into the programme and schemes, we give specific clearance from the Centre only in respect of individual schemes costing more than Rs. 5 crores. All the rest are left to the State financial authorities to scrutinise and see that financial proprieties are followed." In reply to a question what proportion of Central assistance to States covered schemes costing less than Rs. 5 crores, the Finance Secretary stated that "the bulk of that will be below Rs. 5 crores."

3.21. The Committee note that in their report on 'Machinery for Planning', the Administrative Reforms Commission had examined the question of utilisation of loans and grants given to the State Governments under the existing pattern of assistance for Plan Schemes followed by the Government of India. The Commission had taken note of the following criticism in this regard:

> "The main objective underlying the pattern of assistance viz., that funds are used to achieve certain pre-determined ends had remained largely unfulfilled in view of the possibility of circumventing these objectives......In general, it is permissible to reappropriate funds from one scheme to another under the same head of development provided the latter scheme is also one which is eligible for Central assistance. However, there is no means of preventing in time the reappropriation within the same head of development from an 'assisted scheme' to an 'unassisted scheme'......The disability suffered in consequence is only conversion of a portion of the grant into loan. This is not felt to be a big burden seeing that the original loans are serviced by further loans from the Centre."

3.22. The remedial measures suggested by the Commission have been dealt with in an earlier portion of this Report.

**3.23. The Committee note that the bulk of the Central assistance to States is for Plan Schemes costing individually less than Rs. 5**

crores and that these Schemes do not, under the existing procedure, require "specific clearance" from the Government of India.

In view of the instances of irregularities in utilisation of Central assistance brought out in the Audit Reports on the accounts of some of the State Governments as well as the reports of the State Public Accounts Committees, the Committee would like Ministry of Finance to conduct a study suggested in paragraph 1.44 of the P.A.C.'s 54th Report (Third Lok Sabha) at more regular intervals and take suitable remedial measures where called for.

3.24. The Committee would also like to draw attention to the observations of the Administrative Reforms Commission that the objectives of Central assistance to States for Plan Schemes "that funds are used to achieve certain pre-determined ends has remained largely unfulfilled in view of the possibility of circumventing these objectives." The Committee would like Government to examine how far a change in the pattern of assistance on the lines suggested by the Commission would help to secure proper utilisation of Plan assistance given to the State Governments.

**Loans to State Governments for rehabilitation of displaced persons**

*Audit paragraph*

3.25. The position of recoveries as on 31st March, 1967 in respect of loans advanced to some of the States for the rehabilitation of the displaced persons from East Pakistan is indicated below:—

| Name of the State Government | Amount of loan | Amount due for repayment according to original terms | | Amount actually realised and repaid | |
|---|---|---|---|---|---|
| | | Principal | Interest | Principal | Interest |
| | | (In crores of rupees) | | | |
| Bihar | 2·89 | 1·37 | 1·00 | 0·27 | 0·04 |
| Madhya Pradesh | 0·99 | 0·38 | 0·27 | 0·02 | * |
| Orissa | 1·22 | 0·73 | 0·18 | 0·06 | 0·02 |
| Rajasthan | 0·22 | 0·13 | 0·06 | 0·04 | .. |
| Uttar Pradesh | 1·65 | 0·38 | 0·42 | 0·17 | 0·01 |
| West Bengal | 63·35 | 34·72 | 16·50 | 3·15 | 0·66 |
| TOTAL | 70·32 | 37·71 | 18·43 | 3·71 | 0·73 |

*The actual amount is Rs. 35,506.

The position of recoveries as on 31st March, 1967 in respect of loans sanctioned to State Government of Assam for rehabilitation of displaced persons is given below:—(*)

| Amount of loan | Amount due for repayment according to original terms. | | Amount actually realised and re-paid. | |
|---|---|---|---|---|
| | Principal | Interest | Principal | Interest |
| | (In crores of rupees) | | | |
| (*b*) 8·10 | (*b*) 6·24 | 0·39 | 0·17 | 0.05 |

In May, 1964 it was decided by the Government of India that losses would be borne fully by the Central Government in respect of loans granted upto 31st March, 1964 to displaced persons from East Pakistan. This decision was not to be applied to loans granted to displaced persons migrating after 31st December, 1963. The Central Government have so far (upto 31st March, 1967) borne a loss of Rs. 94.81 lakhs in respect of such loans.

[Paragraph No. 17, Part (b) Audit Report (Civil), 1968].

3.26. According to the information furnished by the Department of Rehabilitation, the total amount of loans sanctioned to the State Governments for disbursement to displaced persons as on 31st March, 1968, was Rs. 15,785 lakhs. The State-wise and year-wise distribution of the loans as indicated by the Department are shown in two statements at Appendix IV.

3.27. The Committee desired to know the reasons for the heavy shortfall in realisation of outstandings from the Government of West Bengal. The Financial Adviser (Department of Expenditure) stated: "Large amounts have been shown as outstanding. A decision was taken in 1964 permitting the West Bengal Government and other State Governments to remit certain loans. It was in fact anticipated at that time that as much as about 55 crores of these loans may have to be eventually written off. A drill has been prescribed and West Bengal Government have been asked to bring uptodate all the ledgers of these loans and then take action to remit these loans in accordance with the decision."

*Separate details in respect of loans etc. relating to displaced persons of East and West Pakistan are not available.

(*b*) Includes Rs. 5·89 crores as loans granted by the Government of India upto 31st March, 1958 for relending to the displaced persons in respect of which the terms of re-payments were not accepted by the State Government.

3.28. As regards the remission scheme, the Joint Secretary (Department of Rehabilitation) added: "......the first thousand rupees of the loan of total loan excepting certain categories of loans will be remitted. If thereafter there is balance and if the balance exceeds Rs. 2,000 then the excess over that will also be remitted. Loans have been given to the same person on various grounds. Accounts have been kept, therefore, according to the subject of the loan. Now all these have to be brought together and shown against the same individual. That process is under way. Some considerable progress has also been made. After finding how much is used by a certain migrant then this formula will be applied.... At the moment there is no scope for effecting recovery because we don't know what is owing by a certain migrant till after the ledgers and accounts are examined together. Unless that is done, even this remission cannot be effected." He further stated, "There has been a certain proposal as to whether we can do it quickly by the manual labour or we should resort to mechanised compilation and all that. We are examining that. I have been informed that in any case it may take something like two years, before these accounts may be completed and only thereafter, the remissions which will be of a very big order can be effected."

3.29. The Committee enquired whether accounts of the loans disbursed to the displaced persons in West Bengal and Bihar had been kept. The Joint Secretary (Rehabilitation) stated. "Regarding West Bengal, it is not correct that the accounts do not exist. The accounts do exist......In some cases, they existed—not as separate ledgers but in personal case registers of the individuals—and these have to be brought together." Regarding the state of accounts of Bihar he stated: "I have no personal knowledge. But, I understand that the accounts are not in a bad way."

3.30. In a note subsequently submitted to the Committee, the state of loan records in four of the States has been indicated in the following terms. These four States were granted loans amounting to Rs. 7,812 lakhs out of a total of Rs. 15,785 lakhs:

"Pursuant to a specific request made by the then Revenue Minister, Bihar, to the Union Minister of Labour, Employment and Rehabilitation, in Rehabilitation Ministers' Conference held in May, 1967, a preliminary investigation was made into the general state of rehabilitation loan accounts in some of the districts and at Headquarters of Bihar State. The state of rehabilitation loan ledgers maintained in some of the districts in West Bengal, Orissa and Assam was also test checked with the following results:

(i) *Bihar*: A difference of Rs. 54,92,761 between the figures of drawals of loans from the Accountant General and disbursements by the departmental authorities, was noticed. Further, the state of loan records in those districts was found to be unsatisfactory. In many cases, the loan ledgers were unattested and the prescribed documents, particularly the receipts of the loanees were not available. In one of the districts, it was found that detailed contingent bills for disbursement of nearly Rs. 20 lakhs had not been sent to the Accountant General though long over-due.

(ii) *West Bengal*: A complete record of the loan instalment payments is available in the loan payment registers, case records and the loan bonds from which family loans ledgers are being compiled. In one district office, some records were destroyed in a fire. The loan ledgers for the same are, however, being completed from the copies of loan bonds available in the sub-Registrar's office.

Out of the total loans aggregating to Rs. 6327.80 lakhs advanced to the State Government, the reconciliation of departmental figures of loans advanced to the displaced persons with the Accountant General's figures has been completed upto the end of March, 1963, showing a difference of Rs. 7 lakhs which is under scrutiny.

(iii) *Orissa*: Nearly 75% of the loans were disbursed in two out of 13 districts. In these two districts, complete records regarding disbursements of loans *viz.* loan payment registers and loan ledgers, are not available. While in one district, case histories are available in most of the cases, in the other district the same are not available. Loan bonds were, however, obtained from the loanees. The loanees' stamped receipts were stated to have been sent to the Accountant General's office in all cases where the amounts disbursed exceeded Rs. 50/-

(iv) *Assam*: In one of the sub-divisional offices inspected, original loan ledgers cash books, loan bonds, etc. are availlable; but in the other office, some of the essential loan records *viz.* loan ledgers, case files, etc. were damaged considerably in a fire in 1961. As a result, the reconstruction of loan accounts is found to be difficult."

3.31. The Committee enquired whether any investigation was undertaken to ascertain whether the loans were given to *bona fide* displaced persons and whether adequate scrutiny was exercised before giving the loans. In a note the Department have stated:

"Loans are advanved by this Department to the State Governments for implementation of approved schemes of rehabilitation of displaced persons. The State Governments make a corresponding provision for the receipt and payment of these loans in their budget. The amounts required for disbursement to the displaced persons are drawn against specific sanctions issued by them and the expenditure is accounted for in the State Government's account which are audited by State Accountant General. No specific instance of any misuse has been reported to this Department and, in any case, the State Government concerned is held fully accountable for the loans advanced to it by the Central Government.

"Rehabilitation loans are advanced against schemes approved by this Department. No special investigations are required to be made before advancing these loans. As for the proper utilisation and accountal of these loans, it may be stated that the same is primarily the responsibility of the State Government and the State Accountant General. The matter is, however, pursued with the State Government to ensure upto date maintenance of the loan accounts."

3.32. The Committee enquired whether loans given were covered by suitable guarantees. The Joint Secretary (Rehabilitation) stated: "I am not speaking from verified facts but I have a surmise that no guarantee has been taken. At present, for example, when loans are given to these farmers who have been rehabilitated in our rural schemes, we generally don't take any guarantee......of course, we take the precaution of giving them in kind. But we don't take any guarantee. I have a surmise that the loans which relate to the period prior to 1964 were also given without any guarantee. There could not be any question of guarantee." He added in this connection: "I do know the experience in Orissa in respect of loans which we sanctioned for being given to the new migrants for small trade. The loans were not being disbursed for some time because the State

Government was looking for guarantors. We said that in the very nature of things these people cannot produce any guarantee and so the loan has to be given and a certain amount of risk had to be taken."

**3.33. The Committee note that the amount of loans advanced to State Governments for the rehabilitation of displaced persons upto 31st March, 1968 was Rs. 157:85 crores. The Department of Rehabilitation have taken the view that "the proper utilisation and accountal of these loans.... is primarily the responsibility of the State Government and the State Accountant General." However, the following facts suggest the need for rethinking of the subject. A preliminary investigation carried out by the Government of India in four States showed the state of loan records maintained by the Departmental authorities to be "unsatisfactory" in some district of one State, a "complete record" about disbursement of loans to be "not available" in two districts in a second State and the reconstruction of loan accounts "to be difficult" in one out of two offices in a third State, as they had been "damaged considerably in a fire in 1961." In the fourth State, it was found that "some records (in one of the districts) were destroyed in a fire." Besides, the investigation also disclosed in one of the States that detailed accounts of disbursement of nearly Rs. 20 lakhs had not been submitted to the Accountant General and that there was a variation of Rs. 55 lakhs between the figures of disbursement brought to account by the Accountant General and the Departmental authorities. In view of these facts, the Committee would like Government to have a thorough investigation carried out into the state of loan accounts, in consultation with the Comptroller & Auditor General of India, so as to resolve all discrepancies, before any part of the loan is remitted. The Central Government should also ensure that State Governments improve the machinery for recovery of loans and interest and make prompt repayments to the Centre.**

**Non-refund of Unspent Balances of Loans**

*Audit Paragraph*

3.34. Given below are cases of loans taken by the State Governments from Government of India in respect of which unspent balances remained unrefunded at the end of 1966-67. (The Ministry-wise analysis is given in Appendix V).

| Name of the State Government | No. of loans | Amount of loans | Unspent balances as on 31-3-1967 remaining unrefunded | Earliest year in which the loan was sanctioned | Earliest period from which the unspent balance remained unrefunded |
|---|---|---|---|---|---|
| | | | | (In lakhs of rupees) | |
| Bihar . . . . . . | 7 | 53·37 | 0·49 | 1963-64 | 1966-67 |
| Gujarat . . . . | 4 | 40·24 | 11·87 | 1959-60 | 1964-65 |
| Jammu and Kashmir . | 8 | 30·87 | 9·65 | 1963-64 | 1963-64 |
| Maharashtra . . . . | 7 | 77·10 | 5·63 | 1963-64 | 1966-67 |
| Madhya Pradesh | 1 | 4·50 | *4·50 | 1966-67 | 1966-67 |
| Mysore . . . . | 8 | 78·13 | 31·61 | 1963-64 | 1963-64 |
| Orissa . . . . . . | 7 | 13·48 | 4·58 | 1959-60 | 1959-60 |
| West Bengal . . . | 1 | 4·84 | 3·73 | 1959-60 | 1959-60 |

[Paragraph No. 20, Audit Report (Civil), 1968].

During evidence, the representative of the Department of Economic Affairs stated that of the unspent balances, Rs. 4 lakhs related to a non-Plan Scheme, Rs. 47 lakhs was in respect of a Centrally-sponsored Scheme and Rs. 8 lakhs in respect of a State-Plan Scheme. As regards Rs. 4 lakhs relating to the non-Plan Scheme, the State Government had been allowed to keep the amount for utilisation for one year. As to Rs. 47 lakhs for the Centrally-sponsored scheme, the bulk had already been refunded by the State Governments, and a very small amount remained to be refunded. So far as State Plan schemes were concerned, the assistance given was allowed to be utilised for other schemes within the same head of development, so long as there was no excess under the particular head of development. It was, therefore, not a case of unutilised amount.

**3.36. While the Committee note that bulk of the unspent balances in respect of loans for Centrally-sponsored schemes have been refunded by State Governments, they cannot help observing that these balances were allowed to remain unrefunded in some cases for as many as six to seven years. They trust that steps will be taken to ensure that the residual portion of the unspent balances with the States is refunded without delay. The Committee would**

*Refunded in August, 1967.

**also like the Ministry of Finance to keep a close watch in future on the utilisation of loans by State Governments so that refund of unspent balances is obtained from them without loss of time.**

**Loans to State Governments for clearance/reduction of over-drafts with Reserve Bank**

*Audit paragraph*

3.37. During the year 1966-67 the Government of India sanctioned loans amounting to Rs. 108 crores to the State Governments, for clearance/reduction of their overdrafts with the Reserve Bank of India. No portion of the loans was either repaid by the States during the year or adjusted against their share of net proceeds of taxes, etc.

[Paragraph No. 24, Audit Report (Civil), 1968].

3.38. The following data was furnished to the Committee about loans given to the State Governments to cover overdrafts with the Reserve Bank of India during the five years ending 1967-68:

| State | 1963-64 | 1964-65 | 1965-66 | 1966-67 | 1967-68 |
|---|---|---|---|---|---|
| | | | (In crores of rupees) | | |
| Andhra Pradesh . . . | .. | .. | 10·00 | 56·70 | 3·50 |
| Assam . . . . . . | .. | .. | 17·00 | 5·90 | 16·80 |
| Bihar . . . . . . | .. | .. | .. | .. | 35·68 |
| Kerala . . . . . . | .. | .. | 6·00 | .. | .. |
| Madhya Pradesh . . . | .. | .. | 6·00 | 8·00 | 16·20 |
| Mysore . . . . . . | .. | .. | 6·00 | 5·00 | 17·40 |
| Orissa . . . . . . | .. | .. | .. | 9·55 | 8·65 |
| Rajasthan . . . | .. | .. | 6·00 | 22·85 | 20·20 |
| | .. | .. | 51·00 | 108·00 | 118·43 |

The Committee desired to know the reasons for the heavy increase in State Governments' over-drafts with the Reserve Bank. The Finance Secretary stated, "The reasons are basically the gap between the outlays which these States incur over their Plan and also some obligations which arose on the non-Plan side eroding into their resources." As to the other factors responsible for the heavy overdrafts, he stated, "......All over, the order of outlays has gone up. For instance, in 1967-68 the States had to spend as much as Rs. 117 crores over Dearness Allowance and this is something which they had not forecast when their resources position was taken into consideration by the Finance Commission. Then there had been special features like the drought conditions which in the last two years before 1967-68, prevailed extensively leading to the poor recoveries of land revenue, remission of various States dues and expenditure on relief operations in excess of what the Government of India gave. Other sources like sales-tax, etc., were also affected by the general recessionary conditions."

3.39. The Committee referred to the particularly heavy over-drafts in the case of Andhra and Rajasthan and wanted to know the reasons therefor. The Finance Secretary stated, "The problem of Andhra Pradesh has been largely due to the fact that they had undertaken larger plans than what their resources could sustain. Rajasthan has had certain basic resources problem from the beginning Their ways and means position was not well balanced."

3.40. The Finance Secretary told the Committee that "it would not be consistent with proper financial management to allow the overdraft facilities to be utilised at the sweet will of the States.... Since the beginning of the financial year we have made it clear we will not extend the overdraft facilities until the respective States are able to explain the position to our satisfaction. This is the drill which we are going to enforce." Asked whether by availing of overdrafts and getting loans from the Central Government for their repayment, the State Governments concerned were not in a manner indirectly getting more financial assistance than they were entitled to, the witness stated: "Previously, this is the reason why we would like......to enforce discipline. The situation can lead to discriminatory treatment. The States which husband the resources do not get this additional accommodation whereas the States which are not so careful run overdrafts and the Central Government clears them." The Committee enquired to what extent this situation was caused by the disparity between the resources and functions of the State Governments under the Constitution. The witness said: "My answer will be that it is in recognition of......(this)....aspect, one feels obliged to adopt a constructive approach. For instance, in Assam, Rajasthan, Madhya Pradesh, where we know that internal resources have not been generated and even with the best mobilisation they could not meet their commitments, it would not be entirely justified to adopt blanket refusal."

3.41. The Committee enquired whether apart from overdrafts covered by loans from Central Government, the State Governments availed of further overdrafts from the Reserve Bank. The Ministry have stated in a note:

"Under the agreements between the State Governments and the Reserve Bank, the State Governments are required to maintain a minimum balance with the Bank. When a State Government is unable to maintain its minimum cash balance with the Reserve Bank due to temporary lag in inflow of receipts, it can avail of accommodation from the Reserve Bank of India within certain limits. These limits were enlarged from 1st March, 1967. The minimum balances to be maintained by the State Governments and limits of authorised accommodation from the Bank effective from 1st March, 1967 are tabulated below:

| State | Minimum Cash balance to be maintained by a State Govt. | Authorised limits for clean advances | Limit for secured advances |
|---|---|---|---|
| | (In lakhs of Rupees) | | |
| Andhra Pradesh | 50 | 150 | 300 |
| Assam | 20 | 60 | 120 |
| Bihar | 35 | 105 | 210 |
| Gujarat | 35 | 105 | 210 |
| Haryana | 15 | 45 | 90 |
| Kerala | 30 | 90 | 180 |
| Madhya Pradesh | 40 | 120 | 240 |
| Madras | 55 | 165 | 330 |
| Maharashtra | 75 | 225 | 450 |
| Mysore | 40 | 120 | 240 |
| Nagaland | 5 | 15 | 30 |
| Orissa | 30 | 90 | 180 |
| Punjab | 30 | 90 | 180 |
| Rajasthan | 30 | 90 | 180 |
| Uttar Pradesh | 85 | 255 | 510 |
| West Bengal | 50 | 150 | 300 |
| | 625 | 1875 | 3750 |

*Note*:—Jammu and Kashmir Government do not bank with Reserve Bank of India.

The advances referred to in Col. 3 are provided by the Bank automatically whenever a State Government's balance falls below the limits mentioned in Col. 2. The advances referred to in Col. 4 are given against cover of Government of India securities held by the State Governments. The limits referred to in Col. 4 are not enforced and higher limits are allowed by the Bank provided adequate Government of India securities are available with States for being pledged. These advances are repayable within a period not exceeding 3 months.

3.42. Overdrawals beyond the limits permitted by the Reserve Bank constitute unauthorised overdrafts. At the end of March, 1968, six State Governments had made unauthorised overdrafts on the Reserve Bank to the extent of Rs. 31.53 crores—Bihar Rs. 4.97 crores; Madhya Pradesh Rs. 5.23 crores; Mysore Rs. 10.15 crores; Maharashtra Rs. 1.91 crores; Orissa Rs. 5.84 crores and Rajasthan Rs. 3.43 crores."

3.43. The Committee enquired what precise steps the Government of India were proposing to take to ensure that the overdraft facilities given by the Reserve Bank were not resorted to lightly. The Finance Secretary stated that the matter had been referred to the Finance Commission and "we would like to see what their considered views are.......... Also at the time the Planning Commission makes an assessment of the resources and the needs of the respective States, this question of overdrafts will be gone into and further arrangements will be made whereby we do not have to repeat the unsatisfactory position."

3.44. The Committee note that the Interim Report of the Finance Commission has since been submitted to Government (October, 1968). The Report deals exhaustively with the problem of "unauthorised overdrafts" by the State Governments. Training the circumstances leading to the large overdrafts and the implications of such overdrafts, the Commission have stated:

"The monetary transactions of State Governments go on simultaneously at over 2,000 treasuries, sub-treasuries and banks. Owing to this large number of places it is not possible for the Bank to ensure beforehand that payments on behalf of a State Government do not exceed the balance held by it by more than the limit specifically agreed. The Government transactions occurring at all such places are allowed to proceed without any reference to the actual position of a State Government's cash balance, the accounts of which are maintained only at the Central Accounts Section of the

Reserve Bank. The agency Banks transfer the net amount of debit or credit to the State's cash balance account every day. The non-Banking treasuries have separate balances belonging to the State Governments outside the cash balances maintained with the Reserve Bank. Such treasuries are permitted to draw on currency chests kept with them by the Reserve Bank as a resource for making payments whenever the State's own balance at the treasury gets depleted, as well as to deposit surplus receipts in the currency chests from time to time. The net transfers of funds to or from the currency chests are taken to the credit or debit of the cash balances of the States. When on the compilation of accounts each day it is found that the debit against a State Government exceeds the limit of the ways and means advance, an unauthorised overdraft results. This happens unobstrusively and the Reserve Bank comes to know of it only after the event. At that point the agreement entered into by the State Government under the Reserve Bank of India Act is contravened. Further, in view of the fact that all the State Governments are indebted to the Centre, there is also a contravention of Article 293 (3) of the Constitution, which provides that a State Government may not, except with the consent of the Government of India, raise any loan if there is outstanding any part of a loan to the State by the Government of India or a loan guaranteed by it. When the fact of an unauthorised overdraft comes to the knowledge of the Reserve Bank, it issues a notice to the State to make arrangements to clear the overdraft within three weeks with a warning that in case of default the Bank will consider itself free to stop payments without any further notice. Some State Governments have taken these notices seriously and have complied with their requirements, mostly with the help of the Central Government. Others have just ignored them. Where the overdraft is not cleared, it is open to the Reserve Bank to refuse to honour any further cheques of the State Government. It is, perhaps, incumbent on it to do so, as a body constituted for securing monetary stability. The Reserve Bank has, however, desisted from this course in the past, in view of the extremely adverse effect that such action may have on the credit and financial stability of the State Government with all its serious implications including the possible emergence of a situation envisaged in Article 360 of the Constitution. To avert such a crisis, the Central Government has been giving *ad hoc* loans or other form of assistance to the State Governments to enable them to clear their unauthorised overdrafts before the end of the year."

"The prevalance and magnitude of these overdrafts have become serious in recent years. Upto about 1950, the State Governments were able to manage their financial transactions within the specified limits of their ways and means advances. The first overdrafts of an appreciable size arose in that year. In April, 1953, in order to meet the increasing requirements of the States, the Reserve Bank increased the limits of ways and means advances for all the States from Rs. 1.85 crores to Rs. 7.88 crores in all. Special ways and means advances of Rs. 2 crores for each State were also permitted against Government of India securities. In spite of these increased limits, the Government of India had to provide during the Second Plan period *ad hoc* loan assistance aggregating to Rs. 128 crores to seven State Governments to clear their unauthorised overdrafts. Eleven States had to be given such assistance amounting to Rs. 286 crores during the Third Plan period. The problem has become even more serious since the end of the Third Plan period. During 1966-67, the Central Government had to sanction *ad hoc* loans amounting to Rs. 149 crores. Although there was a further upward revision in the limits of ways and means advances in March, 1967, *ad hoc* loans amounting to Rs. 128 crores had to be given during 1967-68."

"Of the seventeen States, six or seven States have been having persistent unauthorised overdrafts. As ranked by the *per capita* incomes of their inhabitants, such States were not those with the lowest ranks. Some of the less prosperous States did not get into unauthorised overdrafts, while some relatively better-off States had done so."

3.45. The Commission explained the consequences of such overdrafts in the following terms:

> "The persistence and large size of unauthorised overdrafts are a matter of very serious concern. Apart from the contravention of Article 293(3) of the Constitution and the agreements entered into under Section 21-A of the Reserve Bank of India Act, the occurrence of such overdrafts and their practically automatic clearance by the Centre through *ad hoc* loans have grave effects on the national economy. In all federations, it is the sole responsibility of the Central Government to take decisions regarding the need for and the extent of deficit financing in the context of overall economic considerations. No country with a unified currency system can afford to have more than one independent authority taking measures which result in increase of money supply. Unauthorised overdrafts violate this fundamental principle of sound monetary management. The benefits of this violation go to a few States which draw on the national resources at

> their own will without any scrutiny of their needs at the national level, while the burdens are borne by all, including the States which are less prosperous. There is a serious danger that the example of having recourse to such unauthorised overdrafts by certain States, followed by their almost routine clearance by the Centre, may prove infectious. The States which have avoided such overdrafts by prudent fiscal management are very critical of this practice. They strongly represented to us that this extremely undesirable state of affairs should be immediately ended."

"In our discussions with the State Governments we found that all of them, including those which had got into unauthorised overdrafts, were agreed that such overdrafts are untenable in principle and undesirable in practice and that there is an urgent need of stopping them. There is thus general unanimity that the practice of unauthorised overdrafts is harmful and undesirable, and that effective measures should be taken to put an end to it in the interest of national economy. The Commission agrees with this view."

3.46. The following are some of the measures suggested by the Commission for avoiding unauthorised overdrafts:

"The State Governments must accept the basic position that the facility of ways and means advances is meant only for meeting temporary requirements and not for financing general budgetary needs."

"The States should, as a matter of necessary fiscal discipline. balance their budgets and manage their affairs within the resources available to them. They should adopt the policy of having overall balanced budgets both at the beginning of the year and at the time of revised estimates."

"To avoid ways and means difficulty due to delay in the final adjustment of Plan assistance. the State Governments should arrange for speedy reconciliation of departmental actuals with the accounts maintained by the Accountants General during the course of the year. Efforts should also be made to expedite completion of audit."

"The Central Government may consider suitably modifying the procedure for consolidation of loans to States so that their repayment in instalments may correspond with release of Central funds of States and the usual time of floatation of their market loans."

"Where a State Government experiences difficulties due to unforeseen developments, it should make efforts to raise further resources or to reduce expenditure, instead of incurring unauthorised overdrafts. If in spite of all possible measures it cannot meet the additional expenditure, which is immediately necessary, it may apply to the Central Government for a short-term loan to tide over the difficulty. The Central Government should in such cases provide the necessary assistance to the States."

"The Planning Commission should, in their annual Plan review, take into account the adverse effect of the new developments and if necessary modify the size of the annual Plan of the State concerned."

"Every State should have an effective ways and means section in its Finance Department. Forecasts of the ways and means position should be prepared, on the basis of which necessary corrective measures should be taken."

"The Reserve Bank should keep a continuous watch over the ways and means position of each State and the ways and means advances should not be allowed to continue beyond three months automatically. The Bank should formally renew an advance only where it is satisfied that its continuance is not due to a long-term imbalance in the State's budgetary position. In other cases the State should be called upon to repay the advance and in case of default it should be dealt with as an unauthorised over-draft."

"For this purpose the Government of India should, as soon as it is informed by the Reserve Bank about issue of notice to the State, ascertain from the State what steps it proposes to take to clear the overdraft. If the State Government is not in a position to clear the overdraft it should urgently approach the Central Government for special assistance. The Central Government should, where it decides to assist the State, release in advance the State's share of devolution or Plan assistance payable during the year. When the amount due to the State during the year is not sufficient for the purpose, further assistance should be given as an *ad hoc* loan to be adjusted against the devolution or Plan assistance falling due during the next year."

"The Central Government should also have consultations with the State Government to ascertain the causes of its difficulties and to ensure that the situation does not recur. It should depute a team of its officers, including a nominee of the Planning Commission, to visit the State for assessing the situation and recommending remedial action, and also considering whether any further temporary loan assistance is necessary for tiding over the immediate difficulties of the State."

"The Central Government should call upon the State to adopt such measures as it may deem necessary. For the purpose of securing effective control over expenditure so as to keep it within actual receipts, it should be open to the Central Government to nominate an officer to be associated with the Finance Department of the State. The State Government should comply with these requirements."

"If a State Government persists in incurring an unauthorised overdraft it would not be proper that the Central Government should clear it and the consequences of failure to clear it will have to be faced. In such a case, or where an overdraft cannot be cleared in accordance with the procedure we have suggested, the Central Government would have to take a view whether the crisis resulting from stoppage of payments of the State's cheques should be allowed to develop or it would be expedient to forestall it by invoking its Constitutional powers."

**3.47. The Committee are greatly perturbed over the persistence and the size of overdrafts run up by some of the State Governments with the Reserve Bank of India. Consequently, the Government of India have had to advance loans to the State Governments on a progressively increasing scale to help them clear their overdrafts. Some idea of the magnitude of the problem can be had from the fact that such loans rose from Rs. 51 crores in 1965-66 to Rs. 108 crores in 1966-67 and Rs. 118 crores in 1967-68. Apart from this, some of the State Governments had "unauthorised overdrafts", totalling Rs. 31.53 crores as at the end of March, 1968. As pointed out by the Finance Commission in their Interim Report, "the occurrence of such overdrafts and their practically automatic clearance by the Centre through ad hoc loans have grave effects on the national economy." They diffuse the responsibility for decisions affecting money supply and 'violate' a 'fundamental principle of sound monetary management' that a country with a unified currency system cannot afford "to have more than one independent authority taking measures which result in increase of money supply." Besides, as pointed out by the Finance Commission, "the benefits of this violation go to a few States which draw on the national resources at their own will without any scrutiny of their needs at the national level; while the burdens are borne by all, including the States which are less prosperous." The Committee hope that the various measures recommended by the Finance Commission to overcome this situation will be rigorously enforced by the Government of India.**

**Loans by Rehabilitation Finance Administration Unit**

3.48. The arrears on account of loans advanced by the Rehabilitation Finance Administration as at the end of 1966-67 was Rs. 266.87

lakhs towards principal and Rs. 117.45 lakhs towards interest. The recovery was pending in 4,514 cases.

[c.f. Para 22 read with Appendix VII of Audit Report (Civil), 1968].

3.49. The Committee pointed out that, according to the data in the Audit Report, a sum of Rs. 266.87 lakhs towards principal and Rs. 117.45 lakhs towards interest was outstanding as on 31st March, 1967. The Additional Secretary (Finance) stated that the outstandings had since been brought down and indicated the following position as on 3st March, 1968:

| | Rs. in lakhs |
|---|---|
| Principal | 243.13 |
| Interest calculated upto 31-12-1967 | 119.20 |

3.50. The Committee enquired how much of the reduction in outstadings was attributable to actual realisation and how much to write-off of dues. The following position in this respect was explained by the witness:

| | | Rs. in lakhs |
|---|---|---|
| (i) Amount of recoveries made from 1-4-67 to 31-3-68 | Principal | 5 00 |
| | Interest | 5 33 |
| | Total | 10.33 |
| (ii) Amount written off from 1-4-67 to 31-3-68 | Principal | 19.01 |
| | Interest | 4.04 |
| | Total | 23 05 |

3.51. The Committee desired to know the reasons for writing off the above loans. The Additional Secretary stated: "........they are not recoverable. Our inspectors visit these loanees and make an assessment as to what they can pay and actually what is coming now is in the nature of compounding and whatever we can get out of them we get and the balance is written off. Condition of the loanees in Eastern region is so bad that whatever we can get, we think it is really a good thing if we get it."

3.52. In reply to a question, he stated that the loans given by the Rehabilitation Finance Administration Unit were only for business and industry. Asked whether the Administration ensured that the loans given by it were utilised for the intended purposes, he stated: "Our inspectors do visit the loanees. In some cases, it is true that they have frittered away the loans. That is why it has become difficult to recover them."

**3.53. The Committee are concerned over the heavy arrears in the realisation of loans advanced by the Rehabilitation Finance Administration Unit. As against the outstandings of Rs. 3·8 crores on 31st March, 1967, the amount recovered during 1967-68 was merely Rs. 10.33 lakhs. The amount written off during the same period was Rs. 23.05 lakhs—more than double the amount recovered.**

# IV

## EXPENDITURE ON INDUSTRIAL AND ECONOMIC DEVELOPMENT

### (PUBLIC UNDERTAKING)

*Audit Paragraphs*

4.1. The following table indicates the expenditure on Capital Account in respect of Industrial and Economic Development during the last three years ending 31st March, 1967 and also the progressive Capital Outlay upto the end of 1966-67:

| | 1964-65 | 1965-66 | 1966-67 | Total capital outlay upto the end of 1966-67 |
|---|---|---|---|---|
| | | | (In crores of rupees) | |
| Industrial and Economic Development | 194·75 | 150·39 | 194·21 | 1637·16 |

4.2. The expenditure on Industrial and Economic Development shown in the above paragraph represents investments in Government undertakings, Commercial Concerns, etc. and some departmentally incurred Capital Expenditure. Against the total investment of Rs. 1637.16 crores, the amount brought to account during 1966-67 by way of dividends was Rs. 7.86 crores; the dividend in earlier two years was Rs. 6.65 crores and Rs. 6.89 crores respectively. Particulars of main items of investments and dividends are given in Appendix *VI*.

[*Paragraph Nos.* 6 *and* 7, *Audit Report* (*Civil*), 1968].

4.3. During the year 1966-67, an amount of Rs. 2 crores was received as dividend from the Life Insurance Corporation, while there was no receipt on this account during the year 1965-66. If this item is excluded; the dividend during 1966-67 in respect of other Undertakings/concerns would be Rs. 5.86 crores only.

4.4. The Committee drew the attention of the representatives of the Finance Ministry to the fact that while investment in public undertakings was going up the returns were coming down. In this connection, they cited the following figure of investment made and dividends received as given by Audit:

| Year | Progressive investment upto end of year | Dividend credited to Government |
|---|---|---|
| | (In crores of | rupees) |
| 1964-65 . . . . | 1,288·58 | 6·89 |
| 1965-66 . . . | 1,438.18 | 6·65 |
| 1966-67 . . . | 1,637·16 | 7·86 |

4.5. The Secretary (Expenditure) stated that the figures given by Audit in regard to returns were "the actual dividend paid by these companies to Government on the investment." He added: "The figure of Rs. 5.86 crores, which you have mentioned, represents the actual earnings of the year 1965-66 which is credited in 1966-67. The actual net profit earned by the companies mentioned here is Rs. 11.55 crores (in respect) of all the Governmental companies. Including the non-Governmental companies, that is, those companies in which Government has a share but which are not actually Government companies, the total net profit earned is Rs. 14.4 crores. So, I think, that would be a fairer measure of the performance of the public sector. These net profits represent the figure after depreciation, interest and taxes. The tax element in these companies comes roubly to a little more than Rs. 8 crores. If we include the tax, the actual profits earned would be about Rs. 22 crores. But, although the tax comes to Government, I am not including it. Even then the performance is slightly better than what would be shown if we take purely the figure of the dividend which is shown here.

4.6. "The second point I would like to make is that this figure also shows the investment in the Atomic Energy Department. The Atomic Energy Department covers quite a number of activities, some of which are not strictly commercial. It covers, for instance, the power projects which, though of course are commercial, are yet to go into production. So, I do not know whether it will be quite appropriate if we take this as a measure of performance to take the overall figure. It does not make very much difference, of course; but if we exclude that figure, the net investment would be somewhere near Rs. 1,500 crores and the net profit which these companies made after depreciation, interest and taxes would be Rs. 14.4

crores approximately, which picture is not quite so bleak as the one that is shown here."

"As to the performance of the individual companies, it would not be quite fair, I think, on the public sector as a whole to judge by the overall figure. I would admit certainly that even this figure of Rs. 14.4 crores which I mentioned, on an investment of this order cannot be considered satisfactory, but I would urge that it is the nature of the investment and the pattern of investment which one has to take into consideration. On the latest results which we have got we have found it is really six major companies, giants so to speak, in which Government has sunk very large sums of money, which are primarily responsible for the overall result. These six companies are Hindustan Steel, the Neyveli Lignite Corporation, Heavy Electricals, Bhopal and Bharat Heavy Electricals. In the year 1967-68 these companies alone accounted for a loss of as much as Rs. 45 crores after depreciation and interest. If we exclude these companies, the performance of the other companies, which made a profit in 1966-67, has shown an improvement over the figures of 1965-66."

4.7. Giving the overall picture, the Secretary (Expenditure) informed the Committee that in 1964-65, the total Government investment in public enterprises (including both equity and loan) was Rs. 2037 crores, of which the actual capital employed in production was Rs. 1,266 crores; the rest was for the work in progress. The profit was Rs. 46.3 crores which worked out to about 3.7 per cent of the capital employed. In 1965-66, the capital investment was Rs. 2,415 crores; the capital employed in production was Rs. 1,614 crores and the profit Rs. 55.9 crores, which worked out to 3.4 per cent of the capital employed. In 1966-67, the capital investment was Rs. 2,841 crores; capital employed Rs. 2,057 crores and profits Rs. 57.8 crores, i.e., 2.8 per cent. In reply to a question, the witness stated that the rate of profit for the year 1966-67 (*viz.*, 2.8 per cent) was "very unsatisfactory."

4.8. The Committee desired to know the reasons for the fall in the profits of public undertakings. The Secretary (Expenditure)
the profits of public undertakings. The Secretary (Expenditure)

(i) Over-estimation of demand of end-products;

(ii) lack of managerial expertise; and

(iii) economic recession.

4.9. Analysing each of these factors in details, he gave the following picture:

(i) *Over-estimation of demand*

"We over-estimated the demand in quite a number of these fields and there were also errors in the product mix. For instance, in steel we set up a capacity for 5.9 million tonnes. As against the 5.9 million tonnes, we were able to make and sell actually only 2·4 million tonnes. The same thing happened in the case of coal. Here also we had over-estimated the demand and made large investment; we now find that the coal is not selling. The National Coal Development Corporation have closed down a number of mines because they are not able to se l the coal. They had originally envisaged a target of 26 million tonnes; it was latter reduced to 15.5 million tonnes, but their actual sales have been only 9.6 million tonnes. Then in the Heavy Engineering field also, I must admit that there have been errors of this nature. The Heavy Engineering Corporation and the Mining and Allied Machinery Corporation were projected on certain demands that would be made on them for the manufacture of steel plants and coal mining machinery; in the light of these demands, large investments were made in these, and the demand has not materialised either in steel or in coal. Therefore, these concerns are not able to sell their products. It is also true that in some of the other minor fields like surgical instruments and others, there has been an over-estimation of demand, with the result that while large investments have been made, we have now found that the expectations of demand which we thought would materialise during these two years have not materialised. Therefore, these concerns are losing money rather heavily."

4.10. The Committee enquired about the details of surplus capacity in public undertakings and the measures taken or proposed to be taken to utilise the surplus capacity. In a note on this point, the Ministry of Finance have indicated the following position:

"A statement showing the installed capacity and actual production during 1967-68 of some major public sector undertakings is enclosed. (*vide* Appendix VII). The gap will generally indicate the surplus capacity in public undertakings. But this will go on changing as the demand for those items increases. The main reasons for the under-utilisation of the capacity are:

(a) Due to continuous two droughts, there was a general recession in the economy which in its turn caused poor offtake of industrial products

(b) The general rate of growth assumed in the Five Year Plans did not materialise due to various reasons.

(c) In certain ranges of industrial products, parallel production facilities were developed at more than one place.

*Remedial Measures*

(a) Diversification of production by the plant themselves.

(b) Conservation of further capital outlays on new projects likely to engage in the manufacture of products more or less similar to those which are already under production.

(c) Better coordination between the producing and the consuming units.

4.11. With the improvement in the economy, the demand is likely to pick up and better utilisation of the capacities is anticipated."

4.12. The Committee note that the Administrative Reforms Commission in their report on 'Public Sector Undertakings' found "over-capitalisation" to be "one of the main causes" for the losses sustained by the undertakings. The Commission pointed out that "the implementation of expansion programmes before a project reached full production, as in the case of the Hindustan Steel, or inadequate utilisation of installed capacity, as in the case of the Heavy Engineering Corporation, Ranchi and the Heavy Electricals, Bhopal have contributed to the accumulation of losses." The Study Team of the Administrative Reforms Commission traced this situation to "the assumptions made during initial planning often not being verified or supported by a thorough analysis of the relevant factors, the more significant deficiencies being—

(a) lack of detailed analysis of the scope and pattern of product mix;

(b) ..........................

(c) lack of proper assessment of the demand for the product; and

(d) incomplete analysis of commercial profitability as well as national economic benefit."

(ii) *Lack of managerial expertise*

4.13. As regards the lack of managerial expertise, the witness stated: "Admittedly, the management still leaves a very considerable room for improvement. We are aware of this fact that it has not been possible for us to get good managers in all these organisations, that there is need for more efficient management than hitherto." But he added: "This question . . . . . really springs from a deeper cause namely that we have proceeded fairly fast with industrialisation and with setting up new factories in the public and also the private sectors without having developed enough of managerial expertise to run these plants."

4.14. The Administrative Reforms Commission which considered the effect of lack of managerial resources in public undertakings on their working results stated that "the most important failure of the public sector has been its inability to develop to the requisite extent its own resources of managerial and technical personnel...... Scarcity of trained manpower operates as a severe constraint on the efficient running of public enterprises an d the growth of the public sector."

(iii) *Economic Recession*

4.15. As to the effects of recession on the working results of the undertakings, the Secretary (Expenditure) stated: "This feature (low profits on account of over-estimated demand) has also been accentuated by the recession in the last two years 1965-66 and 1966-67. Apart from the errors that we made and which we frankly admit, even what could have been sold or what could have been the off-take, had been affected because of the lack of demand for these products due to recession."

4.16. In reply to a question whether fall in profits was also due to low productivity, the Secretary (Expenditure) stated: "Low productivity is certainly one of the reasons in some of the concerns."

**Remedial Measures**

(i) *Better planning of projects.*

4.17. The Committee desired to know the remedial measures taken or proposed to be taken by Government in this behalf. The Secretary (Expenditure) stated that in the last year and a half, they had set up in the Bureau of Public Enterprises of the Ministry of Finance, a cell consisting of a technical production expert, a financial and economic expert and a construction expert to exercise a stricter scrutiny of the project reports received from the various Ministries. A Manual setting forth the factors which should be taken into account while examining the economics of new projects or the expansion programmes of the existing projects had been prepared in 1966 and circulated to all the Ministries. It was claimed that, as a result of the working of the new mechanism, they had been able to effect considerable reductions in new investments either by postponing the new projects or meeting the demand by diversifying the production of the existing plants in the public sector having unutilised capacity. Illustrating his point, the witness stated that the project for setting up a pumps and compressors plant was originally estimated to cost Rs. 35 crores. But, as a result of the examination initiated in the Ministry of Finance, in the context of the existing unutilised capacity of other public sector plants, the cost of the project had been brought down to Rs. 12 crores. Then there was a project for setting up a tractor plant at an estimated cost of about Rs. 25 crores. In this case too, it was found that the same tractors could be manufactured in the Mining and Allied Machinery Plant in Durgapur with some additional equipment estimated to cost only about Rs. 4 to 5 crores. A final decision had, however, not been taken in the matter. Similarly, in the case of the Foundry Forge Project at Wardha, which was estimated to cost Rs. 23 crores, it was found that most of the items could be produced by the existing foundry forge presses in the Heavy Engineering Plant at Ranchi and probably also by the Alloy and Steel Plant at Durgapur. Likewise, the Machine Tool Project at Bhavnagar, originally estimated to cost Rs. 14.5 crores had been deferred altogether, as it was found that the demand could be met by expanding the existing public sector plants, with slight adjustment. The Secretary (Expenditure) added: "I have given just some of the items. Some more could be detailed; they show in all a saving of nearly Rs. 90 crores."

4.18. In their report on public undertakings, the Administrative Reforms Commission had *inter alia* made the following recommendations to secure better planning of projects:

(i) "For every project involving investment above, say, Rs. 5 crores, a feasibility study should be made......".

(ii) "Before going in for additional capacity in the public sector the agency concerned should assess the demand for the product taking all relevant factors into consideration."

(iii) "A project should not be included in the Plan unless the feasibility study has been completed and it has been found to be satisfactory on scrutiny."

*(ii) Reduction of construction costs*

4.19. Referring to other measures taken by Government to effect economy, the Secretary (Expenditure) stated that construction costs accounted for a sizeable part of the expenditure on enterprises in the public sector projects. The Construction Cell of the Ministry had laid down standards for various buildings in the townships and factory premises. By observing these standards, they had been able to reduce the construction costs to the extent of about Rs. 8.7 crores.

4.20. The Committee note in this connection that the Administrative Reforms Commission after considering the deficiencies in construction planning suggested that "for all projects involving sizeable investment, say, of Rs. 5 crores and above, a complete master plan of construction should be drawn up with the help of net-work techniques like the PERT and CPM (Programme Evaluation and Review Technique and Critical Path Method.)"

(iii) *Reinforcement of managerial cadres.*

4.21. As regards the steps taken to make up the deficiency in the field of managerial expertise, the Secretary (Expenditure) stated: "Firstly, we have been trying to secure good management personnel from Government services as well as from the private sector. Secondly, we have been arranging training programmes for the Management personnel. We have arranged 30 training programmes so far in various institutes of management all over India."

4.22. In their report on public sector undertakings the Administrative Reforms Commission made *inter alia* the following recommendations "for recruiting the best available talent for manning the top posts in the public undertakings."

(i) "Preference should be given for officers working in the undertakings."

(ii) "If sufficiently experienced and senior men are not available within the public undertakings for holding board memberships, suitable personnel should be selected from among Government Officers, leading industrialists and businessmen and professional managers and specialists in the private sector . . . . .".

(iii) "General qualifications should be prescribed for the members of the Board, *e.g.*, experience of industrial, commercial or financial matters, applied sciences or administration or trade union organisations."

(iv) "Panels of suitable persons for board appointments should be drawn up."

(v) "Part-time official nominees should not serve on more than two or three Boards."

4.23. As part of the long-term measures for meeting manpower requirements, the Administrative Reforms Commission had in their report recommended *inter alia.* that

(i) examination of additional requirements for managerial and technical manpower for the Fourth and Fifth Plan periods should be made "by a body of experts with the assistance of the Institute of Applied Manpower Research;"

(ii) the Bureau of Public Undertakings should

"(a) review the existing training facilities and programmes to avoid duplication of effort;

(b) identify areas where training facilities need to be extended or increased; and

(c) evaluate the suitability of training programmes to the requirements of public sector."

(iv) *Induction of cost consciousness.*

4.24. The Committee were informed that another measure taken by Government to improve the performance of the undertakings was to induce cost-consciousness in public enterprises. The Secretary (Expenditure) stated in this connection: "We have got about 35 of them which have introduced costing arrangements. There are still a few which have not done that. But this is a continuing problem and it is engaging our attention."

4.25. The Administrative Reforms Commission after consideration of this aspect of the functioning of public enterprises came to the conclusion that "a majority of public undertakings have yet to set up adequate finance and accounts organisations and adopt improved techniques of financial management." They recommended introduction of comprehensive 'business-type budgeting' coupled with an effective system of materials management and Internal Audit.

(v) *Rationalisation of pricing policies.*

4.26. The Committee enquired whether losses incurred by public enterprises were *inter alia* due to the pricing policy pursued by Government. The Secretary (Expenditure) stated that in case of certain articles such as steel, fertilizers, petroleum and, to some extent, coal till recently, Government fixed prices having regard to the over-all economy of the country. This was one of the reasons for the losses incurred by the Hindustan Steel; their cost of production was higher than the prices fixed by Government. But Government decided to make steel available to the consumers at reasonable prices as a matter of policy.

4.27. The Committee note in this connection the following observations made by the Administrative Reforms Commission: "Neither in quality nor in price have some public undertakings brought full satisfaction. Many kinds of special steel have still to be imported because the public sector steel plants are yet to achieve the needed quality of manufacture. In the case of basic products like steel and fertilisers, it has not been possible to keep prices within reasonable limits. Wilth the recent increase in steel prices, the position now is that the price of steel in India, as compared to the domestic price prevailing in other countries, is higher by about 25 to 30 per cent. The position is even worse in the case of fertiliser which is a basic agricultural input. With the recent revision of fertiliser prices,* the agriculturists now have to pay about Rs. 2,343 per tonne for ammonium sulphate and Rs. 1,826 per tonne for urea. These prices are 75 to 100 per cent higher than those prevailing in other countries. Whatever may be the special and compelling reasons for these high prices in India, it is unfortunate that the Indian farmer, about the poorest in the world, is required to pay for his fertiliser, prices which are about the highest in the world."

(vi) *Measures to step up exports.*

4.28. In reply to a question whether it would not add to the profitability of the concerns in the public sector having excess capacity, if the entire capacity were utilised and the additional production exported, the Secretary (Expenditure) stated: "I think in all these enterprises where there is excess capacity, primarily steel and engineering industries, the possibility of export has very definitely been put to the plant authorities and they have examined how they could sell abroad."

4.29. The Committee enquired about the exports of the Hindustan Steel products. The Secretary (Expenditure) stated that the value of these exports during 1967-68 was Rs. 33 crores as against Rs. 2.3 crores in 1965-66 and Rs. 9 crores in 1966-67. Explaining the position in regard to the scope for exports, the Special Secretary

*These prices are in terms of per metric tonne of plant mutrient.

(Finance) stated: "Indian steel is cheaper than imported steel over a large variety. But when we export it we have to incur freight. Therefore, the price depends upon the particular part of the world we are thinking of. We are quite competitive over large parts of the world. We won't be competitive if we want to sell it in America or Latin America, but in the Middle East and this part of the World we are competitive......We are not averse to subsidising if it arises from diversification. Even then it would be economical for the country because we would be covering at least a portion of the cost of the capital equipment in addition to running charges."

4.30. The Committee drew the attention of the representatives of Ministry of Finance to the fact that the Administrative Reforms Commission had reviewed the working of public sector undertakings in their report submitted in October, 1967 and enquired what action had been taken on their recommendations. The Secretary (Expenditure) stated that a list showing the action taken on "certain recommendations was laid on the Table of the House at the end of the last session (of Parliament)." The Committee then pointed out that the recommendations on which action had been initiated were "minor ones" and asked what action was being taken on the major recommendations in the Report. The witness replied: "To be frank, I would say this is a matter on which it is not easy to come to a snap decision. It is being considered by a Cabinet sub-Committee."

**4.31. The Committee are concerned over the fact that the return on investments in public sector undertakings has been progressively diminishing. According to the figures given by Government, the capital investment in these undertakings increased from Rs. 2,037 crores in 1964-65 to Rs. 2,841 crores in 1966-67. The capital employed in production also correspondingly rose from Rs. 1,266 crores in 1964-65 to Rs. 2,057 crores in 1966-67. However, the profits of these undertakings in terms of capital employed declined from 3.7 per cent (Rs. 46·3 crores) in 1964-65 to 2.8 per cent (Rs. 57.8 crores) in 1966-67. As the Secretary, Ministry of Finance himself conceded during evidence, this performance is "very unsatisfactory". If the performance is judged by the actual dividends paid to Government, instead of the profits made, a more depressing picture emerges. Considering the need pointed out by the Administrative Reforms Commission for these undertakings to "generate surpluses and augment the resources of the State" to "provide resources for further development", the Committee feel that the performance of these undertakings needs to be greatly and continuously improved.**

4.32. The Committee note from the analysis of the performance of Governmental undertakings that a major reason for their poor performance was the existence of unutilised surplus capacity in the undertakings, which burdened the units with heavy over-capitalisation. The figures given by Government in this respect are very revealing. The installed capacity of Hindustan Steel was 5·9 million tonnes, against which the Plan "was able to make and sell only 2·4 million tonnes." Likewise, the National Coal Development Corporation "had originally envisaged a target of 26 million tonnes,.... later reduced to 15·5 million tonnes, but their actual sales have been only 9·6 million tonnes." As pointed out by the Administrative Reforms Commission, this situation has resulted from "the execution of projects on the basis of incompletely conceived plans and estimates" and "a lack of proper assessment of the demand for the products." The warning note struck by the Administrative Reforms Commission in this respect is also significant: "The damage to the national economy as a result of miscalculation or mismanagement of these enterprises cannot be tolerated with equanimity by the people who have to bear the burden of not only providing the capital but also of having to pay high prices for their products."

The Committee note that the Administrative Reforms Commission have made a number of suggestions for ensuring that additional capacity is not planned for in future without proper 'feasibility studies'. They hope that this drill will be rigorously followed by Government. The Committee would also like Government to take steps to have surplus capacity in the undertakings mopped up by appropriate diversification of production or through measures to step up exports. Elsewhere in the Report, the Committee have stressed the need for gearing up the export performance of Governmental undertakings in the context of the heavy debt servicing burden faced by the country. The Committee hope the matter will receive the urgent attention of Government. The Committee need hardly add that without a conscious and sustained effort to keep up quality and control costs to make products competitive, the countrys' export drive can hardly succeed.

4.33. The Committee also notice that scarcity of trained manpower has substantially impeded the efficient working of these undertakings. As pointed out by the Administrative Reforms Commission, "the most important failure of the public sector has been its inability to develop its own resources of managerial and technical personnel." The Commission have made a number of far-reaching recommendations to ensure that the best available talent is recruited and trained. The Committee expect these recommendations to be expeditiously implemented.

V

## MISCELLANEOUS

### National Defence Fund

*Audit Paragraph*

5.1. The Fund was constituted in November, 1962 in order to mobilise resources from the public for the defence of the country and the welfare of the Forces engaged in national defence. As on 31st March, 1967, the total collections under the Fund amounted to Rs. 80.01 crores and the total expenditure therefrom amounted to Rs. 33.52 crores including an expenditure of Rs. 0.33 crore during the year 1966-67.

The contributions collected by various agencies are required to be deposited in authorised collecting banks. According to the prescribed procedure, the collecting banks have to remit weekly the donations deposited with them to the offices of the Reserve Bank of India/State Bank designated in this behalf for crediting to the Fund. Upto December, 1963, the collecting banks were required to furnish Annual Statements of collections duly certified by their Auditors/Inspectors to the Accountant General, Central Revenues. From 1st January, 1964 such Annual Statements are required to be sent to the State Accountants General concerned who are required to verify from the offices of State Bank/Reserve Bank concerned that the collections mentioned in the Statements have been duly credited to the Fund. The responsibility of Audit in regard to receipts to the Fund thus starts when the amounts are credited to the designated banks.

The requisite Annual Statements by the authorised collecting banks were generally not received in time by the Accountant General, Central Revenues. As on 31st March, 1967, such statements in respect of the year 1963 were awaited from 98 banks. Similar statements for the years 1964, 1965 and 1966, were also awaited by the Accountant General, Central Revenues from 113, 113 and 111 banks or their branches in Delhi respectively. Sixteen banks/branches have not submitted any authentic statement duly certified by their Auditors since 1963. (The position in respect of receipt of such statements by other Accountants General from 1st January, 1964 for places other than Delhi/New Delhi is being ascertained). In the absence of these statements, it could not be ensured in Audit that the amounts collected by various banks had been correctly remitted by them to the credit of the Fund.

[Paragraph No. 25, Audit Report (Civil), 1968].

5.2. In a note furnished to the Committee, the Ministry of Finance have stated:

"The procedure for the submission of the annual statements by the branches of the banks to the Accountants General, was prescribed in April, 1964 after detailed consideration in consultation with the Comptroller and Auditor General and the Reserve Bank. The procedure required the branches of the authorised commercial banks to send to the Accountant General an annual statement, duly certified by the auditors (internal or external) or by the inspectors of the bank wherever possible certifying that the collections had been properly accounted for and that they had been remitted to the designated offices. It might be added that even at that stage it was realised that the branches of the banks are audited/inspected by their internal Auditors or Inspectors sometimes at intervals longer than a year and that it might take some time before the statements, duly certified by the Auditors, are sent to the Accountants General."

"The Accountant General, Central Revenues brought to the notice of the Ministry of Finance in June, 1966, that the requisite certificates were not being furnished regu'arly duly certified by the Auditor/Inspector. The matter was immediately taken up with the Reserve Bank of India who after obtaining a list of branches of the bank, from whom the certificates were not received for the years 1963 to 1965, issued necessary instructions to the authorised banks in December, 1966, asking them to furnish the statements quickly to the respective Accountants General. Further intsructions were issued by the Reserve Bank of India to the collecting banks in February, 1968 to expedite the submission of the statements to the Accountants General.

"So far as the annual statements due to Accountant General, Central Revenues are concerned, the outstanding number has come down to 74,68 and 96 respectively for the years 1964 to 1966. Even this consists mostly of small branches of the different banks authorised to receive collections, which have now dwindled down considerably. Nevertheless, the question of the expeditious submission of the statements has again been taken up with the Reserve Bank at a very high level and they have been asked to write to the Chairmen of the authorised banks impressing upon them the urgency of the submission of the annual statements. A time-limit of three months has also been suggested to the Reserve Bank for the submission of the outstanding statements."

5.3 At the instance of the Committee, the Ministry have furnished the following statement showing the number of authorised Banks/Branches which had not submitted the Annual Statements to the Accountants-General as on 30th April, 1968:

| Year | No. of Banks and their Branches which were required to send the annual statement to the Accountants-General | No. of banks and their branches which have not submitted the statements till 30th April, 1968. |
|---|---|---|
| 1963 | 2432 | 948 |
| 1964 | 2463 | 1069 |
| 1965 | 2487 | 1092 |
| 1966 | 2506 | 1338 |
| 1967 | 2618 | 1545 |

No. of banks which have not submitted statements of collection in any year since 1963=139.

5.4. During evidence, the Additional Secretary (Economic Affairs) stated: "We are conscious of the fact that this is not a very satisfactory position." Asked about the reasons for this state of affairs he stated: "the difficulty is because we have asked them to have the statements audited by the Auditors. Every branch is not audited every year. If some relaxation is given, the position may improve."

5.5. The Committee enquired whether there had been instances of money collected by the banks or their branches not having been promptly remitted to the credit of Government. In a note, Government have stated:

"....no case has come to Government's notice where the money deposited at a bank has not been finally remitted to the account of the Reserve Bank, New Delhi. In two cases, however, there was a delay in the remittance of the money collected by the banks. In one of these cases, the delay was due to misunderstanding and later the bank remitted the money together with interest to the account of the Fund. In the other case, the amount involved was small....The concerned Bank has since intimated that all the collections made at that branch office were promptly remitted except for a sum of Rs. 2,689, the remittance of which was delayed through oversight. The Reserve Bank has advised the concerned Branch of the bank to be careful in future. As the amount involved is small and as the Bank has been asked to be careful in future, it is not proposed to pursue the matter further."

**5.6. The Committee take a serious view of the fact that a number of banks or branches of banks which were authorised to accept donations to the National Defence Fund have failed to render certified annual statements of collections to the Accountants-General. The information furnished by Government shows that 5,992 banks or branches of banks had not submitted statements of collections till 30th April, 1968, the statements dating from 1963 onwards. 139 of these banks|branches had not submitted the statements in any year since 1963. The Committee note that instructions issued by the Reserve Bank to the collecting banks in December, 1966 and again in February, 1968 have not brought about any perceptible improvement in the situation and that Government have now suggested to the Reserve Bank a time-limit of three months for the submission of the pending statements. The Committee trust that the matter will be vigorously followed up so as to ensure that no collection remains unaccounted for.**

5.7. In a note furnished by the Prime Minister's Secretariat at the instance of the Committee, it has been stated that the following Funds were raised by the State Governments on lines parallel to the National Defence Funds:

(i) U.P. Police & Armed Forces Sahayata Sansthan;

(ii) Madras State Jawans Relief Fund; and

(iii) Jawans' Welfare Fund, Maharashtra.

(i) *U. P. Police & Armed Forces Sahayata Sansthan*:

"It is a registered Trust with the Governor of Uttar Pradesh as Chairman. Income from the Trust is intended to give assistance for the (a) education and technical training, (b) health, (c) rehabilitation, (d) educational, vocational or medical institutions of collective benefits in areas predominantly inhabited by Defence Services personnel, special Police Forces personnel, Provincial Armed Constabulary personnel, Police Forces personnel, whether in active service in the Indo-Chinese border conflict or any other external aggression, or disabled in any such action, and the dependents of such personnel killed and disabled."

"The trust was formed in September, 1963 with a sum of Rs. 1.50 crores out of the collections received in the Chief Minister's Defence Purposes Fund. No gold or silver was donated to the Sansthan at any stage. Total expenditure out of the Trust until the 31st March, 1967 was about 26.33 lakhs."

"The matter relating to the Trust has been considered by the Executive Committee of the National Defence Fund from time to time. The State Government were requested more than once to wind it up and to credit the balance to the National Defence Fund. They have, however, not agreed to the suggestion, and there is nothing further that the Executive Committee is in a position to do in the matter."

(ii) *Madras State Jawans Relief Fund:*

"The main purpose of the Fund is to grant immediate cash relief to the families of the Jawans who were killed/wounded/missing during the Pakistani aggression. An initial contribution of Rs. 1 lakh was made from the State Funds. Year-wise details of collections and withdrawals of the Fund are given below:—

| | | Rs. |
|---|---|---|
| 1965-66 | Collections | 29,62,991—93 |
| | Withdrawals | 15,90,285—40 |
| 1966-67 | Collections | 52,912—62 |
| | Withdrawals | 47,722—11 |
| 1967-68 | Collections | 3,06,763—67 |
| | Withdrawals | 16,075—81 |

(Transactions upto September, 1967)

The question relating to this Fund has also been considered by the Executive Committee from time to time and, as desired by the Committee, the State Government were advised to close it. In reply, they have intimated that the Fund was closed down in October, 1966, but they are not agreeable to transfer the balance to the National Defence Fund. Here, again there is nothing further that can be done."

(iii) *Jawans' Welfare Fund, Maharashtra*:

The Fund was started with a view to giving assistance and providing amenities to the Jawans recruited from the Maharashtra State and their families, and to rehabilitate those of them who are disabled in action. The Fund is controlled by Citizens' Defence Committee and has been kept in fixed deposits in different banks. The total amount collected so far is reported to be Rs. 27,13,931.57 out of which an amount of Rs. 36,369.90 has been spent. Money for the same purpose was also collected by Welfare Amenities & Rehabilitation Committee under the title "War Fund". The exact amount collected for the fund is not known. It is administered by the Welfare Amenities and Rehabilitation Committee, Maharashtra. The State Government expressed a desire to create a Trust or a Society in respect of the Fund and the approval of the Executive Committee of the National Defence Fund was sought for the purpose. The Executive Committee have not agreed to the proposal and the State Government were informed accordingly."

5.8. In evidence, the representative of the Prime Minister's Secretariat stated. "These (Funds) were started with contributions received at the time of the Chinese Aggression in 1962 and thereafter they were meant to provide assistance to ex-Servicemen's families belonging to that particular State. When this came to the notice of the Defence Fund, we took up the matter with the State Governments and we have been corresponding with them ever since. They have been pointing out that these were started by them for *bona fide* purposes and they had no intention of duplicating the effort through the Defence Fund." In reply to a question, he added, "Usually in allotting any assistance to those States, we bear in mind the fact of these funds at their disposal."

**5.9. The Committee note that three independent Funds were raised in some States with practically the same objectives as the National Defence Fund. Two of these funds still continue, one having been closed down with some balance. The Committee also note that efforts to persuade the State Governments to make over the balances available in these funds to the National Defence Fund have not been successful. As the Funds are meant to be used primarily for the welfare of the Defence Forces and their families,**

**the Committee feel that these should more appropriately be administered by the Government of India. The Committee trust that efforts to persuade the State Governments will be renewed and pressed successfully.**

5.10. In para 1.56 of their 68th Report (Third Lok Sabha), the Public Accounts Committee (1966-67) had made the following observations:

"The Committee desire that the question of subjecting the collections of National Defence Fund made through non-official bodies to normal audit should be examined in consultation with the State Governments and the Comptroller and Auditor General of India. The Committee also desire that the submission of outstanding statements of expenditure from the Citizens State Councils should be pursued more vigorously with the State Councils concerned."

5.11. The Committee enquired during the course of evidence as to what action had been taken on the above recommendation of the Public Accounts Committee (1966-67). The representative of the Prime Minister's Secretariat stated that in July, 1967, they had written to the Chief Secretaries of all the State Governments to withdraw receipt books from private collectors authorised by them to collect funds. He added that collections to the Fund had of late become rather a trickle and the job of making collections through numerous agents was causing difficulties.

5.12. Asked whether the amounts collected by non-official bodies had been remitted to the Reserve Bank of India/State Bank of India, the representative of the Prime Minister's Secretariat stated: "The fact that statements have not come does not necessarily mean that amounts have not been forwarded to the Reserve Bank because money may well have been forwarded but the statements have not yet come. So the non-submission of the statements will not necessarily establish any misappropriation."

5.13. In a note dated 1-1-1969 furnished to the Committee, the Ministry of Finance had stated:

"As reports were received that apart from Banks and Post Offices, other institutions and agencies were also making collections for the Fund, the State Governments were requested on 7th November, 1962 to approve the receiving agencies within their jurisdiction. In these cases, the prescribed arrangement was that the State Governments etc. would themselves issue the receipt books to these agencies. The State Governments were also to issue suitable instructions for collections through agencies authorised by them. Besides advising the public as mentioned earlier, to deposit their contributions at the official receiving centres only, they were also advised through Press Notes to deal with only those persons whom they knew and trusted. It was also impressed on the State Governments from time to time that they should satisfy themselves with reference to the receipt books issued by them that contributions collected by the agencies authorised by them, were actually remitted to one of the authorised collecting banks. When the collections to the Fund dwindled, the State Governments were requested on 11th December, 1963 and again on 17th July, 1967 to withdraw the receipt books and ensure that collections made against these receipt books were duly accounted for and deposited into the Fund.

5.14. The State Finance Secretaries were addressed demi-officially on the 12th July, 1966 and again on 1st July, 1967 enquiring about the verification of remittance of collections etc. and withdrawal of receipt books. Complete replies have not yet been received from all State Governments and those who have not replied have been reminded from time to time. In this connection the State Governments have stated that hey have to collect the required information from a large number of agencies spread all over the States which inevitably takes time. The matter has, however, again been taken up with the Chief Secretaries. It might be added that the replied so far received indicate that the moneys collected for the Fund have by and large been remitted to the collecting bank except in a few cases involving small amounts (according to present information about Rs. 46,000 has to be accounted for in six States and Union Territories). The receipt books which were issued have also been received back in a large number of cases and very few of them are stated to be missing (according to present information about 875 receipt books are to be accounted for in 8 States and Union Territories). It has also been indicated that action is being taken whenever any default has been brought to notice. As regards the audit of the collections made by non-official agencies authorised by State Governments the Comptroller and Auditor General had expressed his inability to conduct such audit. The audit arrangements in this regard were, therefore, left to the State Governments and the replies received from them show that they have made necessary arrangements for such audit either by the Accountants-General or local Fund Auditors or other departmental authorities, and also that in several cases the audit has been conducted and that in others it is in progress or is being taken up."

In a further note dated 14-1-1969 the Ministry of Finance have, *inter-alia,* stated:

"In the note submitted to the Committee (earlier) it was mentioned that the replies from the State Governments received by that time indicated that the moneys collected for the fund had by and large been remitted to the collecting banks except in a few cases involving small amounts (according to the information then available about Rs. 46,000 had to be accounted for in six states and Union Territories). It was also added that the receipt books which had been issued, had been received back in a large number of cases, that very few of them had been reported to be missing (according to information then available about 875 receipt books were to be accounted for in eight States and Union Territories) and that action was being taken by the States whenever any default was brought to notice (for instance, in one State a Naib Tehsildar had been dismissed for not returning four receipt books and in another State the Sarpanch of the Village Panchayat was sentenced to six months' rigorous imprisonment for misappropriation). Subsequently short remittance of about Rs. 49,600 and non-return of 33 receipt books have been reported from one State. In the case of another State, the Accountant General has reported that proof of remittance of collections in 83 cases amounting to Rs. 41.87 lakhs was not forthcoming. The matter has been taken up demi-officially with the concerned Chief Secretaries.

The Committee will appreciate that the position in regard to the verification of remittances to the Fund etc., will go on changing with the passage of time as and when the Audit objections are raised/cleared and other discrepancies are pointed out/settled."

**5.15. The Committee cannot help feeling that the present position in regard to accounting of collections for the National Defence Fund made by non-official organisations is not wholly satisfactory. This is evident from the fact that, apart from 908 receipt books issued to several organisations yet to be "accounted for", "proof of remittance of collections in 83 cases amounting to Rs. 41·87 lakhs was not forthcoming" from one State. "Short remittances" of Rs. 95,600 had also come to notice from reports received from the State Governments so far. Besides, arrangements for audit of collections is still to be made in some cases. The Committee note the**

**plea put forward during evidence that the non-accounting of the collections "will not necessarily establish any misappropriation". The Committee consider that, as bulk of the fund was raised about six years ago, it should have been possible by now to have the accounts of collections audited and settle all matters relating to short realisations, short remittances and non return of receipt books. The Committee would like concerted efforts to be made to ensure that money which was contributed by the people in the name of a national cause is brought to account.**

### Guarantees given by the Central Government

*Audit paragraph*

5.16. During the year 1966-67, the Government of India issued fresh guarantees in 86 cases involving a total sum of Rs. 185 crores. The sums guaranteed by Government outstanding at the end of 1966-67 amounted to Rs. 583 crores (including certain cases where the sums are payable in foreign currencies) in respect of loans raised by 16 Joint Stock Companies, 5 Government Companies, 6 Statutory Corporations, 2 Port Trusts, 5 Co-operative Banks, 47 Co-operative Societies, 6 State Corporations, 3 State Financial Corporations and 14 Consumer Cooperative Societies. In addition Government have also guaranteed a minimum return on the share Capital of certain statutory Corporations as also payment of interest on debentures etc. floated by them. Article 292 of the Constitution empowers the Central Government to give guarantees within such limits, if any, fixed by Parliament by Law. No Law has so far been enacted in this connection.

In the following cases Government was called upon to make payments under the terms of the respective guarantees.

I. Branch Line Railway Companies:—In these cases, Government have guaranteed a net return of 3½ per cent per annum on the paid up share Capital. The guarantee was invoked during 1966-67 in the case of three companies and a total amount of Rs. 33.09 lakhs was paid by the Government.

II. Co-operative Societies:—Guarantees were invoked during 1966-67 in the case of 3 weavers' Co-operative Societies and a total amount of Rs. 9,781 was paid by the Madras Government out of which Rs. 5,434 is reimbursable by the Government of India. This was a joint guarantee by the Government of India and the Government of

Madras given to the Madras Co-operative Central Banks to re-imburse losses arising out of non-recovery of loans advanced by them to Weavers' Co-operative Societies subject to a maximum of 5 per cent of the total loans sanctioned from the Handloom Cess Fund. The liability was shareable between the Government of India and the State Government in the ratio of 5:4.

III. Payment to Oil India Limited:—During 1966-67, Government of India paid Rs. 6.34 crores to Oil India Limited (a Company formed in collaboration with the Burmah Oil Company Ltd, (BOC) and the Assam Oil Company Limited (AOC), with Government of India holding 50 per cent shares), on oil drawn from the company by the refineries of the Indian Oil Corporation. The amount became payable on account of retrospective upward revision/adjustments of sale price of oil, to provide minimum guaranteed dividend of 9 per cent in terms of agreement entered into by the Burmah Oil Company and Assam Oil Company with the Government of India.

IV. Payment to Central Warehousing Corporation:—During 1966-67, the Government paid contributions to the tune of Rs. 0·26 crore to the Central Warehousing Corporation to enable it to pay dividends to their shareholders at the rate of 3½ per cent per annum as guaranteed by the Central Government under Section 5(1) of the Warehousing Corporation Act, 1962.

[Paragraph No. 28. Audit Report (Civil), 1968].

5.17. During evidence, the Finance Secretary stated that the total amount guaranteed and outstanding as on 31-3-1968 was Rs. 665 crores. Out of this the public undertakings accounted for Rs. 423 crores. Guarantees given in respect of private joint stock companies amounted to 'a very small sum of money'. Full details of all guarantees were given in the Finance Accounts.

5.18. Explaining the rationale underlying the guarantees given by the Central Government, the Finance Secretary stated that the international lending organisations like the World Bank advanced loans only if the Government extended a guarantee. The indigenous banks also followed certain principles and did not lend beyond certain margins. In difficult situations, Government, instead of letting the concerns close down, gave a guarantee to the banks to raise margins. In all the cases where the guarantees had been given the needs had been established. The only other courses open to Government were either to extend a loan or give a subsidy. Guarantee was a 'very much cheaper instrument and an extremely useful one'.

Asked whether there were standards laid down for giving of guarantees, the witness stated that "the guidelines are that Government's interests should not be jeopardised. But one cannot lay down a set of conditions because the types, patterns and problems of investment vary from concern to concern."

5.19. The Committee desired to know how Government interests were protected in the case of guarantees in respect of private parties. The Finance Secretary stated that guarantees had been given to private parties to enable them to expand their production capacities or fulfil some objective which fit in with the national priorities or interests. In such cases, by and large, Government became guarantors only when there was some kind of foreign collaboration. Applications for guarantee were examined with great care and in some cases, cases were even taken to Cabinet. To safeguard the interests of Government, balance-sheets of private companies were scrutinised. In case of new companies where there were no balance-sheets, working plans were scrutinised. In cases where credit had been extended by international organisations, returns and reports were required to be submitted by the borrowing organisations at regular intervals through Government. In other cases also, they called for periodical reports. Government nominees were also represented on the Governing Boards of a number of institutions in respect of which Government had given a guarantee. He added that there had been "very few cases where Government have been called upon to make good the guarantees." This would show that sufficient vigilance was being exercised by Government.

**5.20. The Committee note that during the year 1966-67, payments made by Government pursuant to guarantees extended in respect of various Governmental undertakings amounted to Rs. 6·93 crores. The bulk of the payment, amounting to Rs. 6·84 crores, arose out of a guarantee for a minimum dividend in respect of Oil India, a company in which Government have 50 per cent equity participation. The Committee note that the issues arising out of the guarantee extended in respect of this undertaking have already been examined in detail by the Estimates Committee in their 51st Report (Fourth Lok Sabha).**

**5.21. While the Committee agree that the liability that has so far arisen in terms of guarantees has been small in relation to the total amount of guarantees extended, they feel it is still necessary, as a measure of caution, to take steps to protect Government's interests, particularly in cases where the guarantees are in respect of private parties or undertakings. This would appear all the more necessary as, under the existing procedure, decisions regarding**

**guarantees are taken by the individual Ministries/Departments and not by a centralised agency. The Ministry of Finance might therefore consider whether a uniform drill should be prescribed for being followed by the individual Ministries/Departments in the matter of ascertaining the credit-worthiness of the parties/undertakings before a guarantee is given and for keeping a watch on its performance during the period the guarantee remains in force.**

**5.22. The Committee note that at present a statement of guarantees given is included in the Explanatory Memorandum of the General Budget presented to Parliament. It would be a definite advantage if the information tabulated in the statement could be amplified to bring out the payments, if any, made by Government, pursuant to guarantees given.**

5.23. The Committee desired to know the views of Government on fixing a statutory limit on guarantees as provided by Article 292 of the Constitution. The Finance Secretary stated, "The Constitutional position is there, but the limit has not been fixed. So the question really is what limit would the Parliament like to fix. Since the situations keep on fluctuating Government would be obliged to ask for a fairly high limit in order that there may be flexibility in operation. For instance, last year it so happened that the public sector undertakings because of the hold up of their stocks fell short of the working capital and the banks would not extend to them accommodation beyond a certain point without Government guarantees. Therefore a fairly sizeable requirement cropped up. Sudden situations will arise......The disadvantage of having any limit will be that time will be lost in taking sanction for extending the limits." He added: "Since these facilities are being very sparingly allowed, no purpose will be served by fixing a limit."

**5.24. While the Committee appreciate the need for flexibility, they feel that, in view of the substantial amount of guarantees given by Government and the contingent liability that this involves, it is but proper that Government's guaranteeing power is regulated by law as envisaged in Article 292 of the Constitution. In order, however, to enable Government to act quickly when the situation so requires, the law to be made by Parliament may itself have an appropriate built-in flexibility. The Committee would like Government to work out a solution on these lines and initiate necessary action.**

NEW DELHI; 
*March* 7, 1969
*Phalguna* 18, 1890 (*Saka*).

M. R. MASANI,
*Chairman,*
*Public Accounts Committee.*

# APPENDICES

## APPENDIX I

(*Vide* paragraph 2.6 of Report)

**Review of the Public Sector Undertakings with large Foreign Exchange Components**

The Public Accounts Committee in their 68th Report has asked for a review by the Ministry of Finance of the remunerativeness both general and from foreign exchange angle of the undertakings financed by the foreign loans. The Committee particularly wanted information on:

(i) Profitability of the Undertakings;

(ii) Foreign loans invested productively;

(iii) Debt servicing charges in respect of foreign loans/credits.

2. Accordingly a study of the 25 Undertakings with large foreign exchange components has been undertaken with reference to their performance during 1965-66 and 1966-67 which is based on the annual accounts and reports for these two years. The results are separately tabulated in two statements—Annexure I and II, for 1965-66 and 1966-67, respectively which are summarised below:

| | 1965-66 | 1966-67 |
|---|---|---|
| (A) *Profitability* | (Rs. in crores) | |
| (*i*) Capital employed on production . | 1538 | 1792 |
| (*ii*) Net profit after depreciation but before interest on loans and tax . . . | 39 | 35 |
| (*iii*) Return on capital employed . | 2·5% | 1·9% |
| (B) *Foreign exchange* | | |
| (*i*) Foreign exchange utilised . . . . | 913 | 1021 |
| (*ii*) Role of foreign loans/credit in financing foreign exchange . . . | 580 | 661 |
| (*iii*) Foreign exchange earnings by exports, etc. | 26 | 53* |
| (*iv*) Foreign exchange savings . . . . | 227 | 269 |
| (*v*) Total foreign exchange earnings and savings . . . . . . | 253 | 322 |

*Value of foreign exchange earnings by exports etc. during 1967-68 .. Rs. 74 crores.

*Return on Capital Employed*

3. In case of a number of Undertakings the expansions of existing capacities were in progress such as three Steel Plants at Bhilai, Rourkela and Durgapur and in case of some other Undertakings, some of the Units were under construction, such as Gorakhpur and Barauni Units of the Fertilizer Corporation of India; Foundry Forge Project and Heavy Machine Tools Plant in case of Heavy Engineering Corporation, etc. The return therefore has been calculated on the capital employed in production, excluding the amount of capital works-in-progress, as shown in Cols. 3 of Annexures I and II; which amounted to Rs. 1,538 crores in 1965-66 and Rs. 1,792 crores in 1966-67. The net profit after depreciation but before interest and tax for these two years in respect of these Undertakings amounted to Rs. 39 crores and Rs. 35 crores respectively, which gives a return of 2.5 per cent in 1965-66 and 1.9 per cent in 1966-67 on capital employed. This low return is due to a number of factors. Some of the Undertakings are in their initial years of operation and have not been able to utilise their capacity fully. Most of these projects are capital intensive and require long gestation period. The heavy capital outlay on infra-structure particularly on township and residential quarters and heavy recurring costs on the maintenance of these townships and on health, education and welfare of employees have also affected the profitability of these Undertakings. There is also the need to build up sufficient managerial experience.

4. During 1966-67 there has been a fall of about Rs. 20·00 crores in the profits of Hindustan Steel Ltd. which has brought down the over all return from 2·5 per cent in the previous year to 1·9 per cent. The fall in profit was mainly due to lack of demand on account of the general economic recession in the country. Besides this there was a general increase in the cost of raw materials and stores and the annual wage bill had also gone up due to increases in the dearness allowance and introduction of the gratuity for the first time. Like steel, the coal and engineering industries also felt the impact of the recession.

*Utilisation of Foreign Loans/Credits.*

5. Before coming to the utilization of foreign loans/credits by the public undertakings studied here, a few general comments on the question of the measurement of the benefits from foreign aid would be in order. To enable a proper assessment of the remunerativeness of foreign loans in general, it would be desirable to review the pattern of foreign aid utilisation and its impact on the economy as a whole. Foreign aid has been used not only to finance specific projects but also to purchase imports of food as well as raw

materials, components and spare parts. Over the last fifteen years, foreign aid has financed a sizeable share of capital formation but a much larger part was financed by domestically generated resources. There is scarcely any project which is wholly financed by external resources; the usual financing scheme combines the use of domestic and foreign funds.

6. The pattern of foreign aid utilization needs to be viewed as a special aspect of the general question of resources allocation in the Indian economy. It is the efficiency of overall resource allocation which has an important bearing not only on the speed of economic growth but also on debt-servicing capacity. The purpose of foreign aid is to supplement domestically generated resources and to allow a higher rate of investment than would be possible otherwise. Increased investment leads to a faster rate of economic growth and makes it possible for the recipient country to raise progressively both the proportion of savings and the level of consumption standard. Viewed from the standpoint of the balance of payments, foreign aid, in the first instance, raises the capacity to import allowing the recipient to ease supply bottlenecks in various sectors and to achieve higher volumes of production as well as investment than would be otherwise possible. The faster rate of economic growth eventually increases the export potential as well as capacity for import substitutions. Over the long-run, the recipient's balance of payments improves allowing the fulfilment of debt obligations as well as the continued achievement of satisfactory rates of economic growth.

7. To seek an answer to the question of debt servicing capacity by examining the performance of particular projects, partly financed by foreign loans, may not lead us very far, due to the following reasons:—

(a) Project loans utilised by industry constituted only a part of total external borrowing. The remaining foreign loans were used for non-project purposes.

(b) The addition to investment made possible by external funds is not necessarily represented by projects which are actually financed with the help of foreign loans. Many of these projects would have been undertaken even in the absence of external finance. The availability of foreign loans for these projects released domestic resources for other purposes.

(c) Although it is easy to calculate the usual financial ratios for foreign-financed projects, it is by no means clear that these conventional indicators of the performance of particular firms are reliable measures of their contribution to the national economy. In this context, the difficulties of analysing the economic costs and benefits of foreign capital at the project level are relevant*

8. Even if we assume that foreign loans are exclusively for projects, that foreign financed projects represent marginal investment and that economic analysis at the project level is feasible, the results of such an investigation will have limited usefulness as far as the question of debt servicing capacity is concerned. In theory it is not difficult to visualise a situation in which foreign financed projects make a considerable contribution to growth as well as to the improvement in the balance of payments and yet the borrowing country is oppressed by debt servicing difficulties. After all, the foreign financed sector is usally very much smaller than the rest of the economy and favourable developments in the former can be swamped easily by adverse movements in the latter.

9. In our country foreign aid was used within the framework of successive Five Year Plans. These plans were designed to secure certain basic objectives of social and economic development. The major aims of policy were as follows:—

(a) To rehabilitate the economy after the dislocation caused by the second World War and the partition of the subcontinent.

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*Note : Ideally, benefits of foreign-financed projects should take account of direct and indirect effects, external and internal economies as well as the proportion of the income stream generated by the initial investment which is saved and reinvested. The calculation should be in terms of equilibrium prices which reflect the scarcity of various factors of production. Merely to define the nature of the calculation is to suggest that probably it is not fully operational at the present time. The experience in this field indicate the difficulties of dealing with indirect effects and external economies, not to speak of variables such as the extent of income plough-back. In any case, equilibrium factor prices (shadow prices cannot be determined at the project level ; they are a function of developments in the overale economy. In addition to these difficulties the measuring benefits at the micro-economic level, there is the problem of how to interpret the cost of foreign capital. For a particular enterprise, as a rule the cash cost is measured by the amount and time sequence of debt service payments, *i.e.*, interest as well as scheduled amortization in the case of foreign loans. However, from the stand-point of the whole economy, the net charge of foreign capital depends on the behaviour of future gross capital inflow. If maturing loans for particuler projects are rolled over to finance other projects, amortization payments are not an immediate cost to the economy".

*Source* : Economic growth and External Debt by Dragoslav Avramovic and Associates (Page 47).

(b) To raise investments and build institutions for improving the standard of living and for reducing under-employment and un-employment.

(c) To build a 'socialist pattern of society' in which the public and the cooperative sectors played leading roles and in which measures would be taken to reduce the inequality of income and wealth among persons and regions.

(d) To work within a democratic frame of government.

(e) To achieve a 'self reliant and self generating economy' in which the role of foreign aid would diminish progressively.

10. Given such a list of objectives, it is no easy task to formulate a precise set of investment criteria for the allocation of resources—whether foreign or domestic in origin. Selected projects and programmes had to be vetted from a variety of standpoints—the financial and economic rates of return, the rate of plough-back of profits. labour intensity; the impact on regional and personal distribution of income and the repercussions on the foreign exchange balance. Theoretically, it is possible to put these various considerations into an elaborate calculus and leave the rest to the computer. Operationally, this more or less mechanical procedure is seldom feasible on account of data limitations and difficulties in reconciling objectives which are the subject of political negotiation in a democratic framework.

11. In practice, planners and policy makers formulated a strategy of resource allocation taking account of the basic objectives and the structure of the Indian economy. It was recognised that priorities would have to change as development proceeded and experience accumulated. A reading of the Five Year Plan documents illustrates the evolution of thinking on this subject and these reformulations have influenced decisions on the allocation of resources.

12. The sectorwise use of foreign aid (loans, grants and commodity assistance) in the public and private sectors is in the attached table. More than 60% of foreign loans financed the industrial sector; the bulk of it for expanding capacity in steel, oil efining, transport equipment, etc. Other large users of foreign aid were infra structure activities such as railways and ports as well as electric power.

*Classification of foreign aid upto the Third Five Year Plan.**

| Sector | | Rupees in crores | |
|---|---|---|---|
| | Loan | Grants | Total |
| I. Transport and communications | 527·8 | 37·0 | 564·8 |
| of which: Railways | 375·4 | 34·5 | 409·9 |
| Shipping | 48·1 | 0·1 | 48·2 |
| Others | 104·3 | 2·4 | 106·7 |
| II. Power | 297·0 | 28·5 | 325·5 |
| III. Agriculture | 81·7 | 54·1 | 135·8 |
| IV. Industry | 1666·4 | 69·3 | 1735·7 |
| V. Food | 106·0 | 54·2 | 160·2 |
| VI. Residual | 86·8 | 92·9 | 179·7 |
| TOTAL | 2765·7 | 336·0 | 3101·7 |

*Cumulative total of utilisation upto March 31, 1966 expressed i Rs. crores at the pre-devaluation rates.

13. As a result of investment activity, financed by domestic and foreign resources the real per capita income has increased by 20% between 1950/51 and 1965-66. The index number of industrial production has increased sharply and there has taken place a major structural change in the pattern of manufacturing activity.

While the 1956 based index number of total industrial production rose to 187 in 1965, the corresponding indices for several dynamic industries were as follows:—

| | |
|---|---|
| Non-electrical machinery | 490 |
| Electrical machinery | 313 |
| Basic metals | 299 |
| Metal products | 240 |
| Chemicals | 235 |
| Petroleum | 231 |
| Transport equipment | 208 |

In fact, this basic transformatin was a distinguishing aspect of the resource allocation strategy pursued by planners. The objective can be stated in the language of the Second Plan document:—

> "Rapid industrialisation and diversification of the economy is thus the core of development. But if industrialisation is to be rapid enough, the country must aim at developing basic industries and industries which make machines to make the machines needed for further development".

14. The public sector has played the role of a leader in the basic structural transformation of the Indian economy. This task of producing new products and adapting new technology is inherently more complicated and more hazarduous than the more or less routine process of expanding the production of well-known articles with familiar technology. This enterpreneurial function performed by the public sector cannot be measured adequately by financial results based on accounting data. This point should be borne in mind in interpreting the financial position of public sector projects. However, in spite of its impressive achievements, there is admittedly considerable room for improvement with respect to quality, costs, delays in the execution of projects, etc.

*Remunerativeness of foreign loans*

15. So far as the remunerativeness of the foreign loans utilised by these undertakings studied here is concerned, the foreign exchange element is only a part of the total investment in any project and it is not possible to calculate a return on this part of the investment alone. The remunerativeness of a project has to be judged with reference to the total investment thereon. However, one of the criteria by which the remunerativeness of the foreign loans can be judged is the extent to which the investments are self financing in course of time, i.e. by examining whether the Government's debt servicing obligations in respect of foreign loans utilised on projects are covered by the return which Government receives from its investment in the projects and by the foreign exchange earnings and savings generated by it and examining whether these are adequate to cover the external obligations of the Government/Undertakings in servicing the foreign exchange loans through which the project has been financed.

*Foreign exchange earnings and savings*

16. So far as foreign exchange earnings are concerned, these are based on the value of exports by the Undertakings and/or foreign

exchange earned through their sales realisation abroad in case of air and shipping companies during the relevant period. The total earning for 1965-66 amounted to Rs. 26 crores; for 1966-67 Rs. 53 crores; and for 1967-68 it had risen to Rs. 74 crores.

17. The assessment of the foreign exchange savings has been made on the assumption that actual imports would have been larger in the absence of domestic production. However, in valuing the extent of foreign exchange saved, allowance has been made for the fact that, in some cases, imports could have been effected at prices lower than domestic prices. (compare Annexure III for details). Similiarly the foreign exchange utilised on production and maintenance during the year has been substracted from the foreign exchange savings and only the net savings have been indicated in column 9 of Annexures I and II. While foreign exchange savings so calculated are not, so to speak available for meeting the debt servicing obligations of foreign loans, they do help the overall foreign exchange position and the balance of payments of the country in the sense that, in their absence, the debt servicing capacity (or the capacity to import for maintenance and development) would be that much less. The total foreign exchange earnings and savings for the year 1965-66 amount to Rs. 253 crores and for 1966-67 Rs. 322 crores as shown in Annexures I and II.

The above assessment of foreign exchange is somewhat conservative as it does not include the indirect contribution to foreign exchange savings or earnings of some undertakings while the figures of foreign exchange utilised by them have been taken into account, e.g. no assessment of foreign exchange savings or earnings has been made in respect of the coal produced by N.C.D.C. or power generated by the Neyveli Lignite Corporation or due to the operation of internal air services by I.A.C. whereas the foreign exchange utilised by these enterprises has been taken into account. Infra-structure projects such as those relating to generation of power or transport facilities obviously contribute indirectly to balance of payments improvement even though this contribution cannot be measured precisely.

### *Debt Servicing Charges*

18. The foreign exchange utilised by these undertakings has been met from various sources, *viz.* the foreign loans at Government to Government level, Bankers' credit, Suppliers' credit and from free foreign exchange resources of the country. By and large the foreign exchange requirements of an undertaking have been financed from more than one source and in many cases from one credit a number

of projects has been financed. Out of the total foreign exchange utilised amounting to Rs. 913 crores as on 31-3-66 and Rs. 1,021 crores as on 3-3-67, Rs. 580 crores as on 31-3-66 and Rs. 661 crores as on 31-3-67 were financed through foreign credits and loans as stated below:—

(Rs. in crores)

| | Name of country | Source of financing foreign exchange outlays as on 31-3-66 | Source of financing foreign exchange outlays as on 31-3-67 |
|---|---|---|---|
| (a) | Great Britain | 67·47 | 71·85 |
| (b) | U.S.A. | 46·21 | 61·71 |
| (c) | U.S.S.R. | 244·05 | 280·80 |
| (d) | West Germany | 119·06 | 127·83 |
| (e) | Japan | 35·03 | 43·33 |
| (f) | Italy | 19·11 | 22·05 |
| (g) | France | 3·87 | 6·61 |
| (h) | Czechoslavakia | 15·21 | 17·21 |
| (i) | Others | 30·15 | 29·43 |
| | | 580·16 | 660·82 |

19. In respect of the projects which have been financed from the credits/loans at Government to Government level, the foreign loans do not appear as outstanding in the books of the Undertakings. As and when these loans are utilised by the Undertakings, the equivalent amounts in rupees are deposited by the undertakings in Government account and according to the terms of credit Government makes payment towards interest charges and repayment of loans on the due dates to the foreign parties. It is not possible, therefore, to corelate the debt servicing charges on Government to Government loans directly with the accounts of the Undertakings. The entries regarding the utilisation of foreign suppliers' credit, i.e. from one foreign part to an undertaking do not pass through the books of Government although the terms and conditions of the same are approved by Government. These amounts appear in the books of

the undertakings and the annual debt servicing charges in respect of these credits are met by the undertakings, out of their own resources. The impact of these credits has also been taken into account in calculating the annual debt servicing charges.

20. Consequent to devaluation in June 1966, all foreign loans outstanding as on that date and payable in foreign currencies were converted at the post-devaluation rates in order to assess correctly the liability in terms of rupees. These adjustments in respect of Government to Government loans do not effect the undertakings as they had deposited the equivalent amount in rupees at the then prevaling rates with Government when the credits were utilised. The interest charges on the outstanding amounts as well as the repayment of loan instalments for the year 1966-67 have been calculated at the post-devaluation rates.

21. Some of the credit/loans had been repaid prior to 1-4-65 and therefore there will be no debt servicing charges in respect of those credits during the year 1965-66 and 1966-67, such as the credit of Rs. 15.36 crores given by the Lazard Brothers for Durgapur Steel Plant, and Rs. 77 crores given by the West Germany for the Rourkela Plant.

22. Although the rates of interest on foreign loans/credits vary considerably, the projects have been charged at uniform rates of interest. The projects are financed partly by equity and partly by loans and only on the loan portion of the capital the undertakings are required to pay interest at the rates fixed by the Government from time to time.

23. The study takes into account the foreign exchange utilised for capital expenditure only. It does not take into account the foreign exchange utilised for production|maintenance, such as, for import components, spare parts, raw materials, etc.

Based on the terms and conditions of loans the debt servicing charges on the amounts outstanding out of the foreign loans utilised as shown in para 18 comes to the following:—

(Rs. in crores)

| | | |
|---|---|---|
| (*i*) 1965-66 | | |
| (*a*) Foreign loans utilised . . . . . . | | 580 |
| (*b*) Foreign loans outstanding . . . . . . | | 369 |
| (*c*) *Annual Debt Servicing Charges* | | |
| (*i*) Interest . . . . | 14·99 | |
| (*ii*) Loan repayment | 13·29 | 28·28 |

| | | | |
|---|---|---|---|
| (ii) 1966-67 | | | |
| (a) Foreign loans utilised | . . . . . . | | 661 |
| (b) Foreign loans outstanding (Post Dev.) | | | 647 |
| (pre-dev. 411 crores) | | | |
| (c) *Annual Debt servicing charges* | | | |
| (i) Interest . . . | | 25·70 | |
| (ii) Loan repayments | | 37·34 | 63·04 |

25. As against the debt sevicing charges of Rs. 28.28 crores for 1965-66, foreign exchange earnings amounts to Rs. 26 crores and the foreign exchange savings Rs. 227 crores. Similarly against the debt servicing charges of Rs. 63.04 crores for 1966-67 the foreign exchange earnings come to Rs. 53 crores which have risen to Rs. 74 crores during 1967-68, and the foreign exchange savings amount to Rs. 269 crores. By and large the annual debt servicing charges are taken care of by foreign exchange earnings.

26. While the above debt servicing charges have been calculated according to the terms and conditions of loans on the amounts outstanding for that year, it may be argued that these calculations do not reflect the full impact of annual debt servicing charges in respect of foreign loans utilised. On the same analogy it may also be argued that to appreciate the full impact of annual debt servicing charges, these may be reflected on the total foreign exchange utilised by these enterprises assuming that the entire amount of forign exchange utilised was borrowed and outstanding. Assuming the average rates of interest at 5% and the period of repayment at 20 years (no grace period) the annual debt servicing charges on the foreign exchange utilised would be as follows:—

(Rupees in crores)

| | | |
|---|---|---|
| 1965-66 | | |
| (a) Total Foreig Exchange utilised | | 913·0 |
| (b) *Annual debt servicing charges* | | |
| (i) Interest . . . | 46·65 | |
| (ii) Repayments . | 45·65 | 91·30 |

| | | |
|---|---|---|
| **1966-67** | | |
| (*a*) Total Foreign Exchange utilised | | |
| (*i*) Upto 31st March 1966 (at predevaluation rates) | 913 | |
| (*ii*) During 1966-67 (at postdevaluation rates . | 108 | 1021·0 |
| (*b*) Annual Debt Servicing charges. | | |
| (*i*) Interest . . . | 77·30 | |
| (*ii*) Repayments. . . | 77·30 | 154·6 |

27. The above assessment would indicate the maximum liability towards debt servicing charges on the foreign exchange utilised by the enterprises covered by this study, which nationally amounts to Rs. 91.3 crores for 1965-66 and Rs. 154.60 crores for 1966-67; as against these charges the annual foreign exchange earnings and savings are estimated at Rs. 253 crores for 1965-66 and Rs. 322 crores for 1966-67 which justifies the usefulness of these projects from the foreign exchange angle.

28. The basis of assessing the foreign exchange saving is given in the note at Annexure III.

## *ANNEXURE I*

***Statement showing the Utilisation of Foreign Loans and Foreign Exchange earnings and savings in 25 Public Sector Undertakings.***
1965-66

(Rs. in crores)

| Sl. No. | Name of the undertakings | PROFITABILITY | | | Foreign exchange utilised upto 31-3-1966 | Identi-fiable foreign loans and credits | FOREIGN EXCHANGE EARNINGS & SAVINGS | |
|---|---|---|---|---|---|---|---|---|
| | | Capital employed in production | Net profit after dep. but before interest & tax | Return on capital employed % | | | Foreign Exchange earnings by exports etc. | Foreign Exchange savings |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 1 | Hindustan Steel Ltd. . . . . . . . . | 693·16 | 20·65 | 3·0 | 465·2 | 296·59 | 2·34 | 142·03 |
| 2 | Heavy Engineering Corpn. Ltd. . . . . . . | 54·76 | (—)1·71 | L | 52·8 | 36·19 | .. | .. |
| 3 | Heavy Electricals (I) Ltd. . . . . . . | 53·25 | (—)3·82 | L | 16·8 | 10·31 | .. | 4·50 |
| 4 | Fertilizer Corpn. of India Ltd. . . . . | 79·46 | 1·48 | 1·9 | 53·6 | 32·44 | .. | 21·31 |
| 5 | Fertilizer & Chemicals (Tr.) Ltd. . . . . | 8·93 | (—)0·70 | L | 10·0 | 4·36 | .. | 1·55 |
| 6 | Mining and Allied Machinery Corporation Ltd. . | 17·45 | (—)1·71 | L | 9·7 | 9·70 | .. | .. |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|
| 7 | Neyveli Lignite Corporation Ltd. | 119.65 | 1.15 | 1.0 | 63.2 | 35.76 | .. | .. |
| 8 | Air India | 40.08 | 1.25 | 3.1 | 32.0 | 26.33 | 19.39 | .. |
| 9 | India Airlines Corporation | 23.31 | 0.30 | 1.3 | 3.0 | 3.00 | 2.39 | .. |
| 10 | Shipping Corporation of India Ltd. | 41.75 | 2.63 | 6.3 | 16.0 | 1.13 | .. | 8.50 |
| 11 | Indian Oil Corporation Ltd. | 110.10 | 5.00 | 4.5 | 45.4 | 35.49 | .. | 13.16 |
| 12 | Bharat Earth Movers Ltd. | 6.59 | 0.39 | 5.9 | 0.9 | 0.75 | .. | 3.39 |
| 13 | Bharat Electronics Ltd. | 11.48 | 1.83 | 15.9 | 2.5 | 0.68 | .. | 5.93 |
| 14 | Hindustan Cables Ltd. | 7.31 | 0.12 | 1.7 | 1.6 | 0.06 | .. | 2.75 |
| 15 | Hindustan Machine Tools Ltd. | 30.81 | 2.44 | 7.9 | 8.0 | 2.21 | 0.18 | 4.39 |
| 16 | Hindustan Teleprinters Ltd. | 3.02 | 0.35 | 11.6 | 1.1 | 1.0 | .. | 1.25 |
| 17 | Indian Telephone Industries Ltd. | 14.79 | 2.85 | 19.3 | 1.8 | 1.80 | 0.09 | 3.80 |
| 18 | Hindustan Antibiotics Ltd. | 7.08 | 1.51 | 21.3 | 2.1 | 0.27 | .. | 1.80 |
| 19 | Hindustan Insecticides Ltd. | 2.56 | 0.42 | 16.3 | 0.4 | .. | .. | 0.60 |
| 20 | Indian Drugs & Pharmaceuticals Ltd. | 4.61 | (—)0.51 | L | 12.4 | 9.55 | .. | .. |
| 21 | National Coal Dev. Corpn. Ltd. | 77.95 | 2.79 | 3.6 | 32.4 | 7.09 | .. | .. |
| 22 | National Mineral Dev. Corpn. Ltd. | 8.59 | (—)0.21 | L | 10.8 | 9.98 | 1.41 | .. |
| 23 | National Newsprint & Paper Mills Ltd. | 5.28 | 0.60 | 11.4 | 0.4 | 0.40 | .. | 2.50 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 24 Indian Rare Earths Ltd. . . . . . . | 1·57 | 0·17 | 10·5 | 0·4 | .. | 0·57 | .. |
| 25 Oil & Natural Gas Commission . . . . . . | 114·31 | 1·79 | 1·6 | 70·4 | 54·97 | .. | 9·20 |
| TOTAL . . . . . . | 1537·85 | 39·06 | 2·54 | 912·9 | 580·16 | 26·37 | 226·66 |
| *Rounded as* . . . | 1538 | 39 | 2·5% | 913 | 80 | 26 | 227 |

***CAPITAL EMPLOYED*** represents Net Block (Gross Block less depreciation) plus working capital (current assets less current liabilities). These do not include the amount invested in Capital Works-in-Progress.

***NET PROFIT*** represents the excess of trading income over expenditure after providing for depreciation but before providing for interest on loans, taxes, right off of deferred revenue expenditure and non-trading and prior period income and expenditure.

***RETURN*** Ratio of net profit to Capital Employed.



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## *ANNEXURE II*

*Statement showing the Utilisation of Foreign Loans and Foreign Exchange earnings and Savings in 25 Public Sector Undertakings.*
1966-67 (Rupees in crores)

| Sl. No. | Name of the Undertakings | PROFITABILITY: Capital Employed | PROFITABILITY: Net profit after Dep. but before Int. & tax. | PROFITABILITY: Return on Capital Employed % | Foreign Exchange Utilisation upto 31-3-67 | Identifiable foreign loans and credits | FOREIGN EXCHANGE EARNINGS AND SAVINGS: Foreign Exchange earnings exports etc. | FOREIGN EXCHANGE EARNINGS AND SAVINGS: Foreign Exchange savings |
|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 1 | Hindustan Steel Ltd. . . . . . . . | 753·19 | 0·69 | 0·1 | 488·9 | 319·62 | 9·35 | 127·50 |
| 2 | Heavy Engineering Corpn. Ltd. . . . . . | 74·11 | (—)4·98 | L | 67·4 | 40·55 | .. | .. |
| 3 | Heavy Electricals Ltd. . . . . . . . | 62·76 | (—)2·47 | L | 19·0 | 10·58 | .. | 2·10 |
| 4 | Fertilizer Corporation of India Ltd. . . | 91·51 | 1·49 | 1·6 | 61·0 | 35·34 | .. | 28·89 |
| 5 | Fertilizers & Chemicals (Tr.) Ltd. . . . | 22·02 | 1·05 | 4·6 | 10·0 | 4·36 | .. | 4·65 |
| 6 | Mining and Allied Machinery Corporation Ltd. . | 23·75 | (—)3·09 | L | 11·0 | 11·0 | .. | .. |
| 7 | Neyveli Lignite Corpn. Ltd. . . . . . . | 124·42 | (—)4·91 | L | 68·2 | 36·09 | .. | .. |
| 8 | Air India . . . . . . . . . | 57·66 | 4·65 | 8·1 | 47·3 | 40·58 | 30·06 | .. |
| 9 | Indian Airlines Corporation . . . . . . | 40·63 | (—)2·78 | L | 4·3 | 4·32 | 2·86 | .. |
| 10 | Shiping Corporation of India Ltd. . . . | 51·67 | 5·42 | 10·5 | 18·5 | 3·03 | .. | 14·27 |
| 11 | Indian Oil Corporation Ltd. . . . . . . | 143·31 | 12·60 | 8·8 | 50·4 | 40·60 | .. | 34·43 |
| 12 | Bharat Earth Movers Ltd. . . . . . . | 7·54 | 0·44 | 5·8 | 1·9 | 0·75 | .. | 3·57 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 13 | Bharat Electronics Ltd. . . . . . | 14·53 | 3·07 | 21·1 | 3·8 | 2·01 | .. | 6·76 |
| 14 | Hindustan Cables, Ltd. . . . . . | 9·01 | 0·67 | 7·4 | 1·6 | 0·69 | .. | 2·86 |
| 15 | Hindustan Machine Tools Ltd. . . . | 35·46 | 3·61 | 7·3 | 8·0 | 2·21 | 0·30 | 6·05 |
| 16 | Hindustan Teleprinters Ltd. . . . . . | 2·85 | 0·55 | 19·4 | 1·3 | 1·30 | .. | 1·05 |
| 17 | Indian Telephone Industries Ltd. . . . . | 17·41 | 3·30 | 18·9 | 1·9 | 1·90 | 0·81 | 5·30 |
| 18 | Hindustan Antibiotics Ltd . . . . . . | 6·96 | 1·86 | 26·7 | 2·3 | 0·27 | .. | 2·50 |
| 19 | Hindustan Insecticides Ltd. . . . | 2·60 | 0·48 | 18·3 | 0·4 | .. | .. | 0·74 |
| 20 | Indian Drugs & Pharmaceuticals Ltd. . . . | 5·21 | (—)0·36 | L | 14·8 | 10·95 | .. | .. |
| 21 | National Coal Dev. Corpn. Ltd. . . . | 91·62 | 1·49 | 1·6 | 35·0 | 7·86 | .. | .. |
| 22 | National Mineral Dev. Corpn. Ltd. . . . | 8·65 | 0·30 | 3·5 | 12·8 | 10·67 | 8·65 | .. |
| 23 | National Newsprint & Paper Mills Ltd. . . . | 5·24 | 0·38 | 7·2 | 0·6 | 0·60 | .. | 2·45 |
| 24 | Indian Rare Earths Ltd. . . . . . | 1·86 | 0·44 | 23·8 | 0·5 | .. | 1·03 | .. |
| 25 | Oil & Natural Gas Commission . . . . . | 138·28 | 12·06 | 8·7 | 91·2 | 75·54 | .. | 25·51 |
| | TOTAL . . . . . | 1792·25 | 34·96 | 1·95 | 1021·2 | 660·82 | 53·06 | 268·73 |
| | *Rounded as* . | 1792 | 35 | 1·9% | 1021 | 661 | 53 | 269 |

*CAPITAL EMPLOYED* . represents Net Block (Gross Block less Depreciation) plus Working Capital (current assets less current liabilities. These do not include the amount invested in Capital Works-in-Progress.

*NET PROFIT* . . . represents the excess of trading income over expenditure after providing for depreciation but before providing for interest on loans, taxes, write off of deferred revenue expenditure and non-trading and prior income and expenditure.

*RETURN* . . Ratio of net profit to Capital Employed.

## *ANNEXURE III*

***Basis of Assessment of Foreign Exchange Earnings and Savings in selected Public Sector Undertakings during the year* 1966-67 *and* 1965-66.**

*Hindustan Steel Ltd.*—The requirements of the steel are still met by imports. The import of steel during the year 1966-67 amounted to Rs. 90.55 crores based on the 'Monthly statistics of foreign trade in India'. Therefore, the entire production of Hindustan Steel can be deemed to be import savings. But for the production of steel by Hindustan Steel Ltd. larger quantities of steel would have to be imported. The total cost of production including excise duty for producing 3·5 million tonnes of ingot steel or 2·56 million tonnes of saleable steel was Rs. 229.05 crores during 1966-67 and for production of 3·44 million tonnes of ingot steel or 2·49 million tonnes saleable steel in 1965-66 Rs. 229:05 crores. In assessing the foreign exchange savings, the following items have been deducted from the cost of production so that the residual costs compare favourably with the cost of imported steel.

(Figures in Rs. crores)

| | | 1966-67 | | 1965-66 |
|---|---|---|---|---|
| Total cost of production | | 229·05 | | 229·05 |
| *Less* : | | | | |
| Interest | 20·11 | | 17·98 | |
| Excise duty | 37·54 | | 36·14 | |
| Freight outward | 19·76 | | 18·59 | |
| Foreign exchange utilized on production and maintenance. | 14·79 | | 11·97 | |
| Foreign exchange earned by exports | 9·35 | 101·55 | 2·34 | 87·02 |
| Foreign exchange savings (Estimated) | | 127·50 | | 142·03 |

The total foreign exchange savings has been assessed at Rs. 127·50 crores for 1966-67 and Rs. 142.03 crores for 1965-66.

*Heavy Engineering Corporation.*—As the production in this unit has recently commenced and as most of the components are being imported no assessment of the foreign exchange savings has been made for the limited production in 1965-66 and 1966-67.

*Heavy Electricals (India) Ltd.*—This project has been set up for the manufacture of power generating plants, power transformers and other electrical equipment. The total sale value of production during 1966-67 is Rs. 11.49 crores, out of which the foreign exchange expenditure on production is Rs. 9.39 crores. Thus, the foreign exchange savings may be assessed at Rs. 2·10 crores which is based on the assumption that but for the production in this factory such of those items manufactured by HEIL would have been imported and that the sale price compare favourably with the imported prices of such equipment. On a similar basis the foreign exchange savings for the year 1965-66 work out to Rs. 4·50 crores.

*Fertilizer Corporation of India.*—There is shortage of fertilizers in the country with the result that larger quantities are being imported every year. But for the manufacture of fertilizers by this Corporation, larger quantities would have been imported. In assessing the foreign exchange savings the production has been priced at comparable c.i.f. prices which amounts to Rs. 30:72 crores for 1966-67. After deducting the foreign exchange expenditure of Rs. 1.73 crores on production during the same year the net foreign exchange savings are assessed at Rs. 28.99 crores. On a similar basis the foreign exchange savings for 1965-66 are assessed at Rs. 21.31 crores.

*Fertilisers and Chemicals Travancore Ltd.*—The considerations that were taken into account in case of Fertiliser Corporation of India Ltd., would also apply in this case. The c.i.f. value of production of fertilisers for 1966-67 has been assessed at Rs. 7·90 crores. After deducting the foreign exchange of Rs. 3.25 crores utilised on production the net foreign exchange savings may be assessed at Rs. 4·65 crores. On the same basis the foreign exchange savings for the year 1965-66 may be placed at Rs. 1.55 crores.

*Mining and Allied Machinery Corporation.*—As this undertaking is in initial years of its production, no assessment of foreign exchange savings has been made in this case.

*Air India.*—In its annual report for 1964-65 Air India has assumed 70 per cent of its traffic as non-Indian *i.e.* from foreigners. On the same basis, 70 per cent of the total operating revenue has been assumed from foreigners amounting to Rs. 32.13 crores for 1966-67 and Rs. 20.84 crores for 1965-66 (The total operating revenue being Rs. 45.90 crores in 1966-67 and Rs. 29.77 crores in 1965-66). After deducting the foreign exchange expenditure on maintenance *viz.* Rs. 2·07 crores in 1966-67 and Rs. 1.45 crores in 1965-66, the net foreign exchange earnings may be assessed at Rs. 30·06 crores for 1966-67 and Rs. 19.39 crores for 1965-66. In this assessment the cost of maintenance of Air India offices at abroad and fuel and other charges have not been taken into account.

*Indian Airlines Corporation.*—In its annual report for 1966-67 and 1965-66, IAC has assessed its foreign exchange earnings at Rs. 4.30 crores and Rs. 3.73 crores respectively. As against this the foreign exchange expenditure on maintenance during 1966-67 and 1965-66 amounted to Rs. 1.44 crores and Rs. 1.34 crores respectively. Thus the net foreign exchange earnings are Rs. 2.86 crores for 1966-67 and Rs. 2.39 crores for 1965-66.

*Shipping Corporation of India.*—The company has computed the foreign exchange savings during the year 1966-67 at Rs. 28·26 crores and after adjusting the foreign exchange utilised on maintenance etc. amounting to Rs. .13·99 crores the net foreign exchange savings are estimated at Rs. 14.27 crores. For the year 1965-66 the net foreign exchange savings has been estimated at Rs. 8.50 crores by the company.

*Indian Oil Corporation.*—The c.i.f. value of the finished products of IOC has been deemed to have resulted in foreign exchange savings. The net foreign exchange savings may be assessed at Rs. 34·43 crores for 1966-67 and Rs. 13.16 crores for 1965-66 as under:—

(Rupees in crores)

| | 1966-67 | 1965-66 |
|---|---|---|
| Foreign exchange savings as computed by IOC (c.i.f. value of the finished products) . . . | 55·14 | 18.73 |
| *Less* : | | |
| c.i.f. value of crude oil supplied by ONGC included in the above figure but taken against ONGC's foreign exchange savings in this study. | 13·88 | 2·86 |
| *Less* : | | |
| Foreign exchange expenditure on production and maintenance. . . . . . . . | 6·83 | 2·71 |
| Net foreign exchange savings. . . . . | 34·43 | 13·16 |

*Bharat Earth Movers Ltd.*—This undertaking mainly assembles scrapers imported in CKD conditions. Therefore, it would not be correct to assess any amount of foreign exchange savings due to assembly and sale of scrapers. The Rail Coach Division manufactured and delivered 270 coaches during the year. Based on the average sale prices, the value of 270 coaches delivered during the year could be placed at Rs. 3.78 crores. For this production a sum of Rs. 0.21 crores in foreign exchange has been utilised. The foreign exchange savings would thus be Rs. 3.57 crores. On the same lines, the foreign exchange savings for 1965-66 may be placed at Rs. 3·39 crores.

*Bharat Electronics.*—The cost of production during the year is Rs. 11.59 crores and the foreign exchange expenditure on production during the year Rs. 3.05 crores. The company has been producing specialised electronic equipment and components which would otherwise have to be imported. Hence, the entire production can be taken as import savings. It has, however, not been possible to compute this in terms of c.i.f. values of similar items. The undertaking has however estimated the foreign exchange savings to be Rs. 6.76 crores. The lower of the two figures has been taken as foreign exchange savings. The foreign exchange savings for the year 1965-66 has been estimated by the undertaking to be Rs. 5·93 crores.

*Hindustan Cables.*—This is the only factory which produces telephone cables and but for the production of cables by this undertaking, larger quantities would have to be imported. Hence the cost of production less interest, less foreign exchange utilised in production may be taken as foreign exchange savings. The cost of production excluding interest during 1966-67 and 1965-66 comes to Rs. 6.5 crores and Rs. 5.4 crores respectively. The foreign exchange expenditure on production and maintenance during these years amounted to Rs. 3.64 crores and Rs. 2.65 crores respectively. The net foreign exchange savings are assessed at Rs. 2.86 crores for 1966-67 and Rs. 2·75 crores for 1965-66.

*Hindustan Machine Tools.*—It is not possible to precisely work out the comparable c.i.f. prices. On a broad assessment 50 per cent of the value of production may be taken as foreign exchange savings which amount to Rs. 6.05 crores for 1966-67 and Rs. 4.39 crores for 1965-66 as shown below:—

(Figures in Rs. Crores)

| | | 1966-67 | | 1965-66 |
|---|---|---|---|---|
| Cost of production excluding interest . . . | | 14·56 | | 11·69 |
| *Less* : | | | | |
| Value of exports . | 0·30 | | 0·18 | |
| Foreign exchange utilised on production . . . | 2·16 | 2·46 | 2·72 | 2·90 |
| | | 12·10 | | 8·79 |
| Not foreign exchange saving at 50 per cent. of the above. | | 6·05 | | 4·39 |

*Hindustan Teleprinters.*—This is the only factory which produces teleprinters in India. But for the manufacture of teleprinters by this factory, larger quantities would have been imported. The total cost of production works out to Rs. 1.60 crores and the foreign exchange expenditure on production is Rs. 0.55 crores resulting in net foreign exchange savings of Rs. 1.05 crores. On similar lines the foreign exchange savings for 1965-66 are estimated at Rs. 1.25 crores.

*Indian Telephone Industries.*—The value of exports during 1966-67 amounts to Rs. 0.82 crores. For the purpose of assessing the foreign exchange savings the value of production has been taken as the cost of production less interest which in this case amounts to Rs. 14 crores during 1966-67 and Rs. 10 crores during 1965-66. From the figure deductions have been made for the foreign exchange utilised on production amounting to Rs. 2.6 crores and Rs. 2.32 crores and value of exports Rs. 0.81 crores and Rs. 0.09 crores leaving a net figure of Rs. 10.59 crores and Rs. 7.59 crores for 1966-67 and 1965-66 respectively. The foreign exchange savings have been assumed at 50 per cent of the figure *viz.*, 5.3 crores for 1966-67 and Rs. 3.8 crores for 1965-66.

*Hindustan Antibiotics.*—The foreign exchange savings have been assessed on the assumption that but for the production in this unit the antibiotics would have been imported. The cost of production during 1966-67 works to Rs. 5.59 crores and the foreign exchange expenses on production Rs. 0.58 crores leaving a net figure of Rs. 5.01

crores. The net foreign exchange savings has been assumed at 50 per cent. of this amount *viz.* Rs. 2·5 crores for 1966-67 and on the same basis Rs. 1.8 crores for 1965-66.

*Hindustan Insecticides.*—The entire production has been taken as foreign exchange savings. The cost of production during 1966-67 is Rs. 1.48 crores and during 1965-66 Rs. 1.24 crores. The value of foreign exchange saving has been assessed at 50 per cent of the cost of production after adjusting the foreign exchange expenditure on production amounting to Rs. 0.74 crores in 1966-67 and Rs. 0.60 crores in 1965-66.

*National Mineral Development Corporation.*—The value of exports in the case of this undertaking amounted to Rs. 8:65 crores in 1966-67 and Rs. 1.41 crores in 1965-66. No assessment of foreign exchange savings has been made for iron ore supplied to steel plants.

*National Newsprint and Paper Mills.*—Newsprint is being manufactured only in this unit in India and is in short supply hence being imported. The entire production has been assumed as import savings. The cost of production during 1966-67 is Rs. 2.70 crores and the foreign exchange utilised on production is Rs. 0.25 crores, leaving a net figure of Rs. 2.45 crores and this may be assumed as foreign exchange savings. The price of indigenous newsprint compares favourably with the price of imported newsprint. On a similar basis the foreign exchange savings for the year 1965-66 work out to Rs. 2.50 crores.

*Indian Rare Earths Ltd.*—The value of exports of rare earths, ilmenite, zircon and granet is estimated to be of the order of Rs. 1.03 crores during 1966-67 and Rs. 0.67 crores during 1965-66.

*Oil and Natural Gas Commission.*—In view of the continuing import of crude oil, the entire production of crude by the ONGC may be deemed to have resulted in import savings The gross sale proceeds of crude oil produced by ONGC and supplied to refineries during 1965-66 and 1966-67 (1.42 million tonnes and 2.55 million tonnes respectively) amounted to Rs. 9.20 crores and Rs. 25.51 crores respectively. The sale prices are based on middle east parity prices and according to ONGC the full value of sale proceeds may be taken as foreign exchange savings.

## APPENDIX II

(*Vide* paragraph 2.14 of Report)

*Statement showing the increase/decrease in terms of rupees in respect of outstanding balances under foreign loans on account of the devaluation of the rupee in June, 1966 and Pound sterling and Danish Kroner in November, 1967.*

EFFECT OF DEVALUATION OF THE RUPEE IN JUNE, 1966

(Rs. Crores)

| Name of country/agency | Outstanding balance affected by devaluation of rupee in JUNE, 1966 | Increase in liability in terms of RUPEES |
|---|---|---|
| Austria | 4·62 | 2·65 |
| Canada | 16·62 | 9·56 |
| Denmark | 0·83 | 0·47 |
| West Germany | 218·78 | 125·80 |
| Japan | 94·09 | 54·10 |
| Netherlands | 10·14 | 5·83 |
| Switzerland | 7·14 | 4·10 |
| USA (including Exim and PL 480 loans expressed in dollars) | 1077.27 | 619.43 |
| U.S.S.R. | 231·68 | 133·22 |
| Yugoslavia | 11·55 | 6·64 |
| IBRD | 173·89 | 99·99 |
| IDA | 211·36 | 121·53 |
| Czechoslovakia | 13·42 | 7·71 |
| Poland | 11·37 | 6·54 |
| U.K. | 264·30 | 151·97 |
| TOTAL | 2347·06 | 1349·54 |

NOTE :—The devaluation of the rupee did not cause any variation in the liability in terms of foreign exchange. The increase in liability was only in terms of rupees. Correspondingly the receipts under foreign loans and of export earning in foreign currencies registered an increase upto the extent of 57.5 percent in the rupee accounts. Further the liabilities under the foreign loans would decrease, in terms of rupees, with the devaluation of foreign currencies concerned as it happened with the devaluation of the pound sterling and Danish Kroner.

*　　*　　*　　*　　*

C. S. SWAMINATHAN,

*Joint Secretary to the Government of India.*

## APPENDIX III

(*Vide* para 2.20 of Report)

**Statement showing details in respect of credits obtained from certain East European Countries**

Statements showing the required details in respect of credits from USSR, Czechoslovakia, Poland, Yugoslavia, Hungary and Bulgaria are attached. These have been prepared on the basis of information available in this Department. Further information is being collected from the administrative Ministries|Project authorities concerned and will be furnished shortly.

2. The agreements for credits from USSR, Czechoslovakia and Poland specify the projects to be financed under them. However, the agreements for credits from Hungary, Bulgaria and Yugoslavia do not specify the names of the projects. In most of the Soviet credit agreements, no validity period has been specified. In the case of the credits from the other East European countries, there is a terminal date for placing supply contracts on the foreign organisations. Where orders are placed before the terminal date for contracting, the deliveries are effected in accordance with the contracts. The terminal date for placing contracts is extended wherever such extension is considered necessary.

(Sd.) N. R. REDDY,

*Joint Secretary.*

*Department of Eco. Affairs, Ministry of Finance.*

*ame of the Country*—U.S.S.R.

| Name & Amount of Loan | Date on which the Agreement was signed | Validity period of loan | Projects for which loan was obtained | Stage of finalisation of the project | | | Whether the period to execute the project will be within the validity period of the loan |
|---|---|---|---|---|---|---|---|
| | | | | (a) Preparation of Project Report | (b) Clearance from Planning Com./Admn. Ministry/ Finance | (c) Budget provision | |
| 1 | 2 | 3 | 4 | 5 | | | 6 |
| 1. Bhilai Credit 122.36 Million Roubles. | 2-2-55 | No terminal date. | Bhilai Steel Plant. | These stages are gone through before contracts are placed. In these cases, even the deliveries have been completed. | | | Deliveries have been completed. |
| 2. Credit for Industrial Projects. 112.50 Million Roubles. | 9-11-57 | The credit was to be used in 1957—61. | 1. Heavy Machine Building Plant.<br>2. Coal Mining Machinery Plant.<br>3. Opthalmic Glass Projects.<br>4. Korba Coal Mining Projects.<br>5. Neyveli Thermal Power Station. | Do. | | | Do. |

| | | | | | |
|---|---|---|---|---|---|
| 3. Credit for Drugs Project 18.00 Million Roubles. | 29-5-59 | Deliveries under the credit were to be made in 1959—63 | Drugs Projects. | These stages are gone through before contracts are placed. In these cases, even the deliveries have been completed. | Deliveries have been completed. |
| 4. First Credit for Third Plan Projects 337.50 Million Roubles. | 12-9-59 | No terminal date. | 1. Expansion of Bhilai Steel Plant.<br>2. Expansion of Neyveli Thermal Plant.<br>3. Singrauli Power Station.<br>4. Expansion of Heavy Machine Building Plant.<br>5. Expansion of Coal Mining Machinery Plant.<br>6. Expansion of Korba Thermal Power Station.<br>7. Barauni Oil Refinery.<br>8. Exploration of Oil & Gas. | Do. | Do. |
| | | | 9. Heavy Electrical Plant.<br>10. Kotah Precision Instruments Project. | | Information is being collected from administrative ministries/ project authorities and will be forwarded shortly. |

| 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|
| 5. Barauni Credit 22.5 Million Roubles. | 28-9-59 | No terminal date. | Barauni Oil Refinery. | These stages are gone through before contracts are placed. In these cases, even the deliveries have been completed. | Deliveries have been completed. |
| 6. Second Credit for Third Plan Projects. 112.50 Million Roubles. | 21-2-61 | Do. | 1. Bhakra Right Bank Hydro-electric Power Station.<br>2. Koyali Oil Refinery.<br>3. Coal Washery at Kathara.<br>4. Refractories Plant.<br>5. Exploration, Development and production of oil in Cambay, Ankleshwar and in other areas.<br>6. Production of pumps and compressors preparation of techno-economic report. | Do. | Do. |
| Additional projects agreed to for financing under the savings from the Soviet Credits. | | | 1. Expansion of Refineries:<br>(i) Barauni.<br>(ii) Koyali. | Do. | Do. |

| | | | | |
|---|---|---|---|---|
| | | | 2. Kerala Precision Instruments Plant.<br>3. Sixth Blast Furnace at Bhilai.<br>4. Working drawings etc., for Neyveli Thermal Power Station (400-600 M.W.)<br>5. Compressor & Pump Project. | Information is being collected from Administrative Ministries/Project authorities and will be forwarded shortly. |
| 7. Bokaro Credit 200.00 Million Roubles. | 25-1-65 | Deliveries during 1966—69. | Bokaro Steel Plant. | Information is being collected from Administrative Ministries/ Project authorities and will be forwarded shortly. |
| 8. Credit for Fourth Plan Projects, 300.00 million Roubles. | 10-12-66 | No terminal date. | 1. Korba Aluminium Smelter.<br>2. Expansion of Bhilai Steel Plant (up to 3.2 million tonnes).<br>3. Iron Ore Mines in Dalli.<br>4. Coking Coal Mines.<br>5. Oil & Natural Gas Commission.<br>6. Airmagnetic Survey, | |

| 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|
| | | | 7. "Lower Sileru" Hydro Power Station.<br>8. Neyveli Thermal Power Station (400 M. W. to 600 M. W.)<br>9. Development of deep-sea fisheries.<br>10. *Training of technical personnel for* :<br>(a) Aircraft building Department (Indian Institute of Technology, Bombay.)<br>(b) Metallurgy Department (Indian Institute of Technology, Kharagpur.)<br>(c) Geophysics Department (Institute of Earth Sciences, Osmania University, Hyderabad.)<br>(d) Automation and Computors department (Indian Institute of Science, Bangalore). | | |

*Establishing technical schools for* :

(a) Metallurgy—Bhilai.

(b) Heavy Engineering in Ranchi.

(c) Electrical Machine building in Hardwar.

(d) Oil and Gas industry in Baroda.

11. *Establishing training centres and preparing skilled personnel for* :

(a) Plant producing mining equipment in Durgapur.

(b) Aluminium smelting plant in Korba.

12. Establishing a Design Institute for the Metallurgical Industry.

## *I. CZECH CREDIT*

| | |
|---|---|
| (i) Name of country . . . . | Czechoslovakia |
| (ii) Date on which Agreement was signed. . . . . . . | 24-11-1959 |
| iii) Validity period of the loan. . | Terminal date for contracting expired on 31-12-1967. No final date has, however, been fixed for deliveries. |
| (iv) Project(s) for which loan was obtained. | 1. I Phase of III Stage of Foundry Forge Plant, Ranchi.<br>2. Heavy Machine Tools Project. Ranchi.<br>3. High Pressure Boiler Plant, Tiruchi.<br>4. Heavy Power Equipment Plant, Hyderabad.<br>5. Heavy Plate & Vessels Works Vizag.<br>6. Components for manufacture of Turbo-blowers & Compressors at Hyderabad. |
| (v) Stage of finalisation of the project, indicating whether —<br>(a) Project Reports have been prepared ;<br>(b) project has been cleared for implementation by Planning Commission, Administrative Ministry and Finance ; and<br>(c) firm budget provision has been made. | (v) a to (c) :<br>These points are gone into before contracts are placed. Contracting has been completed for all the projects under the I Czech Credit. Further, in respect of items 1 and 3 of the statement above deliveries have also been completed.* |
| (vi) Whether period of execution of project permits of equipment/stores required for the project procured within the validity period of loan. | In view of the position explained against (iii) above, equipment stores can be imported in accordance with schedule of deliveries indicated in the respective contracts which were placed within the validity period of the loan. |

## II. CZECH CREDIT

| | |
|---|---|
| (i) Name of country | Czechoslovakia |
| (ii) Date on which agreement signed. | 11-5-1964. |
| (iii) Validity period of loan. | Terminal date for contracting expired on 31-12-1967. Czech authorities have been requested to extend it till 31-3-1971. No final date has, however, been fixed for deliveries. |
| (iv) Project(s) for which loan was obtained. | 1. Expansion of High Pressure Boiler Plant at Tiruchi.<br>2. Expansion of Heavy Power Equipment Plant, Hyderabad.<br>3. Ajmer Machine Tool Factory.<br>4. Bhavnagar Machine Tool Factory.<br>5. Additional Foundry & Forge Facilities (Jabalpur and Wardha).<br>6. Ennore Thermal Power Station.<br>7. Factory for manufacture of Tractors and power tillers<br>8. Components for :<br>(i) H.P.E.P. (Hyderabad)<br>(ii) H.P.B.P. (Tiruchi)<br>(iii) H.M.T.P. (Ranchi) |
| (v) Stage of finalisation of the project, indicating whether —<br>(a) Project Reports have been prepared ;<br>(b) project has been cleared for implementation by Planning Commission, Administrative Ministry and Finance ; and<br>(c) firm budget provision has been made. | (v) (a) to (c) :<br>These points are gone into before contracts are placed. Material is, however, being collected from the project authorities/Administrative Ministries and will be sent shortly. |
| (vi) Whether period of execution of projects permits of the equipment/stores required for the project procured within the validity period of the loan. | Information is being collected from the project authorities/administrative ministries and will be forwarded soon. |

## *FIRST POLISH CREDIT*

| | |
|---|---|
| (i) Name of the Country . . . . | Poland |
| (ii) Date on which the Agreement was signed. . . . . . . | 7-5-1960 |
| (iii) Validity period of the loan . | The terminal date for contracting has expired on 31-3-67 . No final date has however been specified for deliveries. |
| (iv) Project/Projects for which the loans were obtained. | 1. Machine Tools Project—expansion of Praga Tools.<br>2. Boilers for Power Project—Paras and Bhusaval<br>3. Barauni Power Project<br>4. Sudamdih Coal Mine Project<br>5. Monidih<br>6. Gidi Coal Washery<br>7. Escorts Scooters and Motor Cycles Project |
| (v) Stage of finalisation of the Project, indicating, *inter alia*, whether<br>(a) Project Reports have been prepared ;<br>(b) whether the project has been cleared for implementation by the Planning Commission, Administrative Ministry and Finance ; and<br>(c) whether firm budget provision has been made. | These points are generally gone into before contracts for supply of equipment are signed. Contracting for all the projects under the Credit has been completed. In respect of items 1,2,3 6 & 7 even deliveries have been completed. |
| (vi) Whether the period of execution of the projects permit of the equipment/stores required for the project procured within the validity period of the loan. | In view of what has been stated at (iii) above, equipment/store can be imported in accordance with the schedule of delivery indicated in the Contracts which were concluded within the validity period of the loan. |

## *SECOND POLISH CREDIT*

| | |
|---|---|
| (i) Name of the country. . | Poland |
| (ii) Date on which the Agreement was signed. . . . . . . | 16-11-1962. |

| | |
|---|---|
| (iii) Validity period of the loan. | Terminal date for contracting will expire on 31-12-1968 but can be extended by mutual consent. There is, however, no terminal date for the utilisation of the credit. |
| (iv) Project/Projects for which the loans were obtained. | 1. Seven deep coal mines.<br>2. Factory for the manufacture of mining machinery, coal washery, etc.<br>3. Cellular concrete factory at Ennore. |
| (v) Stage of finalisation of the Project, indicating, *inter alia*, whether :<br>(a) Project Reports have been prepared ;<br>(b) whether the Project has been cleared for implementation by the Planning Commission, Administrative Ministry and Finnance ; and<br>(c) whether firm budget provision has been made.<br>(vi) Whether the period of execution of the Projects permit of the equipment/stores required for the project procured within the validity period of the loan. | This information is being collected from the projects and the Administrative Ministeries. It will soon be forwarded. |

*THIRD POLISH CREDIT*

| | |
|---|---|
| (i) Name of the Country | Poland |
| (ii) Date on which the Agreement was signed. | 25-1-1965 |
| (iii) Validity period of the loan | Terminal date for contracting expired on 31-3-67 . No final date, has, however, been stipulated for deliveries. |
| (iv) Project/Projects for which the loans were obtained. | Two units of generators of 125 M.W. for Nagpur Power Station. |
| (v) Stage of finalisation of the Project, indicating, *inter-alia*, whether :<br>(a) Project Reports have been prepared ; | Contracting under the Credit has been completed. These points are generally gone into before contracts for supply of equipment are signed. |

(b) whether the project has been cleared for implementation by the Planning Commission, Administrative Ministry and Finance; and

(c) whether firm budget provision has be n made.

| | |
|---|---|
| (vi) Whether the period of execution of the projects permit of the equipment/stores required for the project procured within the validity of the loan. | In view of what has been stated at (iii) above, equipment/store can be imported in accordance with the schedule of delivery indicated in the Contract which was placed within the validity period of the loan. |

*I. YUGOSLAV CREDIT*

| | |
|---|---|
| (i) Name of the country . . . | Yugoslavia |
| (ii) Date on which Agreement was signed. . . . . . | 21-1-1960 |
| (iii) Validity period of the loan . | Terminal date for placing contracts was 21-7-1966. There is no terminal date for deliveries. |
| (iv) Project(s) for which loan was obtained. | 1. Konkan Passenger Ships.<br>2. 4 Motor Cargo Ships.<br>3. Three Bulk Carriers.<br>4. Equipment for Periyar, Sholayar I & II (Parambikulam) and Kodayar Power Projects.<br>5. Equipment for Yamuna I Stage Power Project.<br>6. Equipment for Kalakote Power Project.<br>7. Equipment for Kanpur — Panki Power Project.<br>8. Equipment for Kandla Power Project.<br>9. Equipment for development of Fisheries (Marine Diesel Engines).<br>10. Crane for Upper Sileru Power Project. |

| | |
|---|---|
| (v) Stage of finalisation of the project, indicating whether— | (v) (a) to (c) : |
| (a) Project Reports have been prepared. | These stages are gone through before contracts are placed. |
| (b) the project has been cleared for implementation by Planning Commission, Administrative Ministry and Finance ; and | Contracting has been completed for all the projects. Further, in respect of projects at S. Nos. 1, 2, 7,8,9 and 10 deliveries have also been completed. |
| (c) firm budget provision has been made. | |
| (vi) Whether the period of execution of projects permits of the equipment/stores required for the project procured within the validity period of the loan. | In view of the position explained against (iii) above, equipment/stores can be imported in accordance with the schedule of deliveries indicated in the respective contracts which were placed within the validity period of the loan. |

## *II. YUGOSLAV CREDIT*

| | |
|---|---|
| (i) Name of the country . . . . | Yugoslavia |
| (ii) Date on which the Agreement was signed. . . . . . | 18-6-1966 |
| (iii) Validity period of the loan. | Terminal date for contracting is 31st December, 1970. There is no terminal date for deliveries. |
| (iv) Project(s) for which loan was obtained. | No projects were indicated in the credit agreement. Orders have, however, been placed for the following :<br>1. Two Damodar Bulk Carriers.<br>2. Two Tankers of S.C.I.<br>3. Three Bulk Carriers of S.C.I<br>4. One Passenger-*cum*-cargo ship ship for Laccadive Island for S.C.I.<br>5. Milk Plant (Rural Creamery) at Jind (Haryana).<br>6. Two Milk Plants (Rural Creameries) in Punjab. |

| | |
|---|---|
| (v) Stage of finalisation of project indicating whether— | (v) (a) to (c) : |
| (a) Project Reports have been prepared ;<br>(b) project has been cleared for implementation by Planning Commission, Administrative Ministry and Finance ; and<br>(c) firm budget provision has been made. | These points are gone into before contracts are placed. Contracts have already been placed for projects mentioned against (iv) above. |
| (vi) Whether period of execution of project permits of equipment/stores required for the project procured within the validity period of the loan. | In view of the position explained against (iii) above equipment stores can be imported in accordance with schedule of deliveries indicated in the respective contracts which were placed within the validity period of the loan. |

*HUNGARIAN CREDIT*

| | |
|---|---|
| (i) Name of the country . . . | Hungary |
| (ii) Date on which Agreement signed. | 15-6-1966 |
| (iii) Validity period of loan . . . | Terminal date for contracting is 31st December, 1970. No final date has, however, been fixed for deliveries. |
| (iv) Projects for which loans were obtained. | No firm project has been included under the Agreement. The credit will finance the cost of plants to be mutually agreed upon. |
| (v) Stage of finalisation of the project indicating wheter :<br>(a) project reports have been prepared ;<br>(b) project has been cleared for implementation by Planning Commission, Administrative Ministry and Finance ; and<br>(c) firm budget provision has been made.<br>(vi) Whether the period of execution of projects permits of the equipment/stores required for the project procured within the validity period of the loan. | The project have not yet been chosen. |

## *BULGARIAN CREDIT*

| | |
|---|---|
| (i) Name of the country] . | Bulgaria |
| (ii) Date on which Agreement signed. | 2-5-1967. |
| (iii) Validity period of loan. . | Terminal date for contracting is 31-12-1971. No final date has, however, been fixed for deliveries. |
| (iv) Projects for which loans were obtained. | No firm projects were indicated in the agreement. The credit will finance the cost of plants to be mutually agreed upon.<br><br>One contract has so far been signed on 30th March, 1968 by Fertilizer Corporation of India for setting up a Sulphuric Acid Plant at Sindri. |
| (v) Stage of finalisation of the project, indicating whether—<br><br>(a) Project Reports have been prepared ;<br><br>(b) Project has been cleared for implementation by Planning Commission, Administrative Ministry and Finance ; and<br><br>(c) firm budget provision has been made. | (v) (a) to (c):<br><br>These points are gone into before contracts are placed. |
| (vi) Whether the period of execution of projects permits of the equipment/ stores required for the project procured within the validity period of the loan. | In view of position explained against (iii) above, equipment/ stores can be imported in accordance with the schedule of deliveries indicated in the contract regarding Sindri Project which was placed within the validity period of the credit. |

## APPENDIX IV-A

(*vide* paragraph 3.26 of Report)

*Statement of loans advanced to State Governments for displaced persons from Pakistan upto 31-3-68*

(Rupees in lakhs)

| Name of State | East Pakistan | West Pakistan | Total |
|---|---|---|---|
| Assam | 1016·14 | — | 1016·14 |
| Orissa | 121·70 | — | 121.70 |
| Bihar | 306.62 | 40.50 | 347.17 |
| West Bengal | 6327.80 | — | 6327.80 |
| Uttar Pradesh | 234.06 | 869.68 | 1103.74 |
| Madras | — | 0.06 | 0·06 |
| Jammu & Kashmir | — | 721.08 | 721.08 |
| Mysore | 8.00 | 7.98 | 15.98 |
| Maharashtra | 113.28 | 1166.74 | 1280.02 |
| Andhra Pradesh | 71.42 | 2.55 | 73.97 |
| Punjab | 0.54 | 1766.20 | 1766.74 |
| Rajasthan | 22.24 | 586.49 | 608.73 |
| Madhya Pradesh | 191.06 | 392.97 | 584.03 |
| Bhopal | — | 52.25 | 52.25 |
| Madhya Bharat | — | 104.30 | 104.30 |
| Vindhya Pradesh | — | 35.21 | 35.21 |
| Cachar | 108.24 | — | 108.24 |
| Ajmer | — | 23.56 | 23.56 |
| Pepsu | — | 273.68 | 273.78 |
| Himachal Pradesh | — | 1.68 | 1.68 |
| Gujarat | — | 2.43 | 2.43 |
| Kutch | — | 128.05 | 128.05 |
| Saurashtra | — | 124.93 | 124.93 |
| Manipur | 11.51 | — | 11.51 |
| Tripura | 892.37 | — | 892.37 |
| Delhi | — | 60.17 | 60.17 |
| TOTAL | 9424.98 | 6360.51 | 15785.49 |

## APPENDIX IV-B

*Statement of year-wise loans advanced to State Governments for displaced persons for Pakistan*

(Rupees in lakhs)

| Year | East Pakistan | West Pakistan | Total |
|---|---|---|---|
| 1947-48 | — | 0.71 | 0.71 |
| 1948-49 | — | 984.55 | 984.55 |
| 1959-50 | 321.81 | 1653.12 | 1974.93 |
| 1950-51 | 538.37 | 875.17 | 1413.54 |
| 1951-52 | 898.07 | 748.97 | 1647.04 |
| 1952-53 | 747-28 | 549.53 | 1286.81 |
| 1953-54 | 387-56 | 189.40 | 576.96 |
| 1954-55 | 687.07 | 142.13 | 829.20 |
| 1955-56 | 883.27 | 171.68 | 1054.95 |
| 1956-57 | 1129.99 | 70.52 | 1200.51 |
| 1957-58 | 632.03 | 104.42 | 736.45 |
| 1958-59 | 626.14 | 59.67 | 685.81 |
| 1959-60 | 525.28 | 5.70 | 530.98 |
| 1960-61 | 328.91 | 0.78 | 329.69 |
| 1961-62 | 344.32 | 60.15 | 404.47 |
| 1962-63 | 230.18 | 111.91 | 342.09 |
| 1963-64 | 157.13 | 0.02 | 157.15 |
| 1964-65 | 145.14 | 0.04 | 145.18 |
| 1965-66 | 278.22 | 41.02 | 319.24 |
| 1966-67 | 265.50 | 371.43 | 636.93 |
| 1967-68 | 298.71 | 219.59 | 518.30 |
| TOTAL | 9424.98 | 6360.51 | 15785.49 |

## APPENDIX V

(*Vide* paragraph 3.34 of Report)

*Statement showing Ministry-wise analysis of Loans and Advances to State Governments in respect of which unspent balances remained unrefunded as on 31st March, 1967.*

| Name of Ministry | | Bihar | Gujarat | Jammu and Kashmir | Maharashtra | Madhya Pradesh | Mysore | Orissa | West Bengal | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| | | | | | | | | | | (In lakhs of rupees) |
| Finance | Original Loan | .. | .. | 20.00 | .. | .. | .. | .. | .. | 20.00 |
| | Unspent Balance | .. | .. | 3.91 | .. | .. | .. | .. | .. | 3.91 |
| Commerce | Original Loans | .. | .. | .. | .. | .. | .. | 4.71 | 4.84 | 9.55 |
| | Unspent Balance | .. | .. | .. | .. | .. | .. | 2.90 | 3.73 | 6.63 |
| Education | Original Loan | 51.70 | 19.75 | 2.37 | 77.10 | .. | 78.13 | .. | .. | 229.05 |
| | Unspent Balance | 0.40 | 7.08 | 2.37 | 5.63 | .. | 31.61 | .. | .. | 47.09 |
| Food, Agriculture, Community Development and Co-operation. | Original Loan | 1.67 | .. | 2.25 | .. | 4.50 | .. | .. | .. | 8.42 |
| (Deptt. of Agriculture) | Unspent Balance | 0.09 | .. | 2.25 | .. | 4.50 | .. | .. | .. | 6.84 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Food, Agriculture, Community Development and Cooperation (Deptt. of Cooperation) | Original Loan | .. | .. | 6.25 | .. | .. | .. | .. | .. | 6.25 |
| | Unspent Balance | .. | .. | 1.12 | .. | .. | .. | .. | .. | 1.12 |
| Transport and Shipping | Original Loan | .. | 20.49 | .. | .. | .. | .. | .. | .. | 20.49 |
| | Unspent Balance | .. | 4.80 | – | .. | .. | .. | .. | .. | 4.80 |
| Industrial Development and Company Affairs | Original Loan | .. | .. | | .. | .. | .. | 8.77 | .. | 8.77 |
| | Unspent Balance | .. | .. | | .. | .. | .. | 1.68 | .. | 1.68 |
| TOTAL | Original Loan | 53.37 | 40.24 | 30.87 | 77.10 | 4.50 | 78.13 | 13.48 | 14·84 | 302.53 |
| | Unspent Balance | 0.49 | 11.88 | 9.65 | 5.63 | 4.50 | 31.61 | 4.58 | 3.73 | 72.07 |

# APPENDIX VI

(*Vide* paragraph 4.2 of Report)

*Statement showing details of Capital Outlay on Industrial Development*

| Name of undertaking/ concern | Investment | | | Dividend credited to Government | |
|---|---|---|---|---|---|
| | during 1965-66 | during 1966-67 | upto 1966-67 | during 1965-66 | during 1966-67 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| | (In crores of rupees) | | | (In lakhs of rupees) | |
| *I. Statutory Corporations* | | | | | |
| Air India Corporation . | .. | .. | 26.82 | 67 | 54 |
| Indian Airlines Corporation | .. | .. | 21.94 | 55 | .. |
| Oil and Natural Gas Commission . . . | —8.15 | 6.38 | 112.50 | .. | .. |
| Life Insurance Corporation | .. | .. | 5.00 | .. | 200 |
| *II. (a) Government Companies* | | | | | |
| Indian Oil Corporation (Marketing and Refineries Divisions) . . . | 21.03 | 5.79 | 71.08 | .. | .. |
| Neyveli Lignite Corporation Ltd. . . . . . | .. | .. | 80.00 | .. | .. |
| Heavy Electricals Ltd. . | 2.00 | .. | 50.00 | .. | .. |
| Heavy Engineering Corporation . . . . . | 3.95 | 11.05 | 100.00 | .. | .. |
| Hindustan Steel Ltd. . | .. | .. | 528.00 | .. | .. |
| Hindustan Antibiotics Ltd. | .. | .. | 2.18 | 25 | 49 |
| Hindustan Cables . . | .. | 1.00 | 2.79 | 10 | 11 |
| National Newsprint and Paper Mills . . . | .. | .. | 2.50 | 15 | 15 |
| State Trading Corporation | .. | .. | 2.00 | 20 | 20 |
| Minerals and Metals Trading Corporation | .. | 1.00 | 3.00 | .. | 20 |

| 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|
| | (In crores of rupees) | | (In lakhs of rupees) | | |
| National Coal Development Corporation . . . | 8.67 | 14.04 | 75.09 | .. | .. |
| Fertilizer Corporation . | 3.45 | 6.40 | 57.90 | .. | .. |
| Hindustan Machine Tools. | 2.00 | 0.50 | 11.29 | 80 | .. |
| Hindustan Shipyard . | 0.04 | .. | 5.97 | .. | .. |
| Indian Telephone Industries | .. | .. | 3.59 | 18 | 23 |
| Ashoka Hotels Ltd. . | .. | .. | 1.31 | 14 | 7 |
| Mogul Lines Ltd. . | .. | .. | 2.95 | 6 | 6 |
| National Instruments Ltd. | 0.75 | 0.60 | 2.69 | 3 | .. |
| Hindustan Insecticides Ltd. | .. | .. | 0.97 | 6 | |
| *Other Companies* | | | | | |
| Indian Explosives Ltd. . | .. | .. | 0.60 | 17 | 12 |
| Singareni Collieries Company Ltd. . . . . . | .. | .. | 2.24 | 12 | 13 |
| Oil India Ltd. . . | 0.50 | .. | 26.50 | 249 | 263 |
| British India Corporation . | .. | .. | 1.06 | 6 | 2 |
| Fertilizers and Chemicals, Travancore . . . . | .. | .. | 3.50 | .. | .. |
| III. International Finance Corporation . . . . | .. | .. | 2.11 | .. | .. |
| IV. Atomic Energy Development . . . . | 31.15 | 56.69 | 129.53 | | |
| V. Other items . . . . | 85.00 | 90.76 | 302.02 | 62 | 83 |
| Total . . . . | 150.39 | 194.21 | 1637.16 | 665 | 786 |

## APPENDIX VII

(*Vide* paragraph 4.10 of Report)

*Statement showing the Installed Capacity and Actual Production of some major Public Sector Undertakings*

| | Installed Capacity | Actual production in 1967-68 |
|---|---|---|
| 1. Praga Tools Ltd. (Value only—Rs. in lakhs) . | 198·92 (Planned targets) | 164·25 |
| 2. *Hindustan Antibiotics Ltd.* | | |
| (i) Bulk Penicillin (MMU) | 84·00 | 53·39 |
| (ii) Bulk Streptomycin (Kgs.) | 84000 | 68070 |
| (iii) Vialled Products (Nos. in lakhs) . | 552·00 | 531·60 |
| 3. *Heavy Engineering Corporation Ltd.* | | |
| (i) H.M.B.P. (Tonnes) | 105000 (ultimate capacity) | 14656 |
| (ii) F.F.P. (Tonnes) . | 18161 | 9226 |
| (iii) H.M.T.P. (Tonnes) | 146 | 15 |
| 4. *Hindustan Machine Tools Ltd.* | | |
| (i) Machine Tool Division (Nos.) | 5000 | 1835 |
| (ii) Watch Factory (Nos.) | 240000 | 250000 |
| 5. *Surgical Instrument Plant of I.D.P.L. Ltd.* | | |
| Surgical Instruments (Nos.) | 21,70,000 | 78,998 |
| 6. Garden Reach Workshop Ltd . . . . . (Value only—Rs. in lakhs) | 772·00 (Planned targets) | 649·44 |

| | Installed Capacity | Actual production in 1967-68 |
|---|---|---|
| 7. *Neyveli Lignite Corporation Ltd.* | | |
| (i) Lignite Extraction (Tonnes) | 48,00,000 | 34,00,572 |
| (ii) Power Generation (Kw Hrs.) | 3833·34 | 1812·30 |
| (iii) (a) Leco (Tonnes) | 363000 | 98793 |
| (b) Charfines (Tonnes) | 129000 | 32189 |
| (iv) Urea (Tonnes) | 151936 | 71215 |
| (v) Washed Clay (Tonnes) | 6000 | 2595 |
| 8. National Instruments Ltd. (Value only including repairs — Rs. in lakhs) | 83,59,735 (Planned targets) | 55,52,240 |
| 9. Hindustan Salts Ltd. and | | |
| 10. Sambhar Salts: | | |
| (i) Common Salt (Sambhar and Kharagodha—Tonnes) | 300000 (Annual targets) 262000 (Annual targets revised since May, 1968) | 2643000* |
| (ii) Rock Salt at Mandi (Tonnes) | 3500 Annual targets since revised to 2500 from May, 1968. | 2257* |
| (iii) Pan Salt at Mandi (Tonnes) | 80 (Annual targets) | 54* |
| (iv) Refined Salt (Tonnes) | 650 (Annual targets) | 474* |
| 11. *Heavy Electricals (India) Ltd.* | | |
| Switchgears, all types (Nos.) | 2961 | 1358 |

*Production relates to nine months period from October, 1967 to June, 1968.

| | Installed Capacity | Actual Production in 1967-68 |
|---|---|---|
| 2. Controlgears, all types (Nos.) . . . | 610 | 351 |
| 3. Transformers (Power) (MVA) | 3000 | 1300 |
| 4. Capacitors (KVAr) . | 135000 | 95004 |
| 5. Traction Motors, all types (Nos.) . | 816 | 502 |
| 6. Industrial Motors (Nos.) | 616 | 132 |
| 12. Mining and Allied Machinery Corporation Coal Mining Machinrey Project (Tonnes) . . | 45000 (*ultimate capacity*) | 5076 |
| | 17600 target for 1967-68 | |
| 13 *Hindustan Cables Ltd.* | | |
| (i) Dry core cables (CKM) . | 800000 | 643142 |
| (ii) Coaxial cables (TKM) | 2832 | 2313 |
| (iii) Plastic wires and Cables (CKM) . . . | 83328 | 27888 |
| 14. Indian Telephones Industries Ltd. | | |
| Telephone (Nos.) | 245253 (Targets) | 216333 |
| 15. Hindustan Teleprinters Ltd. (Nos.) | 8496 | 3504 |
| 16. *Bharat Earth Movers Ltd.* | | |
| (i) Earth Movers Division (Nos.) . . | 208 | 141 |
| | (Planned targets) | |
| (ii) Rail Coach Division (Nos.) . . . | 268 | 255 |

| | Installed Capacity | | Actual Production in 1967-68 |
|---|---|---|---|
| 17. *Hindustan Steel* | | | |
| (a) *Rourkela*: | | | |
| Hot Metal (for sale) | 200,000 (Target) | | 64,000 |
| Saleable steel | 708,000 | | 640,000 |
| (b) *Bhilai* : | | | |
| Hot Metal (for sale) | 840,000 | (Target) | 656,000 |
| Saleable steel | 1 583,000 | | 1252,000 |
| (c) *Durgapur* : | | | |
| Hot metal (for sale) | 420,000 | (Target) | 278,000 |
| Saleable steel | 814,000 | | 527,000 |
| 18. *National Coal Development Corporation* | 11·260 M. Tonnes (Production Programme). | *Prodn.* 1967-68 | 10·35M Tonnes. |

## APPENDIX VIII

*Summary of main conclusions recommendations*

| S. No. | Para No. of Report | Ministry/Deptt. concerned | Conclusions Recommendations |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | 1·6 | Finance | While the Committee are glad to note that overall revenue receipts during the year 1966-67 approximated closely to the budget estimates, they find that there were wide variations during that year between the estimates and actuals under some of the Principal Heads of Tax Revenues. Under the head 'Corporation Tax', the realisation was less than the estimates by Rs. 41.27 crores (11.09 per cent of the estimates) while, under the head 'Customs', the realisation exceeded the estimates by Rs. 25.17 crores (4.49 per cent of the estimates). In regard to some of the individual direct taxes, the variations were still wider, being 473.33 per cent, 23.36 per cent and 35.66 per cent under the Estate Duty, Wealth Tax and Gift Tax respectively. This indicates that there is scope for improvement in the technique of estimation by the Tax Planning Cells in the Boards of Direct Taxes and Indirect Taxes. |

| | | | |
|---|---|---|---|
| | | | The Committee hope that the recent trend towards realistic estimation of revenues would be not only sustained but improved upon sò that the estimates under the different heads correspond more closely to the actuals. |
| 2 | 1·11 | Do. | The Committee would like Government to keep under constant watch the expenditure on 'General Administration' and to explore the scope for further economies. A systematic study of the staffing pattern in the major departments of Government should be undertaken by the Staff Inspection Unit of the Ministry of Finance on a phased programme and posts found surplus as a result of the study should be surrendered. |
| 3 | 1·13 | Finance<br>All other Ministries | The Committee have been repeatedly impressing upon Ministries/Departments the need to frame realistic estimates. During the year 1966-67, the savings that occurred in 22 Grants exceeded 20 per cent of the total grant. Savings in seven Grants alone amounted to Rs. 184.12 crores. The Committee would like to reiterate that estimating on the safe side is as much open to objection as estimating on the low side. Indeed, from one point of view, 'safe' estimating is even more objectionable, as it inflates unnecessarily the requirements of resources, and, in the process, might well lead to needless additional taxation. The Committee trust that effective steps will be taken by the Ministry of Finance to ensure that the Ministries/Departments frame more realistic estimates. |
| 4 | 1·16 | Do. | The Committee would like to watch the results of the measures mentioned in paras 1.14—1.15 of the Report through future Audit Reports. |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| 5 | 1·21 | Finance<br>All other Ministries | The Committee have been repeatedly urging Ministries/Departments to surrender savings as soon as the possibility of such savings is envisaged without waiting till the end of the year. The Ministry of Finance had also issued instructions to this effect in October, 1962. The Committee are pained to observe that there has been no improvement in the matter, and there has hardly been a year in which practically the entire surrender was not made in the month of March. This shows that the instructions issued by the Ministry of Finance have had no effect on the Ministries. The Committee would like the Ministry of Finance to take effective steps to ensure that the provisions of the Rules in this regard are strictly complied with by the Ministries. |
| 6 | 2·9 | Finance | The Committee note that servicing of external debt has become a problem of major dimensions and that payments on this account "rose from about 15 per cent of merchandise exports in 1961 to about 28 per cent in 1967, adding to the severe constraints on the balance of payments." As pointed out by the World Bank in its annual report for 1968, this situation is the legacy of past years in which the country incurred "large amounts of debt on terms that were inappropriate to the country's economic position." The Committee are glad to observe that, as a result of efforts initiated by Government, it has been possible to reschedule debt obligations affect- |

| | | | |
|---|---|---|---|
| | | | ing about 25 per cent of the debt service payments due in 1968-69 and that the prospects of re-scheduling of debt obligations for the next two years are promising. The Committee would, however, like to point out that this can at best be only a palliative. In the ultimate analysis, as pointed out by the World Bank, the solution to the problem has to be found by making the "overall economic policies" effective and expanding exports by a series of bold and forward-looking measures. The Committee note in this connection that the export performance of public sector undertakings, in which large amounts of foreign capital have been channelised, has not been impressive. Out of 25 undertakings in which foreign exchange utilised upto end of 1966-67 was Rs. 1021 crores, the export earnings that materialised were only Rs. 26 crores in 1965-66 and Rs. 53 crores in 1966-67. These were accounted for by 7 out of the 25 undertakings, Air India alone accounting for Rs. 19 crores in 1965-66 and Rs. 30 crores in 1966-67. The Committee would like Government to examine how best the performance of these undertakings could in this respect be geared up. |
| 7 | 2.10 | Finance | In view of the growing burden of external debt, the Committee would also like Government to bear in mind the salutary principles enunciated by the Estimates Committee in their Eleventh Report (Fourth Lok Sabha). The effort should be to secure as much of foreign loan as possible "on long-term and non-project basis" so that "in their anxiety to fill the gap in their resources", Government do not "rush into loans for short-term periods on commercial rates which |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| | | | the present state of India's economy can hardly bear." Where loans are tied to projects "Government should ensure that, as far as possible, they generate the resources to repay the instalments of principal and interest on loans contracted for as and when they fall due." |
| 8 | 2.15 | Finance | The Committee note that the terms of the First Yugoslav credit obtained by the Government of India provided for the quantum of credit being related to the parity rate of the Indian rupee in terms of the British Pound. With the devaluation of the rupee, the balances of this loan were written up. However, the question of writing down of the balances by Rs. 2.97 crores following the devaluation of the pound is still under discussion, though the Government of India is effecting the payment of interest and the repayment of principal only with reference to the new parity rate between rupee and pound. The Committee would like to be apprised in due course of the outcome of the negotiations now in progress. |
| 9 | 2.23 | Do. | The Committee cannot help feeling that the pace of utilisation of external assistance has been rather slow. This is exemplified by the fact that in respect of the Hungarian credit for Rs. 25 crores obtained under an agreement signed on 15th June, 1966, "to finance projects mutually agreed upon", "the projects have not yet been chosen," though the terminal date for "contracting" under the agreement is 31st December, 1970. It is also regrettable that the Ministry |

| | | | |
|---|---|---|---|
| | | | of Finance has yet no information whether, in respect of credits amounting to Rs. 250 crores for Fourth Plan Projects negotiated with the U.S.S.R. in December, 1966, and the Second Polish credit for Rs. 15.50 crores obtained in November, 1962, the projects concerned have been investigated and cleared for implementation. These instances of delay in utilisation of credit are not exhaustive but illustrative and no attribution of blame to any particular party is intended. While the Committee appreciate the Government's anxiety to be circumspect about the choice of projects to be financed out of foreign assistance, they are unable to understand why the choice of projects and other preliminaries to be gone through for utilisation of external credits should take so much time. The Committee would like Government to investigate the reasons for non-utilisation of external credits and to take remedial action. They would also like to emphasise the need for advance preparatory action on projects to be financed out of foreign credits. |
| 10 | 2.28 | Finance<br>Commerce | The Committee are disturbed to learn that goods valued at Rs. 2.6 crores meant for export against rupee payments under Trade & Payments Agreements executed with Yugoslavia, Hungary, East Germany, Czechoslavakia and Tunisia were diverted on attempted to be diverted to convertible currency areas. As the cases are at various stages of adjudication, the Committee would like to reserve their comments at this stage. They would like to be apprised of the final outcome of the various proceedings now in progress. The Committee would also urge Government to study carefully, in the light of the |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| | | | findings now available, the *modus operandi* adopted by the parties so that loopholes in the existing regulations and procedures could be plugged. Government would also do well to consider how best they could make a more realistic assessment of the import requirements of countries with whom rupee payment arrangements are executed, so that the scope for diversion of exports is eliminted. |
| 11 | 2.35 | Finance | The Committee have earlier in this Report referred to the slow pace of utilisation of external credit. One direct consequence of this has been the payment of commitment charges to some of the lending countries or international institutions. The amount of such charges paid for the four years ending 1967-68 was over Rs. 95 lakhs. While the Committee appreciate that such charges could not possibly be totally avoided, they would like to reiterate their recommendation in paragraph 1.25 of their 54th Report (Third Lok Sabha) that the payment on this account should be minimised. The Committee would in this connection like to invite attention to the observations of the Estimates Committee in para 4.38 of their 11th Report (Fourth Lok Sabha) about "the need for advance detailed planning and realistic assessment of requirements so as to reduce to a minimum the payment of commitment charges." |

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| 12 | 3.9 | Do. | The Committee are concerned over the fact that ways and means advances given to the State Governments to defray expenditure on Plan schemes during 1965-66 have still not been finally adjusted on the basis of audited figures of expenditure on the schemes. According to the procedure prescribed by Government, the adjustment was to be completed by 30th September, 1967 on the basis of audit certificates to be furnished by the State Accountants-General. However, due to difficulties experienced by the State Governments in supplying expenditure statements to the Accountants-General, the issue of audit certificates has been held up. The Committee would in this connection like Government to take note of the observations of the Finance Commission about the need for State Governments to arrange for "speedy reconciliation" of their expenditure figures with those of the Accountants-General and initiate necessary action in this respect. The Committee would also like Government to consider, in consultation with the Comptroller & Auditor General, how far the existing pattern of assistance renders final accounting of Plan expenditure incurred by the State Governments a time-consuming and cumbersome process and whether a simplification of the scheme for assistance on the lines suggested by the Administrative Reforms Commission would facilitate speedier accounting and more expeditious adjustment of the advances given to State Governments. |
| 13 | 3.11 | Do. | The Committee desire that the question of early re-payment of the pre-partition debt should be taken up with the Government of Pakistan for expeditious settlement. |

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| 14 | 3·16 | Finance | The Committee observe that some of the State Governments have not been regular in repaying loans advanced to them as well as interest due thereon. The amount overdue as on 31st March, 1967 was over Rs. 28 crores of which about Rs. 27 crores were due from the Governments of Jammu and Kashmir and West Bengal. The Committee note that the finances of Jammu & Kashmir "are in a very difficult position." They hope that as a result of the study by the Finance Commission, which, *inter alia*, has been asked to report on "the scope for better fiscal management...... by the States", the finances of this State will be stabilised. In regard to the other State, the Committee note that the liability for certain interest payment is in dispute and may be considered by the Finance Commission. The Committee trust that the matter will be sorted out expeditiously. |
| 15 | 3·23 | Do. | The Committee note that the bulk of the Central assistance to States is for Plan Schemes costing individually less than Rs. 5 crores and that these Schemes do not, under the existing procedure, require "specific clearance" from the Government of India.<br><br>In view of the instances of irregularities in utilisation of Central assistance brought out in the Audit Reports on the accounts of some of the State Governments as well as the reports of the State Public Accounts Committees, the Committee would like Ministry of Finance |

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| | | | to conduct a study suggested in paragraph 1.44 of the P.A.C.'s 54th Report (Third Lok Sabha) at more regular intervals and take suitable remedial measures where called for. |
| 16 | 3.24 | Do. | The Committee would also like to draw attention to the observations of the Administrative Reform's Commission that the objectives of Central assistance to States for Plan Schemes "that funds are used to achieve certain pre-determined ends has remained largely unfulfilled in view of the possibility of circumventing these objectives." The Committee would like Government to examine how far a change in the pattern of assistance on the lines suggested by the Commission would help to secure proper utilisation of Plan assistance given to the State Governments. |
| 17 | 3.33 | Do. | The Committee note that the amount of loans advanced to State Governments for the rehabilitation of displaced persons upto 31st March, 1968 was Rs. 157.85 crores. The Department of Rehabilitation have taken the view that "the proper utilisation and accountal of these loans.... is primarily the responsibility of the State Government and the State Accountant General." However, the following facts suggest the need for rethinking on the subject. A preliminary investigation carried out by the Government of India in four States showed the state of loan records maintained by the departmental authorities to be "unsatisfactory" in some districts of one State, a "complete record" about disbursement of loans to be "not available" in two districts in a second State and the reconstruction |

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| | | | of loan accounts "to be difficult" in one out of two offices in a third State, as they had been "damaged considerably in a fire in 1961". In the fourth State, it was found that "some records (in one of the districts) were destroyed in a fire." Besides, the investigation also disclosed in one of the States that detailed accounts of disbursement of nearly Rs. 20 lakhs had not been submitted to the Accountant General and that there was a variation of Rs. 55 lakhs between the figures of disbursement brought to account by the Accountant General and the Departmental authorities. In view of these facts, the Committee would like Government to have a thorough investigation carried out into the state of loan accounts, in consultation with the Comptroller & Auditor General of India, so as to resolve all discrepancies, before any part of the loan is remitted. The Central Government should also ensure that State Governments improve the machinery for recovery of loans and interest and make prompt repayments to the Centre. |
| 18 | 33·6 | Finance | While the Committee note that bulk of the unspent balances in respect of loans for Centrally-sponsored scheme have been refunded by State Governments, they cannot help observing that these balances were allowed to remain unrefunded in some cases for as many as six to seven years. They trust that steps will be |

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| | | | taken to ensure that the residual portion of the unspent balances with the States is refunded without delay. |
| | | | The Committee would also like the Ministry of Finance to keep a close watch in future on the utilisation of loans by State Governments so that refund of unspent balances is obtained from them without loss of time. |
| 19 | 3.47 | Do. | The Committee are greatly perturbed over the persistence and the size of overdrafts run up by some of the State Governments with the Reserve Bank of India. Consequently, the Government of India have had to advance loans to the State Governments on a progressively increasing scale to help them clear their overdrafts. Some idea of the magnitude of the problem can be had from the fact that such loans rose from Rs. 51 crores in 1965-66 to Rs. 108 crores in 1966-67 and Rs. 118 crores in 1967-68. Apart from this, some of the State Governments had "unauthorised overdrafts," totalling Rs. 31.53 crores as at the end of March, 1968. As pointed out by the Finance Commission in their Interim Report, "the occurrence of such overdrafts and their practically automatic clearance by the Centre through *ad hoc* loans have grave effects on the national economy." They diffuse the responsibility for decisions affecting money supply and 'violate' a 'fundamental principle of sound monetary management' that a country with a unified currency system cannot afford "to have more than one independent authority |

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| | | | taking measures which result in increase of money supply." Besides, as pointed out by the Finance Commission, "the benefits of this violation go to a few States which draw on the national resources at their own will without any scrutiny of their needs at the national level; while the burdens are borne by all, including the States which are less prosperous." The Committee hope that the various measures recommended by the Finance Commission to overcome this situation will be rigorously enforced by the Government of India. |
| 20 | 3.53 | Finance | The Committee are concerned over the heavy arrears in the realisation of loans advanced by the Rehabilitation Finance Administration Unit. As against the outstandings of Rs. 3.8 crores on 31st March, 1967, the amount recovered during 1967-68 was merely Rs. 10.33 lakhs. The amount written off during the same period was Rs. 23.05 lakhs—more than double the amount recovered. |
| 21 | 4.31 | Do. | The Committee are concerned over the fact that the return on investments in public sector undertakings has been progressively diminishing. According to the figures given by Government, the capital investment in these undertakings increased from Rs. 2,037 |

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| | | | crores in 1964-65 to Rs. 2,841 crores in 1966-67. The capital employed in production also correspondingly rose from Rs. 1,266 crores in 1964-65 to Rs. 2,057 crores in 1966-67. However, the profits of these undertakings in terms of capital employed declined from 3·7 per cent (Rs. 46.3 crores) in 1964-65 to 2.8 per cent (Rs. 57.8 crores) in 1966-67. As the Secretary, Ministry of Finance himself conceded during evidence, this performance is "very unsatisfactory." If the performance is judged by the actual dividends paid to Government, instead of the profits made, a more depressing picture emerges. Considering the need pointed out by the Administrative Reforms Commission for these undertakings to "generate surpluses and augment the resources of the State" to "provide resources for further development", the Committee feel that the performance of these undertakings needs to be greatly and continuously improved. |
| 22 | 4·32 | Do. | The Committee note from the analysis of the performance of Governmental undertakings that a major reason for their poor performance was the existence of unutilised surplus capacity in the undertakings, which burdened the units with heavy over-capitalisation. The figures given by Government in this respect are very revealing. The installed capacity of Hindustan Steel was 5·9 million tonnes, against which the Plan "was able to make and sell only 2:4 million tonnes." Likewise, the National Coal Development Corporation "had originally envisaged a target of 26 million tonnes,.... later reduced to 15·5 million tonnes, but their actual sales have been only 9.6 million tonnes." As pointed out by the Administrative |



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| | | | Reforms Commission, this situation has resulted from "the execution of projects on the basis of incompletely conceived plans and estimates" and "a lack of proper assessment of the demand for the products." The warning note struck by the Administrative Reforms Commission in this respect is also significant: "The damage to the national economy as a result of miscalculation or mismanagement of these enterprises cannot be tolerated with equanimity by the people who have to bear the burden of not only providing the capital but also of having to pay high prices for their products." |
| | | | The Committee note that the Administrative Reforms Commission have made a number of suggestions for ensuring that additional capacity is not planned for in future without proper 'feasibility studies'. They hope that this drill will be rigorously followed by Government. The Committee would also like Government to take steps to have surplus capacity in the undertakings mopped up by appropriate diversification of production or through measures to step up exports. Elsewhere in the Report, the Committee have stressed the need for gearing up the export performance of Governmental undertakings in the context of the heavy debt servicing burden faced by the country. The Committee hope the matter will receive the urgent attention of Government. The Committee need hardly add that without a conscious and sustained effort to keep up quality and control costs to make products competitive, the country's export drive can hardly succeed. |

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| 23 | 4·33 | Do. | The Committee also notice that scarcity of trained manpower has substantially impeded the efficient working of these undertakings. As pointed out by the Administrative Reforms Commission, "the most important failure of the public sector has been its inability to develop its own resources of managerial and technical personnel." The Commission have made a number of far-reaching recommendations to ensure that the best available talent is recruited and trained. The Committee expect these recommendations to be expeditiously implemented. |
| 24 | 5·6 | Do. | The Committee take a serious view of the fact that a number of banks or branches of banks which were authorised to accept donations to the National Defence Fund have failed to render certified annual statements of collections to the Accountants-General. The information furnished by Government shows that 5,992 banks or branches of banks had not submitted statements of collections till 30th April, 1968, the statements dating from 1963 onwards. 139 of these banks/branches had not submitted the statements in any year since 1963. The Committee note that instructions issued by the Reserve Bank to the collecting banks in December, 1966 and again in February, 1968 have not brought about any perceptible improvement in the situation and that Government have now suggested to the Reserve Bank a time-limit of three months for the submission of the pending statements. The Committee trust that the matter will be vigorously followed up so as to ensure that no collection remains unaccounted for. |

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| 25 | 5.9 | Finance<br>Prime Minister's Secretariat | The Committee note that three independent Funds were raised in some States with practically the same objectives as the National Defence Fund. Two of these funds still continue, one having been closed down with some balance. The Committee also note that efforts to persuade the State Governments to make over the balances available in these funds to the National Defence Fund have not been successful. As the Funds are meant to be used primarily for the welfare of the Defence Forces and their families, the Committee feel that these should more appropriately be administered by the Government of India. The Committee trust that efforts to persuade the State Governments will be renewed and pressed successfully. |
| 26 | 5.15 | Do. | (i) The Committee cannot help feeling that the present position in regard to accounting of collections for the National Defence Fund made by non-official organisations is not wholly satisfactory. This is evident from the fact that, apart from 908 receipt books issued to several organisations yet to be "accounted for", "proof of remittance of collections in 83 cases amounting to Rs. 41.87 lakhs was not forthcoming" from one State. "Short remittances" of Rs. 95,600 had also come to notice from reports received from the State Governments so far. Besides, arrangements for audit of collections is still to be made in some cases. |

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| | | | (ii) The Committee note the plea put forward during evidence that the non-accounting of the collections "will not necessarily establish any misappropriation". The Committee consider that, as bulk of the fund was raised about six years ago, it should have been possible by now to have the accounts of collections audited and settle all matters relating to short realisations, short remittances and non-return of receipt books. The Committee would like concerted efforts to be made to ensure that money which was contributed by the people in the name of a national cause is brought to account. |
| 27 | 5.20 | Finance | The Committee note that during the year 1966-67, payments made by Government pursuant to guarantees extended in respect of various Governmental undertakings amounted to Rs. 6.93 crores. The bulk of the payment, amounting to Rs. 6.34 crores, arose out of a guarantee for a minimum dividend in respect of Oil India, a company in which Government have 50 per cent equity participation. The Committee note that the issues arising out of the guarantee extended in respect of this undertaking have already been examined in detail by the Estimates Committee in their 51st Report (Fourth Lok Sabha). |
| 28 | 5.21 | Do. | While the Committee agree that the liability that has so far arisen in terms of guarantees has been small in relation to the total amount of guarantees extended, they feel it is still necessary, as a measure of caution, to take steps to protect Government's interests, particularly in cases where the guarantees are in respect of private parties or undertakings. This would appeal all the more |

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| | | | necessary as, under the existing procedure, decisions regarding guarantees are taken by the individual Ministries/Departments and not by a centralised agency. The Ministry of Finance might therefore consider whether a uniform drill should be prescribed for being followed by the individual Ministries/Departments in the matter of ascertaining the credit-worthiness of the parties/undertakings before a guarantee is given and for keeping a watch on its performance during the period the guarantee remains in force. |
| 29 | 5·22 | Finance | The Committee note that at present a statement of guarantees given is included in the Explanatory Memorandum of the General Budget presented to Parliament. It would be a definite advantage if the information tabulated in the statement could be amplified to bring out the payments, if any, made by Government, pursuant to guarantees given. |
| 30 | 5·24 | Do. | While the Committee appreciate the need for flexibility, they feel that, in view of the substantial amount of guarantees given by Government and the contingent liability that this involves, it is but proper that Government's guaranteeing power is regulated by law as envisaged in Article 292 of the Constitution. In order, however, to enable Government to act quickly when the situation so requires, the law to be made by Parliament may itself have an appropriate built-in flexibility. The Committee would like Government to work out a solution on these lines and initiate necessary action. |



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Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Fifth Edition) and printed by the General Manager, Government of India Press, Minto Road, New Delhi.