

COMMITTEE ON PUBLIC UNDERTAKINGS

(THIRD LOK SABHA)

TENTH REPORT

Action taken by Government on the Recommendations contained
in the Thirty-sixth Report of the Estimates Committee
(Third Lok Sabha)

INDUSTRIAL FINANCE CORPORATION OF INDIA

(MINISTRY OF FINANCE)



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CORRIGENDA

TENTH REPORT OF THE COMMITTEE ON PUBLIC
UNDERTAKINGS ON ACTION TAKEN BY GOVERN-
MENT ON THE RECOMMENDATIONS CONTAINED
IN THE 36TH REPORT OF THE ESTIMATES COM-
MITTEE (THIRD LOK SABHA) ON INDUSTRIAL
FINANCE CORPORATION OF INDIA.

Page	Line	For	Read
11	6th from bottom	'Add 'in' after 'experience'	
11	5th from bottom	'mere'	'more'
21	10th from bottom	'uniformiy'	'uniformity'

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COMMITTEE ON PUBLIC UNDERTAKINGS

(THIRD LOK SABHA)

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Shri A. L. Rai—*Deputy Secretary.*

Shri H. G. Paranjpe—*Under Secretary.*

INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf present this Tenth Report on the action taken by Government on the recommendations contained in the Thirty-sixth Report of the Estimates Committee (Third Lok Sabha) on the Industrial Finance Corporation of India (under the Ministry of Finance).

2. The Thirty-sixth Report of the Estimates Committee was presented to the Lok Sabha on the 16th April, 1963. Government furnished their replies indicating the action taken on the recommendations contained in that Report on the 9th June, 1964. As Public Undertakings are now to be examined by this Committee, the replies of Government to the recommendations made by the Estimates Committee in the aforesaid Report have been considered by this Committee. The draft Report was adopted by this Committee on the 15th April, 1965.

3. The Report has been divided into the following five chapters:—

I. Report.

II. Recommendations that have been accepted by Government.

III. Recommendations which the Committee do not desire to pursue in view of the Government's reply.

IV. Recommendations in respect of which replies of Government have not been accepted by the Committee.

V. Recommendations in respect of which final replies of Government are still awaited.

4. Analysis of the extent of acceptance of the recommendations is given in Appendix II.

NEW DELHI;

May 3, 1965.

Vaisakha 13, 1887 (Saka).

PANAMPILLI GOVINDA MENON,

Chairman,

Committee on Public Undertakings.

CHAPTER I

REPORT

In para 77 of their 36th Report (Third Lok Sabha) on the Industrial Finance Corporation of India, the Estimates Committee (1962-63) had noted that some of the non-official Directors of that Corporation were also Chairmen or Directors of 25 to 30 other bodies. While referring to Section 275 of the Companies Act, 1956 which provided that no person shall hold office at the same time as Director of more than 20 joint stock companies, they recommended that this salutary principle should be made applicable to membership of bodies other than joint stock companies also. Government have stated in reply that since the number of non-officials with the requisite experience in banking industry was limited, it was inevitable that they were called upon to serve many institutions. They have added that the test should, therefore, be not whether they were Directors of a number of companies but whether they took keen interest in the affairs of the Corporation in spite of their many pre-occupations.

2. The Committee consider the reply unsatisfactory. Keeness of interest evinced by a Director in the affairs of a company is something abstract and cannot be easily measured. In the circumstances, a better criterion would be the number of concerns in which he holds Directorship. Moreover, the interest which a Director can take in the affairs of the Corporation is bound to be limited if he serves as a Chairman or Director in a number of organisations. The Committee, therefore, recommend that suitable action may be taken to implement the recommendation.

3. In para 110(ii), the Estimates Committee had recommended that a statement showing (State-wise) the number of applications received and sanctioned, the amount involved etc. should be given in the annual reports of the I.F.C. In reply, Government have stated that the industry-wise distribution of loans is shown State-wise and if the additional information is incorporated, the statement would become quite unwieldy and might not serve any useful purpose.

4. If the desired statement is incorporated, it would enable one to know as to how many applications were received from industrially less advanced States, how many of them were approved and what amount of loans were sanctioned. In the absence of this information, it will not be possible to know whether non-receipt of sufficient number of applications from such areas was the reason for their getting relatively smaller loan assistance from the Corporation. The Committee, therefore, reiterate the recommendation. If one statement incorporating all these details would be unwieldy, they suggest that the information may be given in two statements, one dealing with the number of applications and the other with the amount involved.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1)

While the Committee are glad to note that the Corporation has tried to improve its methods and techniques of appraisal of applications, these do not appear to have been properly publicised. It is only in the first annual report of the Corporation that the original criteria of 1948 for assessing the applications found mention. No attempts have been made in the subsequent reports to give them due publicity and what is more, no publicity whatever is given to the additional principles in any of the reports. The Committee would suggest that sufficient publicity should be given to the criteria so that intending applicants are fully aware of what is required of them.

(Paragraph 1).

REPLY OF THE GOVERNMENT

The observation of the Committee that the Corporation has tried to improve its methods and techniques of appraisal of applications is noted with satisfaction. The form of application evolved by the Corporation is a detailed and comprehensive one, and includes the additional criteria mentioned in para 9 of the Report. The requirements of the Corporation have also been publicised through a folder issued some time back, copies of which were made available to the Committee. The relevant portion of the folder reads as follows:—

IFC appraises projects as business risks. IFC carefully examines in detail the economic, financial and technical soundness of the project. In the assessment of loan proposals, IFC places special emphasis on the technical feasibility, the profit-earning capacity of the project, the prospects of the industry, soundness of the management, balanced capital structure including sound debt equity ratio and other relevant considerations.

Prospective borrowers are encouraged to have informal discussions with the Branch Managers and senior officials of the Corporation at Head Office, who render all necessary assistance in the matter. The Branch Managers also maintain close contacts with the business and industrial community thus facilitating a clear appraisal by the

latter of the requirements of the Corporation. In the circumstances it may be noticed that as much publicity as possible is given to the principles. However, the suggestion of the Committee has also been noted for future guidance.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 2)

The Committee note that during the last five years the incidence of rejection has considerably gone down and out of 247 applications received during this period only 8 were rejected which appears to be an indication that more and more of deserving cases are coming up for assistance. This is a happy feature. (Paragraphs 11-12).

REPLY OF THE GOVERNMENT

Noted.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 3)

It will be seen that a number of applications were withdrawn as the applicants made alternative arrangements. Alternative arrangements are usually made when there are delays in sanctioning loans or the conditions of the Corporation transpire to be not advantageous. The Committee suggest that the reasons for such withdrawals should be carefully investigated and suitable remedial measures taken to reduce their incidence. (Paragraphs 13-14).

REPLY OF THE GOVERNMENT

It will be seen from Appendix II to the Report that there were only 13 cases (out of 76) where alternative arrangements were made by applicant concerns for securing funds. The Committee have indicated the possible reasons for the applicant concerns making such arrangements. With regard to the first reason namely delay in sanctioning loans, the Corporation itself has made every effort to reduce the time-lag which in many cases is as short a period as three months, which is not a bad record. With regard to the second reason the Corporation has from time to time been considering the manner in which its terms and conditions can be made less onerous consistent with the obligations imposed on it under the I.F.C. Act. An instant case is the decision taken by the

Corporation recently to waive the personal guarantee of the Directors etc. in suitable cases. The Corporation will, however, investigate cases of withdrawal in future, and take suitable remedial measures if called for.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 6)

One of the factors that make for efficiency of a lending institution besides speedy disposal of applications is the prompt payments to the borrowers. Any delay in payments tends to affect the programme of execution of projects by the borrowing concerns. The Committee consider that the time taken at present by the Corporation in making the first payment seems to be long and could be reduced. As the legal documents have already been standardised it should be possible to reduce the delay in the completion of legal formalities. The Committee trust that the corporation would address itself to this aspect and endeavour to quicken the pace of disbursements. (Paragraph 26).

REPLY OF THE GOVERNMENT

A reference is invited to the comments on para 23. The Corporation has been conscious of the fact that any delay in payment tends to affect the programme of execution of projects by the borrowing concerns. Accordingly the Corporation has already adopted certain measures in the direction of quickening the pace of disbursements, notably the institution of a separate legal department of its own for investigation of title to the properties of the loanee concerns, drafting of the mortgage documents, investigation of the title deeds even while application is being scrutinised and liberalisation of the procedure for granting interim loans, in appropriate cases, pending completion of the legal formalities.

The Corporation is aware of the need to quicken the pace of the disbursements and will continue to review the position from time to time with a view to finding out ways and means of expediting matters further, subject, of course, to factors over which it has no control.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 10)

The Committee are glad to learn that, in August, 1962, the Central Government published a list of 20 industries (*vide Appendix*

IV) which were to be assisted and which alone were to be considered for the purpose of foreign exchange. Government had given a further list in September or October, 1962 of about 211 industries which were not covered for this purpose. The Committee trust that these lists would be borne in mind by the Corporation. (Paragraph 36).

REPLY OF THE GOVERNMENT

As was stated before the Committee, the Corporation is presently processing only those applications which have secured the requisite import licence or clearance from the Capital Goods Committee. The Corporation is also in touch with Government for any subsequent changes in the priority list of industries for import of capital goods. The recommendation is, however, noted.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 11)

The Committee note that though the I.F.C. Act does not contemplate any restriction as to the lower limit of assistance, the Corporation has entered into an informal arrangement with the S.F.Cs, whereby applications for loans upto Rs. 10 lakhs (now raised to Rs. 20 lakhs in respect of public limited Companies/Co-operative societies) are dealt with only by the State Financial Corporations. The Committee consider that where, on account of paucity of funds etc., State Financial Corporations are unable to entertain any applications for amounts upto Rs. 20 lakhs, it should be open in suitable cases for the Corporation to entertain them. (Paragraph 41).

REPLY OF THE GOVERNMENT

The Corporation will be agreeable, in principle, to consider on merits, applications for loans upto Rs. 20 lakhs, if the State Financial Corporations advised that they are not in a position to entertain them solely due to paucity of funds.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 13)

While the definition of new undertakings as those which went into production after 15th August, 1947 might have been proper in 1948 when the Corporation was set up, it is no longer appropriate and

needs to be revised. It is surprising that this has not been done so far. The characterisation of 'new units' as all those which had gone into production subsequent to 15th August, 1947, tends to create an erroneous impression about the number of new undertakings assisted by the Corporation and make them loom large. The Committee were assured that in future the assistance provided to the various concerns would be shown in the Annual Reports of the Corporation under the following heads:—

- (a) New Units.
- (b) Expansion of existing units.
- (c) Modernisation and Rehabilitation.

The Committee trust that this would be done. (Paragraph 48).

REPLY OF THE GOVERNMENT

As suggested, the industrial concerns assisted by the Corporation, will, in future, be reclassified as "new" undertakings and "existing" undertakings. The new undertakings will be those which have yet to start commercial production. The "existing" undertakings will be trifurcated under the following categories:

- (i) Diversifying into a "new" line which has yet to start commercial production in the new line;
- (ii) expansion of the existing line of production; and
- (iii) modernisation and rehabilitation of the existing line of production.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2 (40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 14)

The Committee trust that the Corporation would continue to make efforts to secure as much foreign loans as possible including those in convertible currency. (Paragraph 51).

REPLY OF THE GOVERNMENT

It is stated in para 49 that though the Act was amended in 1952 authorising the Corporation to raise loans in foreign currency, it was not until 1960-61 i.e. about 8 years later, that the Corporation was able to secure any foreign loans. In this connection it may be noted that under the law as it existed before 1957 the IFC was empowered

to borrow money only from the World Bank, the negotiations with which did not fructify. It was explained by Government that before 1957, foreign exchange requirements of the private sector industry were met to a large extent by the suppliers' credit which was obtained on a deferred payment basis. With the worsening of the foreign exchange situation in 1957, this facility could not be continued on a large scale as the period of repayments of such credits was comparatively small. Therefore, after 1957, Government had to think of financing import of equipment and machinery largely under the long term credits. With a view to enabling the IFC to do so, the IFC Act was amended in the year 1957 empowering it to borrow loans in foreign currency from foreign financial institutions and banks in addition to the World Bank. With the formation of the Development Loan Fund in the year 1958, a vigorous attempt was made to obtain credit for the I.F.C.

The negotiations fructified, and the Corporation received a substantial loan from the DLF in the year 1960. In the wake of this, negotiations were carried on successfully to secure credits in other foreign currencies. It will thus be seen that the IFC took the earliest opportunity to obtain foreign credits from sources other than the World Bank as soon as the need for it was felt and the law was amended to enable it to arrange for such lines of credit.

The Corporation will keep this recommendation in view and will continue to make further efforts in this line.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 16)

While the Committee agree with the principle behind the imposition of the premium on premature repayment, they feel that in view of the tight money market, it should be examined whether premature repayments should not be encouraged. This would also result in more funds being available for loans being given to a larger number of concerns. (Paragraph 61).

REPLY OF THE GOVERNMENT

The recommendation of the Committee has already been implemented. The Board have recently decided to waive the premium for premature repayments of the loans for a period of 2 years from the 1st July, 1963, irrespective of the source from which such repayments are financed.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964]

Recommendation (Serial No. 20)

The Committee were surprised to learn that neither the Ministry of Finance nor the Industrial Finance Corporation could furnish information regarding the total amount of shares underwritten by all the institutions engaged in underwriting activities during the Second Plan period. They feel that collection of such information is necessary to assess the operations of the Corporation in this field. (Paragraph 65)

REPLY OF THE GOVERNMENT

Steps have been taken to compile the information regarding the total amount of Shares underwritten by all the institutions engaged in underwriting activities, in respect of the issue of shares which has been consented to by Government.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 24)

The Committee have recommended in para 14 the desirability of investigating the reasons for withdrawal of loan applications. They trust that similar measures would be taken in regard to the applications for guaranteeing also. (Paragraph 71)

REPLY OF THE GOVERNMENT

The recommendation has been noted for guidance in future.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 25)

In spite of these measures, it does not look as though there has been appreciable progress in the business of the Corporation vide Appendix 1. Further, some of the activities which were entrusted to the Corporation have not been undertaken by it. If the Corporation is to increase its business, it will have to move in these directions also and shed itself of the idea that it is a 'lender of the last resort'. It would be befitting its role as a national institution if it followed a more liberal policy than hitherto, which would attract business on a larger scale. The Committee recommend that the Corporation should keep itself abreast with the activities and methods

adopted by other similar institutions in India and abroad while continuing to maintain its high standards. These would guarantee a steady increase in its clientele and operations. (Paragraph 75).

REPLY OF THE GOVERNMENT

Since the release of the Report, the figures of the working of the IFC for the year ended the 30th June, 1963 are available from its 15th Report which has been laid before the Parliament (in Lok Sabha on 21-11-1963 and in Rajya Sabha on 20-11-1963), from which it will be seen that, as against the last-year's (1961-62) net total financial assistance sanctioned amounting to Rs. 20.27 crores the net total financial assistance sanctioned in respect of the year ended 30th June, 1963 amounted to Rs. 39.89 crores. In the matter of disbursements also, as against last-year's figure of Rs. 11.47 crores, the amount disbursed during 1962-63 was Rs. 22.43 crores. It will thus be observed that the net total financial assistance sanctioned and disbursed during 1962-63 are almost twice the corresponding figures for the previous year. The number of applications received during the year 1962-63 has also increased (from 59 to 96) considerably. This indicates that there has in fact been an appreciable progress in the business of the Corporation. The IFC is alive to its responsibility as a national institution. The Corporation has also been keeping itself abreast with the activities of other financial institutions and has been reviewing its policies from time to time and liberalising its procedures without detracting from the business principles enjoined in the IFC Act, 1948. The observations of the Estimates Committee are, however, noted by the IFC for guidance.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 27)

To enable the Corporation to know more intimately the industrialists of various regions and their schemes, programmes and requirements, the Committee would recommend that the Board meetings should be held at other places also. It may help in popularising the activities of the Corporation. (Paragraph 78).

REPLY OF THE GOVERNMENT

The recommendation is accepted.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 28)

The Committee consider that at present the Central Committee which meets only once a year, is not discharging any useful function. One expects such a Committee of the Board to meet more often than the Board itself and to discharge most of its functions. If, however, the Central Committee cannot be reactivated, it is better to do away with it rather than keep it as a decorative appendage. The Committee suggest that the need for the Central Committee may be examined in the light of the above remarks. (Paragraph 81).

REPLY OF THE GOVERNMENT

The Central Committee is a necessary adjunct to the Board of the IFC as envisaged in the IFC Act. Since the functions of the Committee and the Board overlap and since the Board meets every month, it has not been necessary for the Committee to meet more frequently. But even if the Committee meets infrequently its abolition would not be desirable, as it can be called at any time to discuss urgent matters. The observations of the Estimates Committee will, however, be borne in mind in planning the meetings and the work of the two bodies in the future.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 30)

The Committee consider that it would greatly help to popularise the activities and to increase the business of the Corporation if the State Financial Corporations are given the agency functions by the Corporation. They, therefore, suggest that the question of giving the State Financial Corporations the agency functions to the extent possible may be examined. In States, where there are Branch Offices, the question of their inter-relationship with the respective State Financial Corporations may have to be defined. (Paragraph 84).

REPLY OF THE GOVERNMENT

The Corporation proposes to delegate to the State Financial Corporations agency functions in suitable cases in respect of specific loans relating to the projects which are financed jointly by it and the State Financial Corporations. After it gains sufficient experience the exercise of such delegated functions, it can consider the mere general question of delegating agency functions in respect of its own loans.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 31)

Serial No. (as in the Appendix XIII to the Report) 31.

Reference to paragraph No. of the Report 86.

The Committee consider that reference to the Government of a large number of cases apart from causing avoidable delay in the disposal of cases, detracts from the autonomous status of the Corporation. The Committee recommend that the Corporation and the Ministry of Finance should review the types of cases which are to be referred to Government and see to what extent the same could be reduced. The representatives of the Ministry of Finance and the Corporation agreed to undertake the review. (Paragraph 86).

REPLY OF THE GOVERNMENT

With the proposed establishment of the Industrial Development Bank with effect from 1st July, 1964, all the powers vested in the Central Government to issue directives to the Industrial Finance Corporation will be vested in the Industrial Development Bank. The recommendations of the Estimates Committee will be forwarded to the Industrial Development Bank as soon as it is formed for their consideration and necessary action.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 32)

Since the Corporation borrows its funds at the rate of interest between $4\frac{1}{2}$ per cent to 5 per cent and the current deposits fetch an interest of only $3\frac{1}{2}$ per cent to $3\frac{3}{4}$ per cent, it is necessary that the cash and bank balances which stood at Rs. 206.5 lakhs on 30th June, 1962 are kept to the minimum required. The Committee hope that every effort will be made by the Corporation to reduce its cash and bank balances to the barest minimum necessary. (Paragraph 93).

REPLY OF THE GOVERNMENT

Noted for guidance in future.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 34)

The Committee feel that the percentage of gross income to the total capital employed by the Corporation is on the low side. With the expansion in the operations of the Corporation and reduction in

the administrative overhead, the Corporation will no doubt, be able to give a higher return on the investment. The Committee hope that the Corporation would exercise utmost control over its expenses to see that the rate of return shows a rising trend in future.

(Paragraph 97)

REPLY OF THE GOVERNMENT

Noted for guidance.

[*Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964*]

Recommendation (Serial No. 35)

The Committee recommend that the Corporation should periodically review the progress reports of the borrowing concerns and if there is any indication that the affairs of the concern are not being conducted on the right lines it should initiate prompt action to improve matters and where necessary take over the management of the concern and even resort to the sale of assets mortgaged when it becomes inevitable.

(Paragraph 102)

REPLY OF THE GOVERNMENT

The Corporation reviews regularly the financial and operation position of its borrower concerns by obtaining half-yearly progress reports and balance sheets. Moreover its officers carry out physical and accounts inspection of all such concerns at least once a year. The Corporation is also in continuous touch with the affairs of the concern assisted by it through the Directors nominated by it.

If, as a result of the examination of the circumstances of a borrower concern which is in default of one or more instalments of repayment of principal or payment of interest, the Corporation is convinced that the default is due to temporary difficulties, e.g. general depression in the industry, shortage of raw materials or fuel, loss of market etc. the Corporation considers sympathetically the feasibility of giving the defaulting concerns such extension of time for the payment of the instalments as is reasonable and necessary, and also in suitable cases, allows the overdue instalments to be paid in smaller amounts over a period of time or agrees to the schedule of repayments of the loan being so extended as to give the concern the opportunity to tide over its difficulties. The Corporation also cooperates with the borrower concern in any steps taken to rehabilitate the concern so as to enable it to make a success of its venture and thereby to repay the instalments due to the Corporation. It is only in cases where in spite

of the aforesaid steps and concessions the borrower is unable to meet the commitments of the Corporation and further time, it is considered, is not likely to improve matters, that the Corporation takes recourse to one or the other of the legal remedies available, according to the circumstances of each case.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63 dated the 9th June, 1964.]

Recommendation (Serial No. 38)

The Committee consider the association between the I.F.C. and S.F.Cs. very essential as the Industrial Finance Corporation, with its wider experience, can assist the State Financial Corporations in discharging their functions efficiently and economically. It would also be desirable if the Industrial Finance Corporation could examine the procedure and practices followed by the various State Financial Corporations and rationalise them, if need be. The Committee further suggest that if any part of the loan sanctioned by State Financial Corporations is required in foreign currency, the Corporation should extend its co-operation in making available the foreign currency part, leaving the rupee part to be provided by the State Financial Corporation.

(Paragraph 107).

REPLY OF THE GOVERNMENT

The Corporation agrees in principle to the suggestion to co-operate with the State Financial Corporations in the matter of sanction of loans, by providing the foreign exchange component thereof, leaving the rupee part to be provided by the State Financial Corporations, provided that the Industrial Finance Corporation is satisfied on the merits of the project to be assisted.

It may be of interest to note that the Working Group on the State Financial Corporations has made certain recommendations about co-ordinating the functions of the State Financial Corporations and of the Industrial Finance Corporation and these recommendations would be forwarded to Government for consideration after these have been studied and commented on by the Reserve Bank of India.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63 dated the 9th June, 1964.]

Recommendation (Serial No. 39)

The Committee regret the abnormal delay in the framing of the rules in this case for which there was no justification. They recommend that in future the rules should be framed soon after the enactment of laws.

(Paragraph 109)

REPLY OF THE GOVERNMENT

Noted. In future the rules would be framed soon after the enactment of laws where it is considered necessary.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 40)

The Committee suggest that the following information may also be incorporated in the Annual Reports:

- (i) The present Appendix 'A' should be amplified so as to show the amount of loans sanctioned to concerns in which directors of the Corporation are interested.
- (iii) The productive capacity of each borrowing concern prior to its availing of the Corporation's loans and after. (This will help an assessment of the Corporation's contribution towards increasing industrial productivity).

[Paragraph 110 (i) and (iii)]

REPLY OF THE GOVERNMENT

Regarding (i): Industrial Finance Corporation have no objection to amplifying Appendix A of the Annual Reports of the Corporation (showing interest of Directors in loanee concerns) in the manner suggested.

Regarding (iii): The⁴ suggestion of the Committee has been noted.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. F. 2(40)-Corp/63, dated the 9th June, 1964.]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

Recommendations (Serial Nos. 4 and 5)

The Committee have in para 19 referred to the desirability of reducing the time taken in sanctioning of loans. If this is brought about, the Committee expect that the number of pending applications at the end of each year would go down further. (Paragraph 15).

The Committee consider that the percentage of applications, which have taken more than three months for being sanctioned, is capable of reduction. In any case, they feel that the time taken in sanctioning loans should not exceed six months. Since the application form itself calls for exhaustive information, the average time taken in sanctioning a loan could be reduced further. In the opinion of the Committee if wide publicity is given to the basic requirements to be fulfilled like licence, capital goods clearance, capital issue clearance, collaboration etc. by the applicant concerns before bringing forward applications for loans, it would help to reduce, if not eliminate altogether, the receipt of incomplete applications. It would also be necessary to simplify the procedures followed by the Corporation in dealing with the applications. The Corporation might also consider extending to the prospective applicants such guidance as may be required by them in regard to the fulfilment of various formalities such as, capital goods clearance, capital issue clearance etc. in which case many of the causes of the delay would be eliminated. (Paragraph 19).

REPLY OF THE GOVERNMENT

The time lag in sanctioning loans is generally due to reasons outside the control of the Corporation. The Corporation has already taken steps to streamline its procedure and to give wide publicity to the basic requirements to be complied with by the prospective applicants with a view to avoiding any unnecessary delays. The Corporation has issued a brochure/folder, copies of which have been made available to the Committee and has maintained close contacts with the business and industrial community through the medium of the

various Chambers of Commerce and other bodies. The Corporation's officials (Branch Managers and others) have been directed to render all possible assistance to the prospective applicants in filling up application forms etc. and explaining to them the requirements to be fulfilled for the grant of such loans. The object in view has been largely achieved as will be borne out by the fact that three fourth of the loans were sanctioned within a period of six months which could be regarded as satisfactory in the context of the observations of the Committee that 'in any case the time taken in sanctioning loans should not exceed six months'.

It may be mentioned that the reasons for holding up sanctions beyond six months are on many occasions due to circumstances beyond the control of the Corporation, such as non-receipt of essential information from the parties, non-fulfilment of certain basis requirements by the parties such as securing of industrial licences, capital goods clearance etc. It is not also possible for the Corporation to insist that all formalities such as grant of industrial licence, capital goods clearance etc. are completed before making the application for a loan. By long experience, the industrial concerns know that simultaneous applications in different departments saves considerable time taken in preliminary scrutiny.

The suggestion of the Committee that the Corporation might extend guidance to prospective applicants in the matter of fulfilment of various formalities of the nature referred to in this para does not appear to be feasible, as such matters are decided by Government solely on the merits of each case.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 7)

From the amount of loans sanctioned to the less developed States as compared to others, it is evident that the less developed States have received comparatively less assistance from the Corporation than the industrially more advanced States. (Paragraph 28).

REPLY OF THE GOVERNMENT

The Corporation, as at present constituted and in view of the obligations imposed on it under the Act, cannot act directly as a promoter of industries and can deal only with such applications as are received by it from time to time. The extent to which the IFC is in a position to help such provinces/areas ultimately depends on industrial entrepreneurs coming up with acceptable schemes and projects to be set

up in these States/areas. This explains the reasons why the less developed states have received comparatively less assistance from the Corporation than industrially more advanced states. The Corporation has given due consideration to all the applications received by it, and has not turned down any worthwhile proposal coming from the industrially less developed States.

The concluding observations would appear to have been arrived at on the basis of the assistance rendered by the Corporation to only three less developed states, namely, Madhya Pradesh, Assam and Rajasthan. Account should, however, also be taken of the assistance rendered to other less developed states like Andhra Pradesh, Mysore, Kerala, Orissa, U.P. and Punjab, to judge the overall picture of assistance rendered by the Corporation to the less developed States and the more advanced States, as envisaged in this para. Their respective share in the assistance will, accordingly, be as follows:—

	Loans sanctioned	% to total sanctions (Rs. 130·27 crores)	Loans disbursed	% to total disbursements Rs. 68·14 (crores)
	(Rs. crores)		(Rs crores)	
<u>More</u>				
advanced states	53·24	40·85	32·95	48·34
<u>Less</u>				
developed states	57·98	44·51	27·75	40·72

It will be noted that inspite of the handicaps, the assistance rendered by the Corporation to the less developed states, is quite substantial.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63 dated the 9th June, 1964.]

Recommendation (Serial No. 9)

Apart from satisfying itself regarding the industrial licence, the Corporation should have examined how far the industries which required loans were within the objectives and priorities laid down in the Five Year Plans. It looks as though there was no approach from this angle in affording assistance nor was any attempt made to compile a list of industries to be assisted. (Paragraph 35).

REPLY OF THE GOVERNMENT

Rule 7 of the IFC Rules, 1957, reads as under:

"Integration of Corporation's loan policy with the Five Year Plan.

The Corporation shall satisfy itself before granting any loan that the purpose for which it is proposed to be utilised is one which has the approval of the Central Government, particularly with reference to the objectives of the Second Five Year and subsequent plans.

Explanation.—For the purposes of this rule, any industrial concern for which a licence has been issued under the Industries (Development and Regulation) Act, 1951, shall be deemed to be established for a purpose which has the approval of the Central Government."

It will be observed from the explanation that for the Corporation satisfying itself that the purpose for which any loan is sanctioned is one which has the approval of the Central Government, with particular reference to the objectives of the Plans, it is sufficient if the industrial concern in question possesses an industrial licence issued under the Industries (Development and Regulation) Act 1951. The Corporation has strictly adhered to this principle. Further, as has been mentioned earlier, the Corporation, as at present constituted, does not initiate proposals but considers cases as and when received, subject to their conforming, to the requirements of the Rule referred to above. It has been the policy of the Corporation since its inception to consider all applications for financial assistance on merits provided they possessed valid Industrial licences. It may be stated that no project belonging to any priority industry has been turned down otherwise than on merits. The need for compiling a special list of priority industries have not therefore arisen. That the larger assistance has not been sanctioned to priority industries is due to the fact that these had not approached the Corporation on any substantial scale. With changing composition of concerns approaching the Corporation, a large proportion of assistance has been sanctioned to non-ferrous metal industry in the year 1962-63.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 12)

The Committee formed the impression that there were among the loanees concerns, some which could perhaps have raised their funds

from the market. Further, there is already a provision in Rule 8 of the Industrial Finance Corporation Rules, 1957, under which the Corporation is expected to satisfy itself that an applicant concern has not invested a substantial part of its surplus funds in other industrial concerns. The Committee feel that this provision has not been strictly adhered to as is seen from the observation contained in the report of the Company Law Administration referred to in para 44. They recommend that this aspect of the matter should receive greater attention in the scrutiny of applications before sanctioning loans in future. (Paragraph 46).

REPLY OF THE GOVERNMENT

At the time of consideration of an application for financial assistance, the investments if any, of the applicant concern, in other Companies are carefully examined, and in appropriate cases, the Corporation calls upon the concern to liquidate the investments in accordance with advice of the Corporation. In some cases requests for financial assistance have been turned down or discouraged on the ground that there were such intercorporate investments. Further the standard terms and conditions of the Corporation contain a stipulation, in pursuance of the provision in Rule 8 of the IFC Rules, 1957 prohibiting the company from investing its funds by way of deposit, loan, share capital or otherwise in any other concern without the prior permission of the Corporation. Such requests are considered carefully on merits before permission to invest in another concern is given. Thus the Corporation has been strictly adhering to the provisions of Rule 8 of the IFC Rules, 1957.

Further, as has been stated in paragraph 43 of the Report, the Corporation carefully considers whether the applicant concern has made all efforts to raise funds from its own resources or elsewhere before entertaining its application.

[Ministry of Finance, Department of Economic Affairs. O.M. No. F. 2 (40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 15)

The Committee consider that a high rate of stamp duty may cause some hardship on the applicant concerns. In any case, it is desirable that there is uniformity in these matters, which would prevent similar units in different States from being placed on unequal footing. (Paragraph 57).

REPLY OF THE GOVERNMENT

As stated at the time of oral evidence the levy of stamp duty is a State subject of taxation. This Ministry will forward the recom-

recommendation of the Committee to the State Governments for their consideration.

[Ministry of Finance Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June 1964.]

Recommendation (Serial No. 17)

Since the legal documents have been standardised by the Corporation and it has also gained sufficient experience, the Corporation should endeavour to reduce its legal charges as far as possible. (Paragraph 62).

REPLY OF THE GOVERNMENT

There is hardly any scope for a further reduction as the legal charges are hardly sufficient to meet the cost of the legal department of the Corporation.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 18)

The Committee recommend that effective steps should be taken to bring about uniformity in the rates of interest charged by the various financial institutions in the public sector, as far as possible. (Paragraph 63).

REPLY OF THE GOVERNMENT

Government had considered the question of diversity of interest rates charged on Government loans through different agencies. They reached conclusion that a uniform rate of lending for all the agencies is not practicable. The various institutions have been set up for specific purposes and it does not appear either necessary or practicable to bring them under one agency. The different rates of interest charged by the SFCs and State Co-operative Banks are due to the different economic background in the various States. It would not be proper to impose uniformity through central regulation of these rates. Further, the existence of the present diversity is made inescapable because of the necessity to give a degree of concession to certain sectors like cooperation and Khadi. In a money market structure as dispersed as that of India and with loans from Government agencies going to sectors which have distinct priorities in a scheme of national development, it is obvious that all loans cannot be made on identical terms.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 19)

The Committee are not convinced of the reasons for the delay in undertaking this activity. For, it is seen that other similar institutions lost no time in resorting to underwriting after they came into existence. They hope that such delays in taking up other activities would be avoided in future. (Paragraph 64).

REPLY OF THE GOVERNMENT

As has been stated before the Estimates Committee at the time of oral examination, the attitude of the IFC towards underwriting activities which is of specialised nature involving greater risks than long-term loans, has been one of caution and is due mainly to the following reasons:—

- (i) there is an element of risk in the form of capital depreciation in respect of the shares devolving on the Corporation as a result of its underwriting commitments;
- (ii) In view of (i) above, it is desirable for the Corporation to stabilise its financial position by building up reserves before venturing into new fields.
- (iii) In view of the situation prevailing in the money market and stock exchange, hardly any issues of shares etc. underwritten by the Corporation could be disposed of at a profit within the limited period of 7 years prescribed in the IFC Act.
- (iv) the funds of the Corporation would be locked up in shares etc. till such time it is able to dispose of them at a profit, with the prospect of no return on the investments for some time, which ultimately affects the financial position of the Corporation.

Besides the foregoing, the IFC had, during the early years of its existence, concentrated on its principal function of granting medium and long-term loans and was busy evolving procedures and techniques connected therewith. Soon after, the IFC's working was subject to criticism by a Parliamentary Committee of Enquiry and it took considerable time for the Corporation to retrieve its position.

The Corporation was, therefore, justified in pursuing a generally cautious attitude in the matter of its underwriting operations, which is evident from the extent of devolution of shares, etc. upon the Corporation as a result of its underwriting commitments—referred to in para 66 of the Report.

The other similar institutions undertook this activity soon after they came into existence presumably due to their initially solid financial structure, enabling them to undertake risks of this nature, right from the beginning.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 21)

The high incidence of devolution of share on Corporation in the past, particularly in 1960-61, is not a happy reflection on the efficiency of its underwriting service. The Committee trust that the Investment Cell of the Corporation would be fully geared up to the task of studying the investment market trends so as to ensure that underwriting is undertaken in respect of sound concerns and that the incidence of devolution is not high. (Paragraph 67).

REPLY OF THE GOVERNMENT

Having regard to various factors like the nature of the activities, the risk involved and the conditions in the investment market, the somewhat large incidence of devolution of the shares is not an abnormal feature.

2. The decision to underwrite is taken only on a thorough investigation of the project and after the Corporation is satisfied that the project is sound and viable and not simply on the reputation of its sponsors as is more generally the case in underwriting by stock-brokers. The Corporation performs the function of 'nursing' an enterprise. Further even though the Corporation retains in its portfolio an appreciable proportion of some of the issues it performs useful function to the extent that private Capital is attracted. It may be of interest to note that the incidence of the devolution of shares compares favourably with other similar institutions.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 22)

The Committee welcome the co-ordination between I.F.C. and L.I.C. in regard to underwriting operations and trust that this would be further strengthened and extended to other institutions engaged in underwriting operations, such as Industrial Credit and Investment Corporation of India Ltd. etc. In the interest of closer co-ordination the feasibility of giving representation to the Industrial

Finance Corporation on the Investment Committee of the Life Insurance Corporation may be examined.

(Paragraph 68)

REPLY OF THE GOVERNMENT

There is already informal consultation amongst the Industrial Finance Corporation, Industrial Credit and Investment Corporation of India and the Life Insurance Corporation. Further there is a representative of the Life Insurance Corporation on the Board of the Industrial Finance Corporation by virtue of the shareholding of the Life Insurance Corporation in the share capital of the Industrial Finance Corporation. The suggestion of the Committee was, however, examined by the Government and it is considered that in view of the co-ordination already available between the Industrial Finance Corporation and the Life Insurance Corporation, it is not necessary to give representation to the Industrial Finance Corporation on the Investment Committee of the Life Insurance Corporation.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 23)

The Committee feel that in order to avoid duplication of examination and to achieve better co-ordination, it would be desirable if the procedure of 'joint processing' of cases is precisely laid down and a common machinery is evolved for the purpose.

(Paragraph 69)

REPLY OF THE GOVERNMENT

The institutions undertaking joint operations are autonomous bodies and would, as a matter of principle, like to carry out independent examination and satisfy themselves of the credit-worthiness of the proposal. Joint examination is however being achieved by the exchange of notes and appraisals by the institutions concerned. We feel that the procedure for such processing need not be laid down in a rigid manner.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 33)

The Committee note that in spite of a reduction in the number and amount of applications the expenditure has increased by about

Rs. 2 lakhs. There is thus a need to bring down, the establishment and other expenses. The Committee recommend that the Corporation should take energetic measures to reduce its establishment and other expenses immediately. Efforts should also be made to relate expenses to the quantum of business and the work done.

(Paragraph 95)

REPLY OF THE GOVERNMENT

Regarding the observations made in this recommendation, the number of applications received in each year is not the only relevant factor for assessing the reasonableness or otherwise of the establishment and other expenses. The servicing of loans and other facilities (namely maintenance of loan accounts, periodical inspections, watching and progress of loanees etc.) already sanctioned is an important matter entailing a considerable amount of work. Therefore, for the purpose under consideration, what is really relevant is the progressive total quantum of business, taking into account, the running loans accounts etc. as also the sanctions accorded during each year. It will be evident from the enclosed table (Appendix I) that the average expenditure has been kept under strict control and is progressively decreasing. The table also shows the percentage of administrative expenses to gross income which will facilitate a correct appraisal of the matter.

2. The need for keeping the establishment charges as low as possible consistently with the expeditious disposal of work has been engaging the constant attention of the IFC. The present position is that many sanctioned posts at the Head Office/Branch Offices have been left vacant as a measure of economy. In this connection it may be added that the administrative expenses of the IFC compare very favourably with comparable institutions.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 36)

The Committee are glad to learn that the Chairman of Industrial Finance Corporation is also the Chairman of National Industrial Development Corporation which is a step in the right direction. The Committee could see no reason for having more than one financing agency in the public sector performing what is more or less the same function. The Committee hope that an early decision will be taken in the matter of merging the National Industrial Develop-

ment Corporation Ltd. with the I.F.C. which was stated to be under consideration of Government.

(Paragraph 104)

REPLY OF THE GOVERNMENT

On the recommendations made by the Estimates Committee (Second Lok Sabha) in their 122nd Report the former Ministry of Commerce and Industry, in consultation with the Ministry of Finance, had already decided that the N.I.D.C. should not entertain any fresh loan applications but that its Technical Consultancy Bureau should however continue to function. Since the NIDC had to function in regard to the Technical Consultancy Bureau it was decided that it should also continue to handle the work of recovery of loans already granted and also process the applications for loans to which it had already committed itself. In the meanwhile, Government have taken power under the recently passed Industrial Development Bank Act 1964 (*vide* clause 13 of Part III of the Second Schedule amending Section 23 of the IFC Act) to enable the IFC to take over any institution which has as its principal object the promotion or development of industry in India. If at an appropriate stage, it is found desirable that the IFC should take over even the present residual functions of the NIDC, this legislative power would enable this to be done. The matter is under continuous review by Government.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Recommendation (Serial No. 37)

The Committee welcome conferences of the representatives of the various institutional agencies which provide a forum for discussing points of mutual interest and also enable close co-operation between the institutions. The Committee are also glad to note that there is a proposal to constitute a consortium for the purpose of joint financing of big projects. They hope that early action will be taken to finalise it and give it a proper shape in consultation with the agencies concerned.

(Paragraph 106)

REPLY OF THE GOVERNMENT

It is not intended to have a standing consortium for the financing of big projects, but to organise one, as and when necessary, depending upon the merits and circumstances of each individual

project. This procedure is already being borne in mind by the Corporation. With the proposed establishment of the Industrial Development Bank with effect from the 1st July, 1964, the financing of undertakings jointly by Financial Corporations would be rendered easier than before.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 26)

The Committee note that some of the non-official Directors of the Corporation were also Chairmen or Directors of 25 to 30 other bodies. They consider that it may perhaps be difficult for such busy persons to find time and to devote their attention to the business of the Corporation to the required extent. Since the Directors are expected to guide and direct the affairs of the Corporation in an effective manner, it is desirable that Board members should be persons who are comparatively less over-worked. The Committee note that there is already a provision in the Companies Act, 1956 (Section 275) to the effect that no person shall hold office at the same time as Director of more than 20 companies. It is possible that some of the companies or bodies, referred to above, are not joint stock companies and hence the provisions of the Companies Act are not attracted in these cases. Even so, the Committee feel that this is a salutary principle and should be applicable to other bodies also. (Paragraph 77).

REPLY OF THE GOVERNMENT

The restriction on the number of directorships imposed under Section 275 of the Companies Act applies to joint stock companies only. According to the record maintained in the Corporation, none of its Directors hold the position of Director in more than 20 joint stock companies. All the non-official Directors, are mostly the elected representatives of the shareholders (other than the Central Government and Reserve Bank of India) and occupy important positions in banking, industry and public life. Since the number of non-officials with the requisite experience in banking industry is limited, it is inevitable that they are called upon to serve many companies and institutions. The test should be, therefore, not whether they are directors of a number of companies, but whether they take keen

interest in the affairs of the Corporation in spite of their many pre-occupations.

[Ministry of Finance Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

COMMENTS OF THE COMMITTEE

Please see paras 1—2 of Chapter I.

Recommendation (Serial No. 40)

The Committee suggest that the following information may also be incorporated in the Annual Reports:

* * * *

- (ii) Statement showing (State-wise) the number of applications received, number sanctioned, number rejected, number withdrawn, number lapsed and number pending, amount applied for, amount sanctioned and amount disbursed, amount rejected, amount withdrawn, amount lapsed and amount pending.

* * * *

[Paragraph 110 (ii)]

REPLY OF THE GOVERNMENT

* * * *

Regarding (ii): A statement is already furnished in the Annual Report showing the industry-wise distribution of loans/financial assistance approved together with the number of units, in respect of each state. It is felt that a statement incorporating the additional information suggested would become quite unwieldy and might not serve any useful purpose.

* * * *

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

COMMENTS OF THE COMMITTEE

Please see paras 3-4 of Chapter I.

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Recommendation (Serial No. 8)

The Committee are somewhat concerned over the meagre disbursements made by the Corporation so far to the less developed States like Assam (Rs. 0·87 crores), Madhya Pradesh (Rs. 0·2 crores) and Rajasthan (Rs. 1·22 crores) as against the total disbursements of Rs. 68·14 crores. This would indicate that the instructions issued to the Corporation at its very commencement that it should assist the industrial development of backward provinces and areas in order that they may attain a more balanced development has been of little effect. As things stand the Corporation could show no material on which they could satisfy the Committee that they had explored ways and means to implement the directive. The first D.O. letter from the Chairman of the Corporation to the Chief Ministers was written as late as 1957. It was in very general terms and does not appear to have been followed up vigorously. It seems the matter has been taken up in earnest only on receipt of a letter from Planning Commission in December, 1960. The Committee are alive to the fact that the initiative to implement the instruction is not all in the hands of the Corporation and is dependent on other factors such as industrial licensing etc. The Corporation's difficulty if any, in implementing the Government directive, should have been specifically brought to the notice of the Government. This does not appear to have been done. It is regrettable that Government also did not pursue the directive issued by them and suggest measures to implement it. Positive steps were called for to assist the backward areas. Such steps could perhaps take the form of relaxation of any of the criteria governing assistance so as to suit the special needs of such areas or the offer of special incentives to induce industrial concerns to bring forward schemes for such areas. The Committee hope that Government will examine this aspect. (Paragraph 32).

REPLY OF THE GOVERNMENT

The Industrial Finance Corporation had certain vicissitudes during the early stages of its existence and the period following the Report of the Sucheta Kriplani Enquiry Committee was one in which the Corporation had to concentrate its efforts in retrieving its position from the allegations made against it. The Enquiry

Committee recognised the fact that the IFC, in view of its constitution and the obligations imposed on it under the Act, could not by itself take an initiative in promoting new industries in backward areas but could deal only with such applications as were received by it from time to time. However, the I.F.C. followed up this question with the State Governments and with the Ministers of the less-developed States soon after its earlier troubles were over.

2. It has been consistently following the line that, other things being equal, it would view with considerable sympathy applications for financial assistance received from under-developed States. The funds of the Corporation have always been sufficient to deal with all eligible applications received by the Corporation and there did not arise any occasion at which the Corporation was prevented from going to the help of the backward areas.

3. In this context, it may be emphasised that while preference could be given by the Corporation for financial assistance for under-developed States, the investment by the private sector in sophisticated type of industries is always attracted to areas which have already attained a certain level of development in technical skill, entrepreneurial activity, efficient transport system and facilities of banking etc. IFC could legitimately attempt to create interest and initiative amongst the State Governments and encourage entrepreneurs to approach the Corporation with concrete and satisfactory proposals but not itself promote an industry as per its Constitution or offer special incentives to promote industries by relaxing any of its statutory requirements like relaxation of criteria etc.

4. As regards disbursement of loans, which had been sanctioned the funds can be released only in proportion to the expenditure incurred by the entrepreneur in the project.

5. In these circumstances, consistent with all these factors, it may be noticed that the IFC has spread its overall assistance fairly well amongst the under-developed areas of India.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Further information called for by the Committee

Whether the question of relaxing any criteria governing loan assistance, in favour of applicants from industrially less advanced States was examined, and if so, the decision* taken thereon.

(Lok Sabha Secretariat O.M. No. 23-PU/64, dated the 3rd April, 1965).

*At the time of factual verification, it was stated as follows :

"It has not been considered necessary to relax the criteria governing loan assistance, in favour of applicants from industrially less advanced States mainly on the ground of the companies being situated in such areas."

Recommendation (Serial No. 29)*Serial No. (as in the Appendix XII to the Report)—29**Reference to paragraph No. of the Report—82.*

The Committee are not convinced of the reasons for not opening the Branch Office at Kanpur, specially when the setting up of an office was mandatory and not optional. If such an office was not considered necessary, the proper course for the Corporation was to seek an amendment to the relevant provision in the Act rather than ignore it. The Committee are constrained to observe in this connection, that in spite of the attention of the Corporation having been drawn to this obligatory provision in 1960 by the audit party of Comptroller & Auditor General, no concrete steps have been taken so far in this direction. It is regrettable that Government also did not ensure the compliance with this mandatory provision, in the Act.

REPLY OF THE GOVERNMENT

The question of the opening of a Branch office at Kanpur is under further consideration of the Industrial Finance Corporation.

[Ministry of Finance, Department of Economic Affairs, O.M. No. F. 2(40)-Corp/63, dated the 9th June, 1964.]

Further information called for by the Committee

Final decision taken in the matters may be intimated.

(Lok Sabha Secretariat O.M. No. 23-PU/64, dated the 3rd April, 1965).

PANAMPILLI GOVINDA MENON,

NEW DELHI;

Chairman,

May 3, 1965.

Committee on Public Undertakings.

Vaisakha 13, 1887 (Saka).

APPENDIX I

(Vide page 24, Serial No. 33)

Statement showing the quantum of business

Year	No. of running accounts and new sanctions	Average expenditure per (loan) account (ooo's omitted)	Gross Income (Rs. in lacs)	Establishment & other expenses (Rs. in lacs)	Percentage of 5 to 4
1	2	3	4	5	6
1949 .	21	14	5.73	2.87	50.79
1950 .	35	14	23.47	4.78	20.37
1951 .	39	13	35.87	5.03	14.02
1952 .	69	8	42.05	5.70	13.56
1953 .	74	9	49.30	6.76	13.71
1954 .	110	7	54.74	7.37	13.46
1955 .	123	8	60.71	9.50	15.65
1956 .	151	5	67.63	7.94	11.74
1957 .	163	6	96.33	9.10	9.45
1958 .	176	6	154.91	9.81	6.32
1959 .	203	5	203.88	10.41	5.11
1960 .	218	5	250.88	11.69	4.66
1961 .	279	5	298.86	12.74	4.27
1962 .	287	5	304.18	14.68	4.82

APPENDIX II

(Vide Introduction)

Analysis of the action taken by Government on the recommendations contained in the 36th Report of the Estimates Committee (Third Lok Sabha).

1. Total number of recommendations made	40
2. Recommendations that have been accepted by Government [<i>vide</i> recommendations No. 1, 2, 3, 6, 10, 11, 13, 14, 16, 20, 24, 25, 27, 28, 30, 31, 32, 34, 38, 39, and 40(i) and (iii)]	
Number	21 ² / ₃
Percentage to total	54·2
3. Recommendations which the Committee do not desire to pursue in view of Government's reply (<i>vide</i> recommendations No. 4, 5, 7, 9, 12, 15, 17, 18, 19, 21, 22, 23, 33, 36 and 37).	
Number	15
Percentage to total	37·5
4. Recommendations in respect of which replies of Government have not been accepted by the Committee [<i>vide</i> recommendations no. 26 and 40 (ii)]	
Number	1-1 ¹ / ₃
Percentage to total	3·3
5. Recommendations in respect of which final replies of Government are still awaited (<i>vide</i> recommendations No. 8 and 29).	
Number	2
Percentage to total	5·0