3

STANDING COMMITTEE ON FINANCE (1998-99)

TWELFTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENTS OF ECONOMIC AFFAIRS AND EXPENDITURE)

DEMANDS FOR GRANTS
(1998-99)

THIRD REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

July, 1998/Asadha, 1920 (Saka)

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(1998-99)

Presented to Lok Sabha on 10.7.1998
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COMPOSITION OF THE STANDING COMMITTEE ON FINANCE (1998-99)

Shri Murli Deora — *Chairman*

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3. Shri Mohanbhai Sanjibhai Delkar
4. Shri Haribhai Parathibhai Chaudhary
5. Shri Uttam Singh Pawar
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17. Shri Rupchand Pal
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*19. Shri Beni Prasad Verma

20. Shri S. Murugesan
21. Shri M. Sahabuddin

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*Nominated w.e.f. 25 June, 1998 *vice* Sh. Jang Bahadur Singh Patel, M.P., who was nominated to Standing Committee on Transport and Tourism.

22. Dr. S. Venugopalachary
23. Shri Tathagata Satpathy
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SECRETARIAT

1. Dr. A.K. Pandey — *Additional Secretary*
2. Smt. P.K. Sandhu — *Director*
3. Sh. S.B. Arora — *Under Secretary*
4. Sh. G. Srinivasulu — *Reporting Officer*

INTRODUCTION

I, the Chairman of the Standing Committee on Finance (1998-99), having been authorised by the Committee to submit the Report on their behalf present this Third Report on Demands for Grants (1998-99) of the Ministry of Finance (Departments of Economic Affairs and Expenditure).

2. The Demands for Grants of the Ministry of Finance were laid on the Table of the House on 10 June, 1998. Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha provide that the Standing Committees shall consider the Demands for Grants of the concerned Ministries/Departments and make Report on the same to the Houses.

3. The Committee took oral evidence of the representatives of Ministry of Finance at their sittings held on 16 and 17 June, 1998 in connection with the examination of Demands for Grants (1998-99) of Ministry of Finance (Departments of Economic Affairs and Expenditure).

4. The Committee considered and adopted the Report at their sitting held on 29 June, 1998.

5. The Committee wish to express their thanks to the Officers of the Ministry of Finance for cooperation extended by them in furnishing written replies and for placing their considered views and perceptions before the Committee.

6. For facility of reference, observations/recommendations of the Committee have been printed in thick type.

NEW DELHI;
6 *July*, 1998
15 *Asadha*, 1920 *(Saka)*

MURLI DEORA,
Chairman,
Standing Committee on Finance.

REPORT

DEMAND NO. 26
DEPARTMENT OF ECONOMIC AFFAIRS
OBJECT HEAD : 52

Machinery and Equipment

The above 'Head' is meant for procurement of machinery and equipment needed for modernisation of budget press. The budgetary allocation, revised estimates and actuals since 1995-96 are as follows:—

Year	BE	RE	Acutals
1993-94	76,00,000	75,00,000	3,13,000
1994-95	98,90,000	65,50,000	40,62,000
1995-96	70,00,000	19,00,000	Nil
1996-97	90,00,000	30,00,000	6,57,000
1997-98	90,00,000	16,00,000	—
1998-99	1,00,00,000	—	—

2. As per the specific reasons for underutilisation of budgetary outlays since 1993-94, during the examination of Demands for Grants of the Ministry of Finance for 1997-98, the Ministry in a written note submitted as under:—

> "The installation of additional machinery required extra space. However, due to non-availability of extra accommodation, the procurement action could not be initiated for printing machinery."

3. The Committee in their Third Report on Demands for Grants (1997-98) of Ministry of Finance *inter-alia* recommended as follows:—

> "The Committee expect the authorities incharge of the project to function with responsibility. Immediate steps should be taken to find space for accommodating new machinery thereafter procurement action be initiated immediately".

4. In their written reply to the above mentioned recommendation, the Ministry of Finance have stated as under:—

> "Due to insufficient space in the existing accommodation, the response to tender notices are very poor and does not satisfy our specifications. Hence the machinery could not be procured and funds surrendered from time to time. Funds are being provided in Budget Estimates on the presumption that we will get the machinery as per our specifications.
>
> An attempt is being made this year also and procurement action is in progress."

5. The reasons for increase in budget estimates in the year 1998-99 inspite of gross underutilisation of funds during the previous years, as stated by the Ministry, are as under:—

> "The need for modernisation of the Finance Ministry Press has been felt for quite some time. Its old machinery needs to be replaced and its printing capacity also needs to be augmented. However, this has not materialised so far for two reasons, *viz.*, the continuing constraint in getting additional accommodation for the expansion of the Press and poor response to tender inquiries for replacement of existing machines. However, we have not given up our efforts and this is reflected in the Budgetary provisions being made. The increase in the B.E. 1998-99 is on account of the planned purchase of some additional machines in addition to the printing machine for which efforts are being made for past few years.

6. The Committee find that since 1993-94 gross under utilisation of budgetary provisions has been explained by the Ministry on the grounds of non-procurement of machinery for want of sufficient space and poor response to the tender enquiries. The Committee are not at all convinced with such stereotyped replies and fail to understand as to why attempts made by the Ministry could not yield desired results even after a lapse of five years. They regret to point out that recommendations made by the Committee in this regard have also not been taken seriously by the Ministry. They are of the firm view that no serious efforts seem to have been made in this regard. They, therefore, desire that concrete steps should now be taken at least to overcome the bottlenecks with a view to obviate the practice of surrendering funds year after year. They would like to be apprised of the steps taken by the Ministry in this regard as early as possible.

DEMAND NO. 27
DEPARTMENT OF ECONOMIC AFFAIRS
MAJOR HEAD : 4046
MINOR HEAD : 00.101
DETAILED HEAD : 02.00.52

Currency Note Press

Machinery and Equipment

7. The BE, RE and actuals under this head which is meant for meeting expenditure to procure various plants and machinery are as follows:—

Year	BE	RE	Actuals
1992-93	6,00,00,000	2,50,00,000	17,50,000
1993-94	10,00,00,000	10,00,00,000	1,04,77,000
1994-95	18,00,00,000	2,00,00,000	1,00,98,000
1995-96	1,00,00,000	3,00,00,000	1,68,31,000
1996-97	6,97 00,000	1,80,00,000	1,14,00,000
1997-98	1,80,00,000	1,80,00,000	1,14,00,000
1998-99	8,41,00,000		

8. On the reasons for dismal performance in utilisation of budgetary allocations, the Ministry of Finance, in a written note submitted as under:—

"In 1992-93 Saving was due to non-receipt of Band Coat Machine, Pantograph machine and Etching machines; in 1993-94 saving was due to non-receipt of Treasure Wagons; in 1994-95 also saving was due to non-receipt of Treasure Wagons and also a token provision was made for modernisation of CNP, Nasik which could not be utilised; in 1995-96 Saving was due to non-receipt of counting machines; in 1996-97 Saving was due to the non-receipt of Treasure Wagons; and in 1997-98 also the saving was due to Treasure Wagons. It may be pointed out that the Government had taken a decision to procure specially designed Wagons for despatch of currency notes. These are designed and being manufactured by Bharat Earth Movers Ltd., Bangalore in consultation with Ministry of Railways. These Wagons are expected to be delivered during the current year.

9. The Committee note with grave concern that substantial amount of budgetary allocation made during 1993-94, 1995-96, 1996-97 and 1997-98 could not be utilized by currency note press mainly due to non-receipt of Treasure Wagons from Bharat Earth Movers Ltd. (BEML). The reply furnished by the Government is however, conspicuously silent with regard to the reasons which resulted in non-procurement of these Treasure Wagons for more than four years. The reply is also silent with regard to the specific grounds which necessitated the authorities to make an enhanced budgetary provisions at the RE stage during 1995-96 particularly when the actual amount spent remained far less than the amount which was allocated. Needless to say the assessments have not been made realistically. The Committee, therefore, desire that in future at least more caution should be taken while framing the budget estimates so that the same do not result in unnecessary savings and the budgetary exercise could become much more meaningful. The Committee should also be apprised of the year in which the currency note Press entered into contract with Bharat Earth Movers Ltd., the cost escalation due to delay in supply of the Treasure Wagons, the reasons for non-procurement of the equipment together with the concrete steps taken to procure the machinery during the current year. The Committee would also like to be informed if any firm date for supply of the Wagons was committed by Bharat Earth Movers Ltd. and in case of default on their part whether suitable penalties were imposed.

DEMAND NO. 27
DEPARTMENT OF ECONOMIC AFFAIRS
MAJOR HEAD : 4046
MINOR HEAD : 00.102
DETAILED HEAD : 02.00.52

Bank Note Press
Machinery and Equipment

10. Bank Note Press, Dewas, prints Bank note of Rs. 20/-, Rs. 100/- and Rs. 500/- denominations. The press also manufacturers ink for its use as well as for the use of Currency Note Press, India Security Press and Security Printing Press. The budgetary allocations, Revised estimates and actuals spent on procurement of machinery and equipment for Bank Note Press are as follows:—

Year	BE	RE	Actuals
1993-94	26,26,00,000	6,81,40,000	2,83,46,000
1994-95	10,80,00,000	4,90,66,000	3,00,73,000
1995-96	6,85,00,000	3,72,00,000	2,46,95,000
1996-97	8,00,00,000	8,00,000	5,30,000
1997-98	8,00,00,000	5,34,00,000	29,37,000
1998-99	10,00,00,000		

11. In response to a written query as to why there has been substantial underutilisation of budgetary allocations even as compared to revised estimates since 1993-94, the Ministry in a written reply submitted as follows:—

> "It was planned to install two new lines of note printing machines and purchase of Treasure Wagons for transport of notes. Keeping in view the budgetary positions, it was decided to defer the proposal for two new lines of machines. Instead it was decided first to replace the old machines. Subsequently the machines were supplied by RBI. Hence non-utilisation of funds."

12. On the reasons for quantum jump in allocation for 1998-99, the Ministry of Finance in a written reply stated as under:—

> "Higher allocation has been made in BE 1998-99 as Treasure Wagons are expected to be supplied by M/S Bharat Earth Movers during 1998-99."

13. The Committee are unable to reach any conclusion in view of the scant reply given by the Ministry on the reasons for under utilization of budgetary allocation. The reply does not even specify as to when the Ministry had first planned to instal two new lines of note printing machines, purchase Treasure Wagons, defer the original proposal and instead decided to replace the old machines. The very fact that proposal for installing two new lines of note printing machines had to be deferred on account of budgetary constraints speaks of lack of planning on the part of the Ministry. They would, therefore, like to be apprised as to why the proposal for installing new lines was initiated at all when the budgetary provisions for meeting the expenditure was inadequate. They would also like to be informed of the year in which the decision to procure Treasure Wagons was taken. The Committee apprehend that the budgetary provisions had been made year after year even when no concrete steps were taken for procuring these as a result of which the amount had to be surrendered every year. Evidently, this shows lack of financial prudence on the part of Authorities concerned. The Committee, therefore, recommend that the Ministry should not merely be content with placing the orders for supply of the equipment but should also ensure timely procurement of the same on the basis of firm commitments made by the suppliers so that the delay could be minimised and the losses suffered on account of late supply of equipment could be properly compensated.

DEMAND NO. 27
DEPARTMENT OF ECONOMIC AFFAIRS
MAJOR HEAD : 4046
MINOR HEAD : 107
DETAILED HEAD : 02.00.52

Modernisation of Government of India Mints

14. The Government of India in order to eliminate coin shortage and to have total coinage upto Rs. 5, approved the project for modernisation of mints located at Bombay, Calcutta and Hyderabad in March, 1989 with stipulated date of completion as March 1992 and with an estimated cost of Rs. 118.28 crores.

15 When the project was approved, it was a planned scheme but during 1990-91 and 1991-92 all schemes of mints and presses were funded as non-plan. Again in October, 1992, it was agreed by the Planning Commission to fund the project as 'plan' project. The uncertainty about getting the upward cost revision via 'plan' route resulted in a time overrun of 17 months as a result of which the project cost also went up. The Public Investment Board (PIB) cleared the revised cost estimates of the project at Rs. 348.80 crores with the target date of completion as 30 November, 1996.

16. The Ministry of Finance (Department of Economic Affairs) in their reply dated 8 August, 1996 had stated as under:

> "The project is scheduled for completion by November, 1996. Every effort is being made to adhere to the target."

17. However, in the light of the observations of the monitoring agencies i.e. Department of Programme and Implementation made in their Annual Reports for 1995-96 and 1996-97 which stated that as rate of progress was not commensurate for completing the project by November, 1996 and the project activities at Bombay and Calcutta were far behind the schedule as compared to Hyderabad mint, the Committee had urged the Ministry of Finance to take adequate steps and other measures required to ensure the completion of the project by November, 1996 as envisaged in the revised schedule.

18. The Government in their subsequent reply to the above-mentioned recommendation, *inter-alia*, had stated as follows:

> "It is pertinent to record here that civil agencies like CPWD, NBCC and HSCL are constantly being persuaded to complete

the civil works on TOP PRIORITY basis. It is expected that by June, 1997 even the CN stream envisaged in the modernisation will be completed and trial runs made to achieve the targets of modernisation."

19. However, as the project could not be completed the Committee while examining the demands for grants of Ministry of Finance for 1997-98 asked them to explain the reasons for an inordinate delay in implementation of the project. Delay in implementation of the project even as per revised schedule and within the revised cost estimates was explained on account of reclassification of the project from plan to non-plan and back to plan and also on account of delay in clearance of the project from the consultants i.e M/s Mecon, slow execution of works by the civil construction agencies, delay in delivery of equipment by the suppliers and procedural delays. The Committee had, therefore, urged the Ministry of Finance in their 3rd Report on Demands for Grants to take adequate steps and other measures required to ensure expeditious completion of the project.

20. The Ministry of Finance in their reply to the above-mentioned recommendation as contained in their 3rd Report, *inter-alia*, stated as follows:

> "With a view to ensure that there is no further delay in completion of the project, implementation of various components of projects was being regularly monitored. Remedial measures were being promptly taken wherever necessary to sort out difficulties. The progress had been speeded up. At Calcutta and Mumbai mints, civil works had to be executed in the existing premises without disrupting the production. This is one significant reason for slow progress. The projects at Mumbai and Calcutta are expected to be completed at the end of 1997."

21. However, in their latest reply furnished to the Committee on the progress of the completion of the projects, the Ministry of Finance have stated as under:—

> "The projects at Mumbai and Calcutta are expected to be completed by March 1999. No cost overrun is anticipated as machines and equipment were ordered well in time. There may be some cost escalation due to exchange rate variations. The Government is monitoring the projects regularly to ensure timely completion."

22. The Committee take a serious note of the fact that despite repeated assurances given by the Ministry of finance, the project has not been completed even as on date. The very fact that the stipulated date of completion which was originally fixed as March, 1992 with an estimated cost of Rs. 118.28 crores, had to be subsequently revised to 30 November, 1996 together with revised cost estimates of Rs. 348.80 crores and expected date of completion being shifted first to June, 1997 then to December, 1997 and now to March, 1999 is in itself indicative of casual approach adopted by the Ministry and lack of proper monitoring on their part. It is disheartening to note that repeated recommendations of the Committee for completing the project within the revised targets (both cost and time) have made little impact on the dithering attitude of the Ministry. They are not inclined to accept the contention of the Ministry that there shall be no cost overruns as machines and equipment were ordered well in time particularly in view of their own candid admission to the effect that some cost escalation could be there due to exchange rate variations. It is also beyond comprehension as to how the Ministry kept on assuring the Committee that the project would be completed within the revised schedule even when the monitoring agency i.e. Department of Programme Implementation had in their successive Annual Reports clearly cautioned about the slow pace of progress of the project and had expressed apprehensions for its timely completion. The Committee, therefore, strongly disapprove of such commitments made by the Ministry and desire that now at least every earnest effort should be made to complete the project of modernisation of Government of India mints particularly at Mumbai and Calcutta latest by March, 1999 as already promised, so that the problem of shortage of coins gets resolved without any further delay. The Committee would like to be apprised of the concrete steps taken in this regard as expeditiously as possible.

DEMAND NO. 27
DEPARTMENT OF ECONOMIC AFFAIRS
MAJOR HEAD : 2046 & 2047

Over Time Allowance

23. The actual amount incurred on payment of Over Time Allowance (OTA) by Security Printing Press (S.P.P), India Security Press (I.S.P), Currency Note Press (C.N.P), Bank Note Press (B.N.P) and Mints since 1993-94 is as under:—

Year	S.P.P	I.S.P	C.N.P	B.N.P.	Mints
1993-94	1,27,19,000	12,79,64,000	12,25,00,000	4,81,72,000	5,98,82,000
1994-95	1,34,76,000	13,22,66,000	11,59,49,000	5,35,95,000	6,49,53,000
1995-96	1,63,91,000	14,64,22,000	12,94,77,000	5,97,30,000	7,45,81,000
1996-97	1,81,89,000	16,61,93,000	14,26,81,000	6,18,62,000	8,03,45,000

24. In written reply to a query on whether the authorities have devised any plans/policy to reduce Over Time Allowance (OTA) in Mints, the Government stated as follows:—

> "Earlier the workers were getting over time allowance for work done beyond 37.5 hours in a week. Now Government has introduced 44 hours normal weekly working. Hence, the workers will be entitled to OTA only for work beyond 44 hours in a week. Further Government has taken steps to reduce OTA by modernising the Mints and introduction of incentive schemes. Government also propose to start night shift working in Noida Mint".

25. With regard to the policy for reducing OTA in India Security Press, the Ministry in a written note, stated as under:—

> "Based on discussion with workers Unions, the General Manager, Indian Security Press, Nasik has also been advised to formulate a production—linked incentive scheme, with 9 hours working per shift. The above plan is expected to be completed in the current year itself thereby reducing the OTA expenditure considerably.
>
> Besides, ISP's machines have become quite old. It has also been decided to replace these obsolete machines by latest machines in phases, which will considerably increase present production."

26. The Committee regret to point out that huge amount of money is being spent on payment of Over Time Allowance in Government of India Mints and Presses which is increasing year after year. While considering Demands for Grants under Head 'Machinery and Equipments', the Committee find that there has been substantial under utilisation of the budgetary allocations meant for procurement/ modernisation of machinery and equipment by Currency Note Press as well as by Bank Note Press. The Committee are of the view that had modernisation of Government of India Mints and Presses been completed as originally envisaged; substantial savings could have been made by way of reduction in over-time allowance. Hence, as recommended elsewhere in this report, the Committee desire that earnest efforts should be made to modernise Mints and presses so that the budgetary allocations meant for procurement of machinery and equipment are utilised fully. However, in the meantime efforts may also be made to reduce OTA by following prudent management policies.

DEMAND NO. 28
DEPARTMENT OF ECONOMIC AFFAIRS
MAJOR HEAD : 4416
MINOR HEAD : 00.190

Regional Rural Banks

27. The Government after considering various alternatives decided to revamp select RRBs to rationalise them on "Stand alone" basis. Towards this end, beginning from 1994-95 to 1996-97 the Government have selected 136 RRBs and provided them the budgetary support as follows:—

Year	BE	RE	Actuals
1994-95	5,00,00,000	156,00,00,000	154,99,62,000
1995-96	319,38,00,000	244,57,00,000	244,57,00,000
1996-97	200,00,00,000	200,00,00,000	200,00,00,000
1997-98	269,86,00,000	200,00,00,000	
1998-99	264,65,00,000		

28. During the year 1997-98, an amount of about Rs. 270 crore was provided by the Government as budgetary allocation to a set of 15 new RRBs besides giving supplementary doses to 90 RRBs recapitalised during the earlier years. However, the budgetary allocation of Rs. 270 crore was revised downwards to Rs. 200 crore at RE stage. In short, upto March, 1998 a total number of 151 RRBs have been provided recapitalisation support by the Central Government aggregating Rs. 774 crores (Approximate).

29. In response to a written query as to whether any of the RRBs which were given Capital as part of restructuring showed profits in the first instance and then slipped back into red, Ministry of Finance, in their written reply stated as under:—

(a) of the 49 Regional Rural Banks (RRBs) provided recapitalisation support during 1994-95, 28 RRBs had posted profit during 1995-96. Of these 28 RRBs, 19 RRBs have earned profit during 1996-97 also. Thus, nine (9) RRBs which showed profits in the first instance have suffered an apparent slip back mainly due to the applicability of provisioning norms during the year 1996-97. One RRB which incurred loss during 1995-96 has earned a profit of Rs. 1.03 crore during the year 1996-97.

Further, during 1995-96, a total number of 53 RRBs were taken up for grant of additional equity assistance. Of the 53 RRBs, 14RRBs have earned profit during the year 1996-97. Two RRBs which had earned profit during 95-96 have incurred losses during 96-97 mainly due to the applicability of provisioning norms.

As regards 36 RRBs which were provided recapitalisation support during the year 1996-97, eight RRBs have earned profits during the same year. The actual impact of recapitalisation support on these RRBs would be reflected by their financial position as at the end of March 1998 which is yet not available.

30. On the sustainability of improved performance of RRBs which received recapitalisation support, the Ministry of Finance in their written reply stated that the following initiatives have been taken which *inter-alia* include the following:—

(i) National Bank for Agriculture & Rural Development (NABARD) has introduced a system of preparation of bank-specific Development Action Plans (DAPs) by RRBs and signing of a Memorandum of Understanding (MoUs) with their sponsor banks. The factors relevant for achieving sustainable viability *viz.* Cost of funds, return on funds, cost of management, recovery, deposit growth, advance growth have been given due priority in the preparation of DAPs. The projections and achievements made by the banks under DAPs/MoUs are being regularly monitored by both the sponsor banks and NABARD.

(ii) The deregulation of interest rates in August 1996 has improved the earning capacity of RRBs. However, prudential norms introduced during 1995-96 for income recognition and asset classification and provisioning norms made applicable during 1996-97 coupled with the delay in receipt of the share of recapitalisation funds from some of the State Governments have adversely affected the turn-around of RRBs. It is pertinent to note that out of the 196 RRBs had incurred loss of Rs. 879.36 crores during 1996-97 of which Rs. 649.64 crores was due to the provisioning against their non performing loans.

(iii) The recovery percentage which stood at 41.2% as of June, 1993 has been showing an upward trend and stood at 55.1% as on June, 1996. This improvement in recovery, if sustained, could be considered a significant achievement for a positive turn around of RRBs.

(iv) NABARD has Commissioned "Organisational Development Initiatives" (ODI) programme in select RRBs with a view to prepare the employees of such banks to accept the challenges of turnaround and effectively involve themselves in the achievement of targets/benchmarks under DAPS/MoUs.

31. However, Special Secretary (Banking) of the Ministry of finance during the oral evidence held in connection with the examination of Demands for Grants (1998-99) of Ministry of Finance on 16 June, 1998 on recapitalisation of RRBs and its impact on RRBs bottom line *inter-alia* stated as under:—

"RRBs were designed and conceived to be low-cost banking for rural areas, barefoot bankers and all that. All these objectives unfortunately down the line have not been met and the cost structure of RRBs is tending to become more and more akin to the cost structure in the commercial banks without the benefits of the varous types of funds and non-fund based business and all that which the commercial banks have access to. As you would have seen even in the Demands for Grants, we have made certain provisions regarding capitalisation of RRBs. But in effect all the money that is being provided is only going towards paying salaries, clearing the old settlements and all that. It is not really going to strengthen the RRBs. Most of it is going to pay for the dues of the staff, arrears in salary and things of that type."

32. The Committee note that since 1994-95 upto March, 1998 an amount of Rs. 774 crores (approximate) has been provided by the Central Government as recapitalisation support to total number of 151 select Regional Rural Banks (RRBs). They, however, find that all the money which is being provided for clearing their balance sheets as well as for strengthening their capital base is being utilized in paying salaries, clearing the old settlements, etc. and has hardly met the objective of strengthening these banks. Needless to say that Regional Rural Banks which were originally designed to be low cost institutes for catering to the needs of the rural areas have, on the contrary, turned out to be highly costly due to their cost structure becoming more and more akin to that of commercial banks. The Committee, therefore, apprehend that this will definitely have an adverse affect on their sustainability in the medium and long run unless the Government in the right earnest review the relevant policies applicable to them and bring necessary legal policy changes in order to make their operations viable and sustainable.

DEMAND NO. 28
DEPARTMENT OF ECONOMIC AFFAIRS
MAJOR HEAD : 5465
MINOR HEAD : 190

Rural Credit and Posting of Bank Staff/officers in Rural Areas

33. One of the important recommendations of the R.V. Gupta Committee on Agricultural Credit appointed by RBI is dispensation of compulsory rural posting of bank staff/officers.

34. In response to a written query as to whether the Government have accepted all the recommendations of the R.V. Gupta Committee

on agricultural Credit, the Ministry of Finance in their written reply *inter-alia* stated as follows:—

> "Certain recommendations such as abolition of stamp duty for agricultural loans, assistance from State Governments for recovery of bank dues, matters relating to mortgage of land, dispensation of compulsory rural posting of bank officials, matters relating to subsidy linked credit etc., have been referred by RBI to the Government for consideration."

35. As per RBI guidelines, Commercial banks both in public and private sector are required to lend 40 per cent of their Net Bank Credit (NBC) to agriculture, Small Scale Industries (SSIs), weaker sections etc. Out of 40 per cent target of priority sector lending, 18 per cent is required to be lent to agricultural sector. The amount of advances lent to agriculture as well as their percentage in NBC of public sector commercial banks is as follows:—

(Rs. in crores)

		March 1992	March 1993	March 1994	March 1995	March 1996	March* 1997
1.	Net Bank Credit	112160	132782	140914	169038	184391	189684
2.	Total Priority Sector Advances	44581	48653	53197	61794	69609	79131
3.	Percentage of priority sector advance to net bank credit (Target 40 per cent)	39.75	36.64	37.75	36.56	37.75	41.72
4.	Total agricultural advances	18265	20020	21204	23513	26351	31012
5.	Percentage of total agricultural advance to net bank credit (Target 18 per cent)	16.28	15.07	15.05	13.91	14.29	16.35

*Provisional Data.

36. To encourage public investment in agriculture, the then Finance Minister while presenting the budget for the year 1995-96 *inter-alia* stated as under:—

> "I propose to establish a new Rural Infrastructural Development Fund within the National Bank for Agriculture and Rural Development (NABARD) from April 1995. The Fund will provide loans to State Governments and State owned Corporations for completing ongoing projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructure. ...... Resources for the Fund will come from commercial banks which will be required by Reserve Bank of India (RBI) to contribute an amount equivalent to a bank's shortfall in achieving the priority sector target for agricultural lending, subject to a maximum of 1.5 per cent of the bank's net credit."

37. The Committee express concern at the fact that even after their contribution to RIDF since 1995-96, the public sector commercial banks are still short of meeting their targets for lending to agricultural sector and its adverse impact on growth of agriculture. The Committee would like to be apprised of the reasons for not lending to agriculture as per the targets and the concrete measures taken to improve flow of credit to agriculture. The Committee also want the Government to furnish them the Bank-wise data on disbursement of loans to agricultural sectors.

38. The Committee recommend that the Government should not accept the recommendations of R.V. Gupta Committee with respect to dispensation of compulsory rural posting of bank officials in view of acute shortage of bank staff in rural areas and its negative impact on delivery of Rural Credit.

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Investments in SLR Securities

39. It is seen that though the RBI with a view to releasing more resources to the banks for lending to commercial sector has gradually reduced the Statutory Liquidity Ratio (SLR) from a high of 38.5 per

cent of outstanding domestic Net Demand and Time Liabilities (NDTL) in April, 1997 to 25 per cent of NDTL with effect from 22 October, 1997. However, investments in SLR securities continues to be preferred alternative to lending to commerce and industry for the public sector commercial banks as borne out by the following data:—

(Rs. in crore)
As on Last Reporting Friday

	March 27, 1998	March 28, 1997	March 29, 1996	March 31, 1995	March 18 1994
1. SLR required to be maintained—					
(a) Amount of Funds	123939	117851	106615	99017	93050
(b) as percentage of Net Demand and Time Liabilities	25.0	27.6	28.9	30.2	33.6
2. SLR actually maintained—					
(a) Amount of Funds	164813	149529	131101	121733	109918
(b) as percentage of Net Demand and Time Liabilities	33.2	35.0	35.5	37.1	39.4

40. On the reasons for investing in SLR securities in excess of RBIs prescription, the Ministry have stated as under:—

(i) Because of low offtake of credit bank deploy their resources in government Securities instead of keeping the funds idle.

(ii) Government securities have a zero risk weight and hence no provision is necessary.

(iii) Presently, the coupon rate of Government Securities are market related.

41. When asked as to specific reasons for public sector commercial bank's propensity to invest in Government securities rather than lending

to Commerce and Industry, RBI in their reply *inter-alia* stated as under:—

> "In times of low off-take of credit as, for example, was the case during the first half of 1997-98 banks deploy their resources in investments. Banks invest in Government securities in excess of SLR requirements since these securities have a zero risk weight. The coupon rate of Government securities being market related at present, banks may prefer to invest in Government securities."

42. On the names of the banks which have invested more than 50% of their incremental deposits in Government securities, Ministry of Finance, in a written reply stated as under:—

(Rs. Crore)

Name of the Bank	Increase in Investments in Government Securities during		Increase in Aggregate Deposits during		Increase in Investments in Government Securities as per cent of increase in Aggregate Deposits during	
	1997-98 Amount	1996-97 Amount	1997-98 Amount	1996-97 Amount	1997-98 Per cent	1996-97 Per cent
1	2	3	4	5	6	7
1. State Bank of Bikaner & Jaipur	492.78	231.91	941.27	623.23	52.35	37.21
2. State Bank of Hyderabad	618.46	853.67	1242.90	883.23	49.76	96.65
3. State Bank of Indore	292.42	778.05	595.33	193.30	49.12	402.51
4. State Bank of Mysore	77.63	249.25	657.09	435.76	11.81	57.20
5. State Bank of Travancore	412.55	678.84	851.62	777.67	48.44	87.29
6. Allahabad Bank	890.93	593.40	1852.51	1177.60	48.09	50.39

1	2	3	4	5	6	7
7. Andhra Bank	288.25	566.14	920.02	970.79	31.33	58.32
8. Central Bank of India	1265.07	3000.87	3069.73	2767.28	41.21	108.44
9. Indian Bank	1749.38	486.60	1235.01	797.92	141.65	60.98
10. Syndicate Bank	16.20	771.06	1791.77	1229.02	0.90	62.74
11. United Bank of India	887.51	843.52	1438.30	1424.11	61.71	59.23
12. UCO Bank	277.65	569.60	1471.45	1110.62	18.87	51.29
13. Vijaya Bank	739.63	- 72.78	1425.91	617.12	51.87	- 11.79

43. The list of banks who have invested in SLR securities in excess of RBI prescribed guidelines along with such excess amounts invested in SLR securities (bank-wise) since 1994-95 are as follows:—

(Rs. Crore)

Name of the Bank	Excess SLR as on 27.03.98	Excess SLR as on 28.03.97	Excess SLR as on 29.03.96	Excess SLR as on 31.03.95	Excess SLR as on 18.03.94
1	2	3	4	5	6
1. State Bank of India	11900.9	12088.9	12814.6	13213.1	7409.1
2. State Bank of Bikaner & Jaipur	767.2	241.6	180.7	315.8	130.6
3. State Bank of Hyderabad	1273.4	673.6	148.4	257.1	124.9
4. State Bank of Indore	448.3	183.8	127.0	103.3	20.8
5. State Bank of Mysore	489.0	283.3	153.5	152.9	225.1
6. State Bank of Patiala	503.4	222.8	283.7	421.0	204.0

1	2	3	4	5	6
7. State Bank of Saurashtra	315.4	295.3	144.3	158.6	121.0
8. State Bank of Travancore	938.0	773.0	358.0	410.0	156.0
9. Allahabad Bank	1298.9	520.0	282.8	276.7	718.5
10. Andhra Bank	667.5	552.8	261.1	331.2	263.3
11. Bank of Baroda	1638.7	1987.8	1357.6	478.2	652.5
12. Bank of India	551.4	386.0	423.8	210.3	748.0
13. Bank of Maharashtra	914.4	472.8	261.6	103.1	221.0
14. Canara Bank	2760.1	1559.3	925.8	806.7	374.8
15. Central Bank of India	3782.2	2756.2	726.5	761.7	322.9
16. Corporation Bank	520.9	233.4	352.2	371.3	298.2
17. Dena Bank	595.9	431.8	153.4	115.9	114.3

1	2	3	4	5	6
18. Indian Bank	662.8	574.6	265.5	99.8	24.4
19. Indian Overseas Bank	552.6	659.3	214.9	252.8	536.4
20. Oriental Bank of Commerce	174.9	568.3	397.0	324.6	586.0
21. Punjab National Bank	3761.6	1948.4	2011.3	1818.6	1038.8
22. Punjab & Sind Bank	287.4	253.0	79.2	44.4	61.4
23. Syndicate Bank	1189.2	1181.8	759.2	470.8	537.7
24. Union Bank of India	2207.9	1208.7	616.7	570.2	862.4
25. United Bank of India	1245.3	679.1	172.4	197.1	187.3
26. UCO Bank	425.4	572.1	476.2	278.0	102.3
27. Vijaya Bank	1001.3	370.1	526.9	172.7	26.3
Total	40874.0	31677.8	24484.3	22715.9	16068.0

44. The Committee observe that the reply furnished by RBI implies that only during low-credit off take periods banks invest their funds in zero risk Government securities. However, the Committee are unable to agree with the contention of RBI in the light of the fact that public sector commercial banks have been investing in Government Securities of about 5.8%, 6.9%, 6.6%, 7.4% and 8.2% in 1993-94, 1994-95, 1995-96, 1996-97 and 1997-98 respectively in excess of RBI stipulated percentage. It is surprising to note that about 13 public sector commercial banks have invested more of their increase in aggregate deposits during 1996-97 and 1997-98 in Government Securities.

The Committee are of the opinion that there is no dearth of availability of credit worthy quality borrowers seeking bank funds for financing their manufacturing/commercial ventures. Though the Committee appreciate the problem of low off-take of credit by commerce and industry and also reluctance on the part of the banks for lending due to the bitter experience of the Securities Scam, they feel that the public sector commercial banks are not making concerted efforts to identify the potential customers for lending. The public sector commercial banks have instead, been preferring the soft option of investing in SLR securities in excess of the RBI's prescribed norms. It, however, must be recognised that there is nothing like zero-risk lending and the banks have to take appropriate risk through extension of the credit. The Committee, therefore, recommend that RBI/Govt. should pursuade the banks to shed their risk averseness and start identifying the potential customers to lending in the current year by providing suitable insulating mechanism at the lower levels (without undermining accountability) in order to encourage honest decision making and to minimise fear psychosis prevailing at present. This is especially so in the light of the fact that due to sanctions imposed by the US, the spreads on the Indian paper have gone up which may force many Indian corporates wanting to raise capital from international capital market to abandon their plans resulting in demand for more funds from the banking system. They also desire that steps should be taken to strengthen the decision making process at all the levels with a view to ensuring that the loan applications are cleared without undue delay and particularly the need for credit for the small borrowers are properly catered to.

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NPAs—Asset Reconstruction Companies

45. A system of classifying assets of the banks as performing or non-performing was introduced in 1992 based on recommendations of the Narasimham Committee. The classification is based on objective criteria relating to record of recovery to ensure uniformity in assessing the quality of assets. Accordingly, banks were required to classify their advances into four broad groups (a) standard (b) sub standard (c) doubtful, and (d) loss assets.

46. A Non-Performing Asset (NPA) is defined as a credit facility in respect of which interest has remained 'past due' for a period of four quarters ending March, 31, 1993 three quarters ending March 31, 1994 and two quarters ending March 31, 1995 and onwards. RBI has directed that the banks should not charge and take to income account interest on all NPAs.

47. The total NPAs of public sector banks which was about Rs. 41041 crore representing 24.78% of total advances as on 31 March, 1994 had come down to Rs. 39,584 crore or 17.1% of total advances as on 31 March, 1996. The targetted level of NPAs at the end of 1997 was 13.6% of total advances.

48. The Standing Committee on Finance in their Third Report on Demands for Grants of Ministry of Finance for 1997-98 *inter-alia* recommended as follows:—

> "The Committee would like to be apprised of the reasons for decline in percentage of NPAs—whether it is on account of low incidence of fresh NPAs or recovery of NPAs".

49. The Ministry of Finance in their action taken reply on the above mentioned recommendation of the Committee *inter-alia* stated as follows:—

> "In the year 1996, a concept of net NPA was introduced by RBI on the lines of international practice which is required to be

worked out by deducting the following items from gross NPAs:

(a) Provisions held against NPAs.

(b) Balance in interest suspense account.

(c) DICGC/ECGC claims received and pending adjustment.

(d) Part payment received and kept in suspense account.

Based on the concept of net NPAs, some banks reported Net NPAs for the year 1995-96. However, during the course of MoU discussions, RBI advised these banks to submit gross NPAs as were being reported earlier. This has lead to revision of figures of NPAs for public sector banks for 1995-96 from Rs. 39584 crores to Rs. 41660 crores".

At the end of March 1997 NPAs stood at Rs. 43577.09 crores *i.e.*, an increase of Rs. 1916.15 crores over the revised NPA figure of Rs. 41660.94 crores as at the end of March 1996. Since actual NPA in 1996-97 has turned out to be higher than that of 1995-1996 contrary to expectations, the projected reduction to Rs. 35912 crores (13.6% of total advances) has lost relevance. Simultaneously the question, whether banks are attempting to reduce NPAs through zero risk investment rather than through credit would no longer be appropriate. The position of loans and advances and gross NPAs of public sector banks in the last five years is given below:

(Rs. in crores)

Year	Gross Advance	Gross NPAs	NPAs as % of gross advances
1992-93	169340.55	39253.14	23.18
1993-94	165622.80	41041.33	24.78
1994-95	197353.11	38385.18	19.45
1995-96	231321.15	41660.94	18.01
1996-97	244266.20	43577.09	17.84

The increase in quantum of NPAs in absolute terms over the period 1992-93 to 1996-97 was Rs. 4323.95 crore *i.e.* 11.02 per cent though gross advance grew by Rs. 74,925.65 crore from Rs. 1,69,340.55 crore to Rs. 2,44,266.20 crore *i.e.* a growth of 44.25 per cent. This means that there has been far less increase in NPAs compared to the growth in advances. The NPAs as a percentage of gross advances has also been showing a declining trend."

50. With a view to reducing mounting Non-Performing Assets (NPAs) of public sector commercial banks, the Finance Minister while presenting the budget of the Union Government for 1998-99 announced that a few banks with high NPAs will be encouraged, on experimental basis, to establish Asset Reconstruction Companies (ARCs) which will take over the NPAs of the banks at their realisable value and swap them with special bonds to be held by the bank.

51. Explaining the concept of Asset Reconstruction Company, during oral evidence held on 16 June, 1998, Special Secretary (Banking), Ministry of Finance *inter-alia* stated as under:—

> "The concept is that the Asset Reconstruction Company which would be floated say, by the bank itself and for the loss assets or the sub-standard assets, the realisable value would be determined and at the discounted realisable value, these assets could be transferred from the bank to the Asset Reconstruction Company which in turn, will issue bonds to the banks in return for those assets. Those bonds will have to be Government-guaranteed, if they were to have any value. Then the Asset Reconstruction Company who would take on the assets on its books and would then pursue with the debt recovery against these assets".

52. The Committee find that in order to reduce non-performing assets of public sector commercial banks a new concept of setting up an Asset Reconstruction Company (ARC) has been evolved according to which the Company would be floated by the concerned bank for the sub-standard and loss assets, and the assets will be transferred at a discounted realisable value from the bank to the concerned company which in turn will issue bonds to the banks for these assets. These bonds will have to be Government-guaranteed and then the Asset Reconstruction Company would take on the assets and pursue the matter for the debt recovery. However, since such companies will be manned by the same staff who are already

working in the concerned bank and the ownership will also continue to remain unchanged, the Committee are of the view that setting up such companies is not going to make much difference except making a mere cosmetic change and it will be totally an artificial exercise for clearing the NPAs. They are of the firm view that the banks which already have adequate infrastructure should not disown their primary responsibility of making recoveries. The Committee are of the opinion that since the present legal framework for undertaking recoveries is not adequately supportive, it should be suitably reformed if NPAs are to be reduced. The Committee apprehend that in the absence of comprehensive legal framework ARCs will meet the same fate as that of Debt Recovery Tribunals which are till now suffering from various deficiencies of legal and administrative nature. Hence, the Committee strongly recommend that immediate corrective steps be taken to identify the shortcomings inherent in the legal system which are presently hampering recoveries of dues and necessary changes be brought through legislation without any further loss of time so that recovery process gets toned up and DRTs get activated.

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Capital Contribution to Nationalised Banks

53. The Government's contribution to shore up the capital base of Nationalised banks since 1993-94 is as follows:—

(Rs. crore)

Year	BE	RE	Actuals
1993-94	5,700.00	5,700.00	5,700.00
1994-95	5,600.00	5,287.12	5,287.12
1995-96	850.00	850.00	850.00
1996-97	909.00	1,509.00	1,509.00
1997-98	—	2,700.00	2,700.00
1998-99	400.00		

54. With regard to the names of Nationalised banks which were given funds *inter-alia* to shore up their capital base, the Government *inter-alia* furnished the data as follows:—

(Rs. in crores)

Name of the bank	Capital allocated 1993-94	Capital contribution towards in 1994-95			Capital allocated 1995-96	Capital allocated 1996-97	Capital allocated 1997-98
		Tier-I	Tier-II	Total			
Allahabad Bank	90.00	356.20	101.61	475.81	160.00	—	—
Indian Bank	220.00	230.96	180.94	411.90	—	—	1750.00
UCO Bank	535.00	515.52	0.00	515.52	110.00	54.00	350.00
United Bank of India	215.00	538.87	0.00	538.87	256.00	338.00	—
Vijaya Bank	65.00	62.31	0.00	62.31	—	302.00	—

55. In written reply to a query as to whether the banks which received capital from the banks have achieved the prudential norms and improved their profitability since then, the Ministry of Finance *inter-alia* stated/furnished the data as follows:—

(Amount in Rs. crore)

Name of the Bank	1993-94		1994-95		1995-96		1996-97	
	Oper. profit	Net profit	Oper. profit	Net profit	Oper. profit	Net profit	Oper profit	Net profit
Allahabad Bank	22.84	- 367.72	30.42	- 76.36	103.21	5.62	184.26	- 64.3
Indian Bank	49.78	- 390.65	75.12	14.26	- 223.68	1336.4	- 138.36	- 389.09
UCO Bank	- 161.82	- 546.45	36.63	- 83.81	- 26.13	- 236.66	- 72.76	- 176.23
Vijaya Bank	40.53	4.1	77.58	31.7	4.91	- 250.95	34.77	18.96
United Bank of India	- 119.00	- 618.06	- 82.73	- 197.23	- 50.24	- 234.46	- 54.97	- 113.64

56. The Committee are concerned to note that inspite of infusion of huge amount of capital to the extent of about Rs. 1350 crores, Rs. 1565 crore and Rs. 2,382 crore into United Bank of India, UCO Bank and Indian Bank respectively since 1993-94 to strengthen their capital base these banks are still incurring losses. The fact that losses of UCO and United Bank of India in 1995-96 (Rs. 236.66 and Rs. 234.46 crore respectively) are far higher than the losses incurred in the preceding year (Rs. 83.81 and Rs. 197.23 crore respectively) indicates that to revamp these banks on stand alone basis, the Committee believe, that not only the infusion of funds but also reorganisation of these banks' structure has to be carried out by the Government. The Committee would like to be apprised of the action taken in this regard by the Government at an early date.

The Committee would like to be apprised of the specific reasons as to why these banks could not be turnedaround even after infusion of capital for the last five years and the concrete measures taken in this regard.

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State of Capital Markets

57. During 1996-97, the primary market was characterised by reduced number of issues and lower amounts raised, while the secondary market witnessed low trading volumes and declining prices during much of the year amid persistence of subdued market sentiment. The situation in 1997-98 was hardly different from that of the earlier year. The capital market continued to remain sluggish in 1997-98 where in the resource mobilisation through primary market through public issues steadily declined to Rs. 14,276 crore in 1996-97 and further down to Rs. 4570 crore in 1997-98.

58. The number as well as amount of resources mobilised through equity and Rights issues by non-Government Public Limited Companies, Public Sector Undertakings, Government Companies, Banking and FIs (in the public sector) and banks in the private sector

as furnished by Ministry of Finance since 1994-95 is as follows:—

Resources Mobilised through Public and Rights Issues

For the Period April 1994—March 1995

	PUBLIC		RIGHTS		TOTAL	
	NO.	AMT. (Rs. in Crs.)	NO.	AMT. (Rs. in Crs.)	NO.	AMT (Rs. In Crs.)
PRIVATE SECTOR	1302	19214.95	343	6526.39	1645	25741.34
PUBLIC SECTOR	7	1344.25	1	18.00	8	1362.25
JOINT SECTOR	33	484.78	6	43.64	39	528.90
TOTAL CAPITAL RAISED					1692	27632.49
BANKING/FIs (in the Public Sector)	1	360.00	0	0.00	1	360.00
BANKS (in the Private Sector)	3	280.74	3	37.26	6	318.00

For the Period April 1995—March 1996

	PUBLIC		RIGHTS		TOTAL	
	NO.	AMT. (Rs. in Crs.)	NO.	AMT. (Rs. in Crs.)	NO.	AMT (Rs. In Crs.)
PRIVATE SECTOR	1412	10019.61	297	6550.86	1709	16570.47
PUBLIC SECTOR	7	4164.90	0	0.00	7	4164.90
JOINT SECTOR	7	55.02	2	13.26	9	68.28
TOTAL CAPITAL RAISED					1725	20803.65
BANKING/FIs (in the Public Sector)	3	3621.46	0	0.00	3	3621.46
BANKS (in the Private Sector)	2	94.00	10	591.14	12	685.14

For the Period April 1996–March 1997

	PUBLIC		RIGHTS		TOTAL	
	NO.	AMT. (Rs. in Crs.)	NO.	AMT. (Rs. in Crs.)	NO.	AMT. (Rs. In Crs.)
PRIVATE SECTOR	738	7610.04	129	1897.41	867	9507.45
PUBLIC SECTOR	9	3902.00	1	133.01	10	4035.01
JOINT SECTOR	4	44.74	1	688.78	5	733.52
TOTAL CAPITAL RAISED					882	14275.98
BANKING/FIs (in the Public Sector)	7	3502.00	0	0.00	7	3502.00
BANKS (in the Private Sector)	0	0.00	0	0.00	0	0.00

For the Period April 1997–March 1998

	PUBLIC		RIGHTS		TOTAL	
	NO.	AMT. (Rs. in Crs.)	NO.	AMT. (Rs. in Crs.)	NO.	AMT (Rs. In Crs.)
PRIVATE SECTOR	55	2136.59	47	1684.38	102	3820.97
PUBLIC SECTOR	6	717.87	0	0.00	6	717.87
JOINT SECTOR	2	23.63	1	7.48	3	31.11
TOTAL CAPITAL RAISED					111	4569.95
BANKING/FIs (in the Public Sector)	3	467.44	0	0.00	3	467.44
BANKS (in the Private Sector)	1	180.00	0	0.00	1	180.00

59. The Committee observe that the continued decline in the number of issues as well as the amounts raised by way of equity and Rights by corporates/companies in public, private and joint sector may not augur well for the corporates wanting to raise resources

from the public. As there is distinct possibility of many corporates abandoning their plans to raise capital abroad due to widening of the spreads on the Indian paper as well as the likely lack of response to the Indian paper in the international capital markets in the wake of sanctions, the Committee feel many corporates may opt for domestic markets for raising capital. The Committee, therefore, are of the opinion that, there is a need to improve the disclosure standards in order to have greater transparency, introduce measures to restore investor confidence and lure them back to the market especially by providing liquidity/exit option in respect of highly illiquid scripts, take prompt action against companies/corporates for various omissions and commissions and to plug loopholes in the existing system.

The Committee also recommend that the newly setup private sector banks which, as per the RBI stipulation are required to raise capital from the public, but could not do so and got extensions, should not be given any further extension and they be made to tap the market for capital this year as this will go a long way in improving the subdued sentiments prevailing in the markets. They also desire that adequate steps should be taken to revitalize the markets. SEBI should also conduct an enquiry into erratic and volatile behaviour of the stock markets and the report may be submitted to the Committee expeditiously.

APPROPRIATION NO. 29
DEPARTMENT OF ECONOMIC AFFAIRS

Fiscal Deficit

60. The gross fiscal deficit is defined as the difference between the revenue receipts (net) plus non-debt capital receipts and the total expenditure including loans net of repayments. This is a measure which captures the entire shortfall in the non debt resources for financing the plan and non-plan activities and schemes of the Central Government.

61. The ever rising fiscal deficit has resulted in severe interest burden on the exchequer. The interest payments of the Central Government which stood at Rs. 31075/- crore in 1992-93 have gone up to Rs. 59478/- crore in 1996-97 which further went up to Rs. 65700/- crore as per revised estimates for 1997-98.

62. With the Government deciding to borrow at market related rate of interest which are determined at auctions conducted by RBI since 1992-93, the loans raised by the Government at low and artificial rate of interest prior to 1992-93 are being repaid by loans raised at market rates of interest which are substantially higher than those of earlier artificially determined low interest rates. As a result, substantial amounts of revenue receipts (net) of the Central Government have gone towards payment of interest as shown below:—

Year	Revenue receipts	Interest payments	Average interest paid on market loans
1992-93	74128	31075	N.A.
1993-94	75453	36741	13.62
1994-95	91083	44060	11.87
1995-96	110130	50045	13.68
1996-97	126279	59478	13.69
1997-98	138514 (RE)	65700 (RE)	12.01 (RE)

63. The fiscal deficit can be contained only by increasing non-debt capital receipts and reducing expenditure. In written reply to a query as to whether the decline in revenue deficit since 1992-93 is due to economy measures undertaken or due to under utilisation of budgetary provisions, the ministry of Finance in a written note stated that since the average growth in revenue expenditure over previous year during the period 1994-95 and 1995-96 was 13.7%, the average growth in revenue receipts in that period was around 20.8%. Thus, higher revenue receipts more than anything else resulted in decline in revenue deficit. In support of their contention they drew the attention of the Committee

to the following table:—

Year	Revenue expenditure	Percent Increase over previous year	Revenue Receipt	Percent Increase over pervious year
1993-94	108169	16.7	75453	1.7
1994-95	122112	12.9	91083	20.7
1995-96	139861	14.5	110130	20.9
1996-97	158933	13.6	126279	14.7
1997-98(RE)	182200	14.6	138514	9.6

64. On the market borrowings and revenue deficit of the Central Government, Ministry of Finance, in a written note submitted the following date:—

(Rs. crore)

	1994-95	1995-96	1996-97	1997-98 (RE)
I. Total market Borrowings (including other long, medium and short term borrowings)	20104	26799	26372	42484
II. Revenue deficit	31029	29731	32654	43686

65. In respect of formulation of measures to contain/reduce ever increasing interest payments and subsidies especially considering the fact that ever increasing borrowings of the Government raises interest rate in the economy, the Ministry in a written reply *inter-alia* stated as under:—

> "......However, the key to reduction in interest payments lies in reduction of fiscal deficit and that of decrease in subsidies lies in timely and periodical review of issue prices. Since our plan expenditure is entirely being met out of borrowings, it shows an inherent limitations upto which fiscal deficit can be reduced".

66. The Committee are of the view that the ever increasing fiscal deficit which results in pre-emption of available scarce capital by the Government might pushout commercial sector from raising funds from the market which inturn will result in hardening of interest rates. The Committee believe that there is distinct possibility of firming up of interest rate in the near future in the light of sanctions, downgrading of India's credit rating by international rating agencies by two notches (indicating negative outlook on the economy) and the consequent drying up of international sources of finance. Hence, any significant increase in the borrowings of the Government to finance its unproductive/consumption expenditure is something that the country can ill afford at this critical juncture. The Committee believe that for reducing the fiscal deficit to any considerable extent a consensus has to be build up which is essential for taking certain hard decisions in this regard.

It is regrettable to note that about half of the revenue expenditure and entire plan expenditure is currently met by market borrowings. With regard to reduction in expenditure, Government should target considerable reduction in revenue expenditure especially non-plan revenue expenditure. Plan expenditure which results in capital formation and is essential for infrastructure development should not be reduced at all. However, the Committee find that there has been gross under utilisation of budgetary provisions under plan in sectors namely Coal and Fertilisers due to various reasons. The Committee, therefore, recommend that such substantial under utilisation of plan allocations should be taken seriously by the Nodal Ministry i.e. Ministry of Finance and the need for proper utilisation of scarce planned resources should invariably be impressed upon the different Ministries. The Committee recommend that the investments made by the Government in public sector undertakings should also earn decent returns so that adequate surplus can be generated for funding future projects.

The Committee are of the opinion that the number of tax payers in the country is still too small as compared to potential tax payers in the country. Hence, on the revenue front, the Committee recommend that the tax net should be widened for which tax machinery should be geared up to ensure the maximum tax compliance resulting in enhanced tax revenues. However, freedom fighters who are provided with telephone connection on concessional basis by the Government for their services rendered to the nation

should be exempted from filing income-tax returns. They also desire that a study be conducted with a view to examining the feasibility of identifying rural rich.

DEMAND NO. 33
DEPARTMENT OF EXPENDITURE

Expenditure Management and Reforms Commission

67. While presenting the Central Government's Budget for 1996-97, the then Finance Minister *inter-alia* proposed to appoint a high level Expenditure Management and Reforms Commission (EMRC) comprising distinguished political leaders, Economists and Administrators to submit its recommendations on public expenditure management and control as far as the Central Government is concerned.

68. When enquired about the specific reasons for not constituting the proposed Commission, Ministry of Finance, in a written note submitted as under:—

> "The High Level Expenditure Management & Reforms Commission has not yet been set up. The terms of reference of the Commission were to relate to all aspects of public expenditure management & control in Central Government. The constitution of the proposed Commission is dependent on getting the consent of appropriate members. These have not yet been settled/obtained.

69. Replying to a query on the proposed Commission as announced by the former Finance Minister, Secretary (Department of Expenditure), during the course of evidence held on 16 June, 1998 stated as under:—

> "So when the Expenditure Management Commission was considered by the former Finance Minister, the understanding that we got was that he wanted it to be manned through appropriate political personalities so that consensus can emerge which will be accepted in the country and decisions can come. But he came back later. I think, there was an announcement made by him saying that he could not constitute it because he could not get the agreement from the appropriate personnel to be nominated into this Commission."

70. When asked whether the Department feel the need for such a Commission, Secretary (Department of Expenditure) during the course of the evidence held on 16.6.98 stated as follows:—

> "It was considered because in a commission which is involving different political parties and well-known personalities in the country, consensus can come up.

71. The Committee are concerned to note that ever rising revenue expenditure especially consumption expenditure and the compulsion to use the market borrowings of the Government raised at market rate of interest to meet half of the revenue expenditure has led to erosion of fiscal descipline. As such, expenditure patterns may force the Government to increasingly resort to borrowings from the markets to repay the old debt increased on account of revenue expenditure. The Committee, therefore, recommend that urgent steps should be taken to constitute Expenditure Management and Reforms Commission consisting of distinguished personalities in all walks of life and leaders from national political parties to have consensus approach in the policies and strategies which need to be evolved for revamping the expenditure patterns of the Central Government without any further delay.

NEW DELHI;
6 *July*, 1998
15 *Asadha*, 1920 *(Saka)*

MURLI DEORA,
Chairman,
Standing Committee on Finance.

STATEMENT OF CONCLUSIONS/RECOMMENDATIONS
OF THE STANDING COMMITTEE ON FINANCE
IN THE THIRD REPORT (1998-99)

Sl. No.	Para No.	Conclusions/Recommendations
1	2	3
1.	6	The Committee find that since 1993-94 gross under utilisation of budgetary provisions has been explained by the Ministry on the grounds of non-procurement of machinery for want of sufficient space and poor response to the tender enquiries. The Committee are not at all convinced with such stereotyped replies and fail to understand as to why attempts made by the Ministry could not yield desired results even after a lapse of five years. The regret to point out that recommendations made by the Committee in this regard have also not been taken seriously by the Ministry. They are of the firm view that no serious efforts seem to have been made in this regard. They, therefore, desire that concrete steps should now be taken at least to overcome the bottlenecks with a view to obviate the practice of surrendering funds year after year. They would like to be apprised of the steps taken by the Ministry in this regard as early as possible.

1	2	3
2.	9	The Committee note with grave concern that substantial amount of budgetary allocation made during 1993-94, 1995-96, 1996-97 and 1997-98 could not be utilized by-Currency Note-press mainly due to non receipt of Treasure Wagons from Bharat Earth Movers Ltd. (BEML). The reply furnished by the Government is however, conspicuously silent with regard to the reasons which resulted in non-procurement of these Treasure Wagons for more than four years. The reply is also silent with regard to the specific grounds which necessitated the authorities to make an enhanced budgetary provisions at the RE stage during 1995-96 particularly when the actual amount spent remained far less than the amount which was allocated. Needless to say the assessments have not been made realistically. The Committee, therefore, desire that in future at least more caution should be taken while framing the budget estimates so that the same do not result in unnecessary savings and the budgetary exercise could become much more meaningful. The Committee should also be apprised of the year in which the Currency Note Press entered into contract with Bharat Earth Movers Ltd., the cost escalation due to delay in supply of the Treasure Wagons, the reasons for non-procurement of the

1	2	3
		equipment together with the concrete steps taken to procure the machinery during the current year. The Committee would also like to be informed if any firm date for supply of the Wagons was committed by Bharat Earth Movers Ltd. and in case of default on their part whether suitable penalties were imposed.
3.	13	The Committee are unable to reach any conclusion in view of the scant reply given by the Ministry on the reasons for under utilization of budgetary allocation. The reply does not even specify as to when the Ministry had first planned to instal two new lines of note printing machines, purchase Treasure Wagons, defer the original proposal and instead decided to replace the old machines. The very fact that proposal for installing two new lines of note printing machines had to be deferred on account of budgetary constraints speaks of lack of planning on the part of the Ministry. They would, therefore, like to be apprised as to why the proposal for installing new lines was initiated at all when the budgetary provisions for meeting the expenditure was inadequate. They would also like to be informed of the year in which the decision to procure Treasure Wagons was taken. The Committee apprehend that the budgetary

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		provisions had been made year after year even when no concrete steps were taken for procuring these as a result of which the amount had to be surrendered every year. Evidently, this shows lack of financial prudence on the part of Authorities concerned. The Committee, therefore, recommend that the Ministry should not merely be content with placing the orders for supply of the equipment but should also ensure timely procurement of the same on the basis of firm commitments made by the suppliers so that the delay could be minimised and the losses suffered on account of late supply of equipment could be properly compensated.
4.	22	The Committee take a serious note of the fact that despite repeated assurances given by the Ministry of Finance, the project has not been completed even as on date. The very fact that the stipulated date of completion which was originally fixed as March, 1992 with an estimated cost of Rs. 118.28 crores, had to be subsequently revised to 30 November, 1996 together with revised cost estimates of Rs. 348.80 crores and expected date of completion being shifted first to June, 1997 then to December, 1997 and now to March, 1999 is in itself indicative of casual approach

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		adopted by the Ministry and lack of proper monitoring on their part. It is disheartening to note that repeated recommendations of the Committee for completing the project within the revised targets (both cost and time) have made little impact on the dithering attitude of the Ministry. They are not inclined to accept the contention of the Ministry that there shall be no cost overruns as machines and equipment were ordered well in time particularly in view of their own candid admission to the effect that some cost escalation could be there due to exchange rate variations. It is also beyond comprehension as to how the Ministry kept on assuring the Committee that the project would be completed within the revised schedule even when the monitoring agency i.e. Department of Programme Implementation had in their successive Annual Reports clearly cautioned about the slow pace of progress of the project and had expressed apprehensions for its timely completion. The Committee, therefore, strongly disapprove of such commitments made by the Ministry and desire that now at least every earnest effort should be made to complete the project of modernisation of Government of India mints particularly at Mumbai and Calcutta latest by March, 1999

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		as already promised, so that the problem of shortage of coins gets resolved without any further delay. The Committee would like to be apprised of the concrete steps taken in this regard as expeditiously as possible.
5.	26	The Committee regret to point out that huge amount of money is being spent on payment of Over Time Allowance in Government of India Mints and Presses which is increasing year after year. While considering Demands for Grants under Head 'Machinery and Equipments', the Committee find that there has been substantial under utilisation of the budgetary allocations meant for procurement/ modernisation of machinery and equipment by Currency Note Press as well as by Bank Note Press. The Committee are of the view that had modernisation of Government of India Mints and Presses been completed as originally envisaged; substantial savings could have been made by way of reduction in over-time allowance. Hence, as recommended elsewhere in this report, the Committee desire that earnest efforts should be made to modernise Mints and Presses so that the budgetary allocations meant for procurement of machinery and equipment are utilised fully. However, in the meantime efforts

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		may also be made to reduce OTA by following prudent management policies.
6.	32	The Committee note that since 1994-95 upto March, 1998 an amount of Rs. 774 crores (approximate) has been provided by the Central Government as recapitalisation support to total number of 151 select Regional Rural Banks (RRBs). They, however, find that all the money which is being provided for clearing their balance sheets as well as for strengthening their capital base is being utilized in paying salaries, clearing the old settlements etc. and has hardly met the objective of strengthening these banks. Needless to say that Regional Rural Banks which were originally designed to be low cost institutes for catering to the needs of the rural areas have, on the contrary, turned out to be highly costly due to their cost structure becoming more and more akin to that of commercial banks. The Committee, therefore, apprehend that this will definitely have an adverse affect on their sustainability in the medium and long run unless the Government in the right earnest review the relevant policies applicable to them and bring necessary legal policy changes in order to make their operations viable and sustainable.

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7.	37	The Committee express concern at the fact that even after their contribution to RIDF since 1995-96, the public sector commercial banks are still short of meeting their targets for lending to agricultural sector and its adverse impact on growth of agriculture. The Committee would like to be apprised of the reasons for not lending to agriculture as per the targets and the concrete measures taken to improve flow of credit to agriculture. The Committee also want the Government to furnish them the Bank-wise data on disbursement of loans to agricultural sectors.
8.	38	The Committee recommend that the Government should not accept the recommendations of R.V. Gupta Committee with respect to dispensation of compulsory rural posting of bank officials in view of acute shortage of bank staff in rural areas and its negative impact on delivery of Rural Credit.
9.	44	The Committee observe that the reply furnished by RBI implies that only during low-credit take off periods banks invest their funds in zero risk Government securities. However, the Committee are unable to agree with the contention of RBI in the light of the fact that public sector commercial banks have been

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		investing in Government Securities of about 5.8%, 6.9%, 6.6%, 7.4% and 8.2% in 1993-94, 1994-95, 1995-96, 1996-97 and 1997-98 respectively in excess of RBI stipulated percentage. It is surprising to note that about 13 public sector commercial banks have invested more of their increase in aggregate deposits during 1996-97 and 1997-98 in Government Securities. The Committee are of the opinion that there is no dearth of availability of credit worthy quality borrowers seeking bank funds for financing their manufacturing/ commercial ventures. Though the Committee appreciate the problem of low off-take of credit by commerce and industry and also reluctance on the part of the banks for lending due to the bitter experience of the Securities Scam, they feel that the public sector commercial banks are not making concerted efforts to identify the potential customers for lending. The public sector commercial banks have instead, been preferring the soft option of investing in SLR securities in excess of the RBI's prescribed norms. It, however, must be recognised that there is nothing like zero-risk lending and the banks have to take appropriate risk through extension of the credit. The Committee, therefore, recommend

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		that RBI/Govt. should pursuade the banks to shed their risk averseness and start identifying the potential customers to lending in the current year by providing suitable insulating mechanism at the lower levels (without undermining accountability) in order to encourage honest decision making and to minimise fear psychosis prevailing at present. This is especially so in the light of the fact that due to sanctions imposed by the US, the spreads on the Indian paper have gone up which may force many Indian corporates wanting to raise capital from international capital market to abandon their plans resulting in demand for more funds from the banking system. They also desire that steps should be taken to strengthen the decision making process at all the levels with a view to ensuring that the loan applications are cleared without undue delay and particularly the need for credit for the small borrowers are properly catered to.
10.	52	The Committee find that in order to reduce non-performing assets of public sector commercial banks a new concept of setting up an Asset Reconstruction Company (ARC) has been evolved according to which the Company would be floated by the concerned bank for the sub-standard and loss assets,

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		and the assets will be transferred at a discounted realisable value from the bank to the concerned company which in turn will issue bonds to the banks for these assets. These bonds will have to be Government-guaranteed and then the Asset Reconstruction Company would take on the assets and pursue the matter for the debt recovery. However, since such companies will be manned by the same staff who are already working in the concerned bank and the ownership will also continue to remain unchanged, the Committee are of the view that setting up such companies is not going to make much difference except making a mere cosmetic change and it will be totally an artificial exercise for clearing the NPAs. They are of the firm view that the banks which already have adequate infrastructure should not disown their primary responsibility of making recoveries. The Committee are of the opinion that since the present legal framework for undertaking recoveries is not adequately supportive, it should be suitably reformed if NPAs are to be reduced. The Committee apprehend that in the absence of comprehensive legal framework ARCs will meet the same fate as that of Debt Recovery Tribunals which are till now suffering from various deficiencies

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		of legal and administrative nature. Hence, the Committee strongly recommend that immediate corrective steps be taken to identify the shortcomings inherent in the legal system which are presently hampering recoveries of dues and necessary changes be brought through legislation without any further loss of time so that recovery process gets toned up and DRTs get activated.
11.	56	The Committee are concerned to note that inspite of infusion of huge amount of capital to the extent of about Rs. 1350 crore, Rs. 1565 crore and Rs. 2,382 crore into United Bank of India, UCO Bank and Indian Bank respectively since 1993-94 to strengthen their capital base these banks are still incurring losses. The fact that losses of UCO and United Bank of India in 1995-96 (Rs. 236.66 and Rs. 234.46 crore respectively) are far higher than the losses incurred in the preceding year (Rs. 83.81 and Rs. 197.23 crore respectively) indicates that to revamp these banks on stand alone basis, the Committee believe, that not only the infusion of funds but also reorganisation of these banks' structure has to be carried out by the Government. The Committee would like to be apprised of the action taken in this regard by the Government at an early date.

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		The Committee would like to be apprised of the specific reasons as to why these banks could not be turnedaround even after infusion of capital for the last five years and the concrete measures taken in this regard.
12.	59	The Committee observe that the continued decline in the number of issues as well as the amounts raised by way of equity and Rights by corporates/companies in public, private and joint sector may not augur well for the corporates wanting to raise resources from the public. As there is distinct possibility of many corporates abandoning their plans to raise capital abroad due to widening of the spreads on the Indian paper as well as the likely lack of response to the Indian paper in the international capital markets in the wake of sanctions, the Committee feel many corporates may opt for domestic markets for raising capital. The Committee, therefore, are of the opinion that, there is a need to improve the disclosure standards in order to have greater transparency, introduce measures to restore investor confidence and lure them back to the market especially by providing liquidity/exit option in respect of highly illiquid scrips, take prompt action against companies/corporates for various omissions and commissions and to plug loopholes in the existing system.

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		The Committee also recommend that the newly setup private sector banks which, as per the RBI stipulation are required to raise capital from the public, but could not do so and got extensions, should not be given any further extension and they be made to tap the market for capital this year as this will go a long way in improving the subdued sentiments prevailing in the markets. They also desire that adequate steps should be taken to revitalize the markets. SEBI should also conduct an enquiry into erratic and volatile behaviour of the stock markets and the report may be submitted to the Committee expeditiously.
13.	66	The Committee are of the view that the ever increasing fiscal deficit which results in pre-emption of available scarce capital by the Government might pushout commercial sector from raising funds from the market which inturn will result in hardening of interest rates. The Committee believe that there is distinct possibility of firming up of interest rate in the near future in the light of sanctions, downgrading of India's credit rating by international rating agencies by two notches (indicating negative outlook on the economy) and the consequent drying up of international sources of finance.

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		Hence, any significant increase in the borrowings of the Government to finance its unproductive/ consumption expenditure is something that the country can ill afford at this critical juncture. The Committee believe that for reducing the fiscal deficit to any considerable extent a consensus has to be build up which is essential for taking certain hard decisions in this regard.
		It is regrettable to note that about half of the revenue expenditure and entire plan expenditure is currently met by market borrowings. With regard to reduction in expenditure, Government should target considerable reduction in revenue expenditure especially non-plan revenue expenditure. Plan expenditure which results in capital formation and is essential for infrastructure development should not be reduced at all. However, the Committee find that there has been gross under utilisation of budgetary provisions under plan in sectors namely Coal and Fertilisers due to various reasons. The Committee, therefore, recommend that such substantial under utilisation of plan allocations should be taken seriously by the Nodal Ministry *i.e.* Ministry of Finance and the need for proper utilisation of scarce planned resources should invariably be

1	2	3
		impressed upon the different Ministries. The Committee recommend that the investments made by the Government in public sector undertakings should also earn decent returns so that adequate surplus can be generated for funding future projects. The Committee are of the opinion that the number of tax payers in the country is still too small as compared to potential tax payers in the country. Hence, on the revenue front, the Committee recommend that the tax net should be widened for which tax machinery should be geared up to ensure the maximum tax compliance resulting in enhanced tax revenues. However, freedom fighters who are provided with telephone connection on concessional basis by the Government for their services rendered to the nation should be exempted from filling income-tax returns. They also desire that a study be conducted with a view to examining the feasibility of identifying rural rich.
14.	71	The Committee are concerned to note that ever rising revenue expenditure especially consumption expenditure and the compulsion to use the market borrowings of the Government raised at market rate of interest to meet half of the

1	2	3
		revenue expenditure has led to erosion of fiscal descipline. As such, expenditure patterns may force the Government to increasingly resort to borrowings from the markets to reply the old debt increased on account of revenue expenditure. The Committee, therefore, recommend that urgent steps should be taken to constitute Expenditure Management and Reforms Commission consisting of distinguished personalities in all walks of life and leaders from national political parties to have consensus approach in the policies and strategies which need to be evolved for revamping the expenditure patterns of the Central Government without any further delay.

APPENDIX I

MINUTES OF THE FIRST SITTING OF THE STANDING COMMITTE ON FINANCE (1998-99)

The Committee sat on Wednesday, 10 June, 1998 from 10.00 hrs. to 10.40 hrs.

PRESENT

Shri Murli Deora — *Chairman*

MEMBERS

Lok Sabha

2. Shri Dhirendra Agarwal
3. Shri Haribhai Parathibhai Chaudhary
4. Shri Uttam Singh Pawar
5. Shri Girdhari Lal Bhargava
6. Shri Chetan Chauhan
7. Shri Bhagwan Shanker Rawat
8. Shri Rayapati Sambasiva Rao
9. Shri Kavuru Sambasiva Rao
10. Shri Sandipan Bhagwan Thorat
11. Shri Praful Manoharbhai Patel
12. Shri Prithviraj D. Chavan
13. Shri R.L. Jalappa
14. Shri Magunta Sreenivasulu Reddy
15. Shri Rupchand Pal
16. Shri Varkala Radhakrishnan
17. Shri S. Murugesan

18. Shri Tathagata Satpathy
19. Dr. Bikram Sarkar
20. Shri Joachim Baxla

Rajya Sabha

21. Dr. Manmohan Singh
22. Shri Krishna Kumar Birla
23. Shri M. Rajsekara Murthy
24. Shri Narendra Mohan
25. Shri O.P. Kohli
26. Shri Raghavji
27. Dr. Biplab Dasgupta
28. Shri C. Ramachandraiah
29. Shri Prem Chand Gupta
30. Shri Gurudas Das Gupta
31. Shri Satish Pradhan
32. Shri Suresh A. Keswani

SECRETARIAT

1. Dr. Ashok Kumar Pandey — *Additional Secretary*
2. Smt. P.K. Sandhu — *Director*
3. Shri S.B. Arora — *Under Secretary*
4. Shri N.S. Hooda — *Asstt. Director*

2. At the outset, the Chairman congratulated the Members on their nomination to the Committee and welcomed them to the first sitting of the newly constituted Committee.

3. The Chairman then informed the Members that the Committee would be examining the Demands for Grants (1998-99) of Ministries of (i) Finance and (ii) Planning and Programme Implementation at their subsequent sittings.

4. After deliberations, the Committee finalised the following programme for consideration of demands for grants and adoption of reports thereon:—

16.6.1998 (Tuesday)	Evidence of the representatives of Ministry of Finance
17.6.1998 (Wednesday)	–do–
19.6.1998 (Friday)	Evidence of the representatives of Ministry of Planning and Programme Implementation
29.6.1998 (Monday)	Adoption of Reports

5. Thereafter, the Chairman apprised the Members that Hon'ble Speaker has referred the Finance (Amendment) Bill, 1998 to the Standing Committee on Finance for examination and report by 3rd July, 1998. It was decided to examine the Bill on 29th June, 1998 alongwith other agenda.

6. The Committee then deliberated on the probable subjects that could be taken up by the Committee for in-depth examination during 1998-99. It was decided to examine the subject 'Possible Impact of Economic Sanctions on Indian Economy'. It was also decided to take oral evidence of official and non-official witnesses on 30th June, 1998. Selection of other subjects was, however, deferred for the time being due to paucity of time.

7. The Members then raised the issue relating to the examination of the Companies Bill, 1997 which was referred to the Committee. Since the Department of Company Affairs stands transferred to the Ministry of Law and Justice, the Bill is also in the process of transfer to the Standing Committee on Home Affairs under whose jurisdiction the Ministry of Law, Justice and Company Affairs comes. However, the Members were of the view that since the Bill relates primarily to general financial management of the companies, the Bill be considered by the Standing Committee on Finance. The Chairman assured the Members that he would take up the matter with Hon'ble Speaker.

The Committee then adjourned.

APPENDIX II

MINUTES OF THE THIRD SITTING OF THE STANDING COMMITTEE ON FINANCE (1998-99)

The Committee sat on Tuesday, 16 June, 1998 from 1100 hrs. to 1300 hrs. and again from 1430 hrs. to 1800 hrs.

PRESENT

Shri Murli Deora — *Chairman*

MEMBERS

Lok Sabha

2. Shri Dhirendra Agarwal
3. Shri Haribhai Parathibhai Chaudhary
4. Shri Girdhari Lal Bhargava
5. Shri Chetan Chauhan
6. Shri Bhagwan Shanker Rawat
7. Shri Rayapati Sambasiva Rao
8. Shri Kavuru Sambasiva Rao
9. Shri Sandipan Bhagwan Thorat
10. Shri Praful Manoharbhai Patel
11. Shri Prithviraj D. Chavan
12. Shri Magunta Sreenivasulu Reddy
13. Shri Rupchand Pal
14. Shri Varkala Radhakrishnan
15. Dr. S. Venugopalachary
16. Dr. Bikram Sarkar
17. Shri S. Jaipal Reddy
18. Shri Ch. Vidyasagar Rao

Rajya Sabha

19. Dr. Manmohan Singh
20. Shri M. Rajsekara Murthy
21. Shri Narendra Mohan
22. Shri O.P. Kohli
23. Shri C. Ramachandraiah
24. Shri Gurudas Das Gupta
25. Shri Suresh A. Keswani

SECRETARIAT

1. Smt. P.K. Sandhu	—	*Director*
2. Shri S.B. Arora	—	*Under Secretary*
3. Shri N.S. Hooda	—	*Assistant Director*

WITNESSES

Representatives of Departments of Economic Affairs and Expenditure

1. Dr. M.S. Ahluwalia	—	Finance Secretary
2. Shri C. Ramachandran	—	Secretary (Exp.)
3. Shri. N.K. Singh	—	Secretary (Revenue)
4. Smt. Nirmala Dhume	—	G.G.A
5. Shri C.M. Vasudev	—	Spl. Secy. (Bkg.)
6. Shri Ravi Kant	—	Chairman, CBDT
7. Shri D.S. Solanki	—	Chairman, CBEC
8. Shri B.K. Chaturvedi	—	Spl. Secy. (Ins.)
9. Shri S.S. Dawra	—	Additional Secretary
10. Shri K.B.S. Chopra	—	Additional C.G.A
11. Shri V. Govindrajan	—	Addl. Secy.
12. Smt. Asha Mehra	—	Member (CBDT)
13. Shri V.B. Srinivasan	—	Member (CBDT)

14. Shri V.M. Muthuramalingam	—	Member (CBDT)
15. Shri A. Balasubramanian	—	Member (CBDT)
16. Shri Sukumar Shankar	—	Member (CBEC)
17. Shri A.M. Prasad	—	Member (CBEC)
18. Shri P.N. Malhotra	—	Member (CBEC)
19. Shri D. Chakraborty	—	Member (CBEC)
20. Dr. Arvind Virmani	—	Sr. Eco. Adviser
21. Shri Sundareshan	—	J.S
22. Dr. U. Sarat Chandran	—	J.S.
23. Shri A.K. Jain	—	J.S.
24. Shri N.R. Rayalu	—	F.A.
25. Dr. Urjit R. Patel	—	Consultant
26. Shri S.N. Kaul	—	Economic Adviser
27. Shri R. Tripathi	—	Economic Adviser
28. Dr. Tarun Das	—	Economic Adviser
29. Shri N.M. Nampoorthy	—	Economic Adviser
30. Shri D. Swarup	—	J.S.
31. Shri Suresh Kumar	—	Prof. (Finance) NIFM
32. Shri K. Shankar	—	C.A. A. & A.
33. Shri A.K. Singh	—	J.S.
34. Shri S.P. Talwar	—	Dy. Governor, RBI
35. Shri A.N. Prasad	—	J.S. (CBDT)
36. Shri T.R. Rustagi	—	J.S. (CBEC)
37. Shri Someshwar	—	J.S. (CBEC)
38. Shri S. Kak	—	J.S. (CEIB)
39. Shri Somnath Pal	—	J.S. (CEIB)

2. At the outset, the Chairman welcomed the Secretaries of Ministry of Finance (Departments of Economic Affairs and Expenditure) and their colleagues to the sitting of the Committee and invited their attention to the provisions of direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of representatives of Ministry of Finance on Demands for Grants (1998-99) of Ministry of Finance and other matters relating to the Budget.

4. The evidence was not concluded.

5. A verbatim record of proceedings has been kept.

(The Committee then adjourned to meet again on 17 June, 1998).

APPENDIX III

MINUTES OF THE THIRD SITTING OF THE STANDING COMMITTEE ON FINANCE (1998-99)

The Committee sat on Wednesday, 17 June, 1998 from 1100 hrs. to 1315 hrs. and again from 1430 hrs. to 1910 hrs.

PRESENT

Shri Murli Deora — *Chairman*

MEMBERS

Lok Sabha

2. Shri Dhirendra Agarwal
3. Shri Haribhai Parathibhai Chaudhary
4. Shri Girdhari Lal Bhargava
5. Shri Chetan Chauhan
6. Shri Bhagwan Shanker Rawat
7. Shri Rayapati Sambasiva Rao
8. Shri Kavuru Sambasiva Rao
9. Shri Sandipan Bhagwan Thorat
10. Shri Praful Manoharbhai Patel
11. Shri Prithviraj D. Chavan
12. Shri Magunta Sreenivasulu Reddy
13. Shri Rupchand Pal
14. Shri Varkala Radhakrishnan
15. Shri S. Murugesan
16. Dr. S. Venugoplachary
17. Dr. Bikram Sarkar
18. Shri S. Jaipal Reddy
19. Shri Ch. Vidyasagar Rao

Rajya Sabha

20. Dr. Manmohan Singh
21. Shri M. Rajsekara Murthy
22. Shri Narendra Mohan
23. Shri O.P. Kohli
24. Dr. Biplab Dasgupta
25. Shri C. Ramachandraiah
26. Shri R.K. Kumar
27. Shri Gurudas Das Gupta
28. Shri Suresh A. Keswani

SECRETARIAT

1. Smt. P.K. Sandhu — *Director*
2. Shri S.B. Arora — *Under Secretary*
3. Shri N.S. Hooda — *Assistant Director*

WITNESSES

Ministry of Finance (Departments of Economic Affairs, Expenditure and Revenue)

1. Dr. M.S. Ahluwalia — Finance Secretary
2. Shri C. Ramachandran — Secretary (Exp.)
3. Shri. N.K. Singh — Secretary (Revenue)
4. Shri C.M. Vasudeva — Spl. Secy. (Bkg.)
5. Shri B.K. Chaturvedi — Spl. Secy. (Ins.)
6. Shri Ravi Kant — Chairman, CBDT
7. Smt. Asha Mehra — Member (CBDT)
8. Shri V.B. Srinivasan — Member (CBDT)
9. Shri V.M. Muthuramalingam — Member (CBDT)
10. Shri A. Balasubramanian — Member (CBDT)

11.	Shri B.P Verma	—	Member (CBEC)
12.	Shri Sukumar Shankar	—	Member (CBEC)
13.	Shri P.N. Malhotra	—	Member (CBEC)
14.	Shri D. Chakraborty	—	Member (CBEC)
15.	Shri V. Govindrajan	—	Addl. Secy.
16.	Shri J. S. Mathur	—	Addl. Secy.
17.	Shri D.S. Solanki	—	Chairman, CBEC
18.	Dr. Arvind Virmani	—	Sr. Eco. Adviser
19.	Shri Sundareshan	—	J.S
20.	Dr. U. Sarat Chandran	—	J.S.
21.	Shri A.K. Jain	—	J.S.
22.	Shri N.R. Rayalu	—	F.A.
23.	Dr. Urjit R. Patel	—	Consultant
24.	Shri S.N. Kaul	—	Economic Adviser
25.	Shri R. Tripathi	—	Economic Adviser
26.	Dr. Tarun Das	—	Economic Adviser
27.	Shri N.M. Nampoorthy	—	Economic Adviser
28.	Shri K. Shankar	—	C.A. A. & A.
29.	Shri D. Swarup	—	J.S.
30.	Shri A.K. Singh	—	J.S.
31.	Shri S.P. Talwar	—	Dy. Governor, RBI
32.	Shri A.N. Prasad	—	J.S. (CBDT)
33.	Shri Vijay Mathur	—	J.S (CBDT)
34.	Shri G.C. Srivastava	—	J.S. (CBDT)
35.	Shri T.R. Rustagi	—	J.S. (CBEC)
36.	Shri Someshwar	—	J.S. (CBEC)
37.	Shri S. Kak	—	J.S. (CEIB)
38.	Shri S.K. Mishra	—	F.A.
39.	Smt. Reva Nayyar	—	J.S. (NC)

40.	Ms. Somi Tandon	—	Addl. F.A. (Min. of Defence)
41.	Shri B.S. Meena	—	J.S. (Admn-DT)
42.	Shri S.P. Srivastava	—	Commr. (DB/C)
43.	Shri Somnath Pal	—	J.S. (CEIB)

PART I

2. The Committee resumed the inconclusive evidence of the representatives of Ministry of Finance (Department of Economic Affairs and Expenditure) on Demands for Grants (1998-99) of Ministry of Finance and other matters relating to the Budget.

The evidence was concluded.

A verbatim record of the proceedings has been kept.

The Committee then adjourned to meet again at 1430 hrs. to take oral evidence of representatives of Ministry of Finance (Department of Revenue) on Demands for Grants (1998-99) of the Ministry of Finance.

APPENDIX IV

MINUTES OF THE FIFTH SITTING OF THE STANDING COMMITTEE ON FINANCE HELD ON 29 JUNE, 1998

The Committee sat on Monday, 29 June, 1998 from 1100 hrs. to 1415 hrs. in Committee Room 53, Parliament House, New Delhi.

PRESENT

Shri Murli Deora — *Chairman*

MEMBERS

Lok Sabha

2. Shri Dhirendra Agarwal
3. Shri Uttam Singh Pawar
4. Shri Girdhari Lal Bhargava
5. Shri Chetan Chauhan
6. Shri Bhagwan Shanker Rawat
7. Shri Rayapati Sambasiva Rao
8. Shri T. Subbarami Reddy
9. Shri Kavuru Sambasiva Rao
10. Shri Sandipan Bhagwan Thorat
11. Shri Praful Manoharbhai Patel
12. Shri Magunta Sreenivasulu Reddy
13. Shri Rupchand Pal
14. Shri Varkala Radhakrishnan
15. Shri Beni Prasad Verma
16. Shri S. Murugesan
17. Dr. Bikram Sarkar
18. Shri Joachim Baxla
19. Shri Buta Singh

Rajya Sabha

20. Dr. Manmohan Singh
21. Shri N.K.P. Salve
22. Shri M. Rajsekara Murthy
23. Shri Narendra Mohan
24. Shri O.P. Kohli
25. Shri Raghavji
26. Dr. Biplab Dasgupta
27. Shri C. Ramachandraiah
28. Shri Prem Chand Gupta
29. Shri R.K. Kumar
30. Shri Gurudas Das Gupta
31. Shri Satish Pradhan

SECRETARIAT

1. Smt. P.K. Sandhu — *Director*
2. Shri S.B. Arora — *Under Secretary*

2. The Committee took up for consideration the draft reports on Demands for Grants (1998-99) relating to the following Ministries/ Departments:—

(i) The Ministry of Finance (Departments of Economic Affairs and Expenditure)

(ii) ** ** ** **

(iii) ** ** ** **

3. The Committee considered and adopted draft Report on Demands for Grants (1998-99) of Ministry of Finance (Departments of Economic Affairs and Expenditure) with modifications/amendments as shown in Annexure.

4. The Committee thereafter selected the subject 'Capital Market' for detailed examination and decided to undertake tour to Mumbai in this connection after the end of the current session of the Parliament.

5. The Committee authorised the Chairman to finalise the Report in the light of modifications as also verbal and consequential changes after factual verification and present it to Parliament.

The Committee then adjourned to meet again at 1500 hrs.

(Modifications/Amendments made by Standing Committee on Finance in their draft Report on Demands for Grants of Ministry of Finance Departments of Economic Affairs and Expenditure (at their sitting held on 29 June, 1998).

Pages 1 & 2, Para 3

Delete Paras 1 to 3 relating to Opening of Insurance Sector to Indian Private Companies.

Page 10 Para 16

At the end of para *add*

"and the losses suffered on account of late supply of equipment could be properly compensated".

Page 18, Para 31

After para 31, *Add* the following paras and re-number the remaining paras

As per RBI guidelines, Commercial banks both in public and private sector are required to lend 40 per cent of their Net Bank Credit (NBC) to agriculture, Small Scale Industries (SSIs), weaker sections, etc. Out of 40 per cent target of priority sector lending, 18 per cent is required to be lent to agricultural sector. The amount of advances lent to agriculture as well as their percentage in NBC of public sector commercial banks is as follows:—

(Rs. in crore)

		March 1992	March 1993	March 1994	March 1995	March 1996	March* 1997
1		2	3	4	5	6	7
1.	Net Bank Credit	112160	132782	140914	169038	184391	189684
2.	Total Priority Sector Advances	44581	48653	53197	61794	69609	79131

1	2	3	4	5	6	7
3. Percentage of priority sector advance to net bank credit (Target 40 per cent)	39.75	36.64	37.75	36.56	37.75	41.72
4. Total agricultural advances	18265	20020	21204	23513	26351	31012
5. Percentage of total agricultural advance to net bank credit (Target 18 per cent)	16.28	15.07	15.05	13.91	14.29	16.35

*Provisional Data

To encourage public investment in agriculture, the then Finance Minister while presenting the budget for the year 1995-96 *inter-alia* stated as under:—

> "I propose to establish a new Rural Infrastructural Development Fund within the National Bank for Agriculture and Rural Development (NABARD) from April 1995. The Fund will provide loans to State Governments and State owned Corporations for completing ongoing projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructure. ...... Resources for the Fund will come from commercial banks which will be required by Reserve Bank of India (RBI) to contribute an amount equivalent to a bank's shortfall in achieving the priority sector target for agricultural lending, subject to a maximum of 1.5 per cent of the bank's net credit."

The Committee express concern at the fact that even after their contribution to RIDF since 1995-96, the public sector commercial banks are still short of meeting their targets for lending to agricultural sector and its adverse impact on growth of agriculture. The Committee would like to be apprised of the reasons for not lending to agriculture as per the targets and the concrete measures taken to improve flow of credit to agriculture. The Committee also want the Government to furnish them the Bank-wise data on disbursement of loans to agricultural sectors.

Page 19 Para 32

At the end of para *Add*

"and its negative impact on delivery of Rural Credit"

Page 23, para 38, line 5

After "however" *Delete* "regret to"

Page 29, Para 44

Sub-para 44 line 3

For "However, the Committee"

Substitute "Though the Committee appreciate the problem of low off-take of credit by commerce and industry and also reluctance on the part of the banks for lending due to the bitter experience of the Securities Scam, they"

After "current year"

add "by providing suitable insulating mechanism at the lower levels (without undermining accountability) in order to encourage honest decision making and to minimize fear psychosis prevailing at present."

At the end of sub-para 44 *Add*

"They also desire that steps should be taken to strengthen the decision making process at all the levels with a view to ensure that loan applications are cleared without undue delay and particularly the need for credit of the small borrowers are properly catered to"

Page 33, Para 54, line 18.

After "cosmetic change"

Add "and it will be totally an artificial exercise for clearing NPAs. They are of the firm view that the banks which already have adequate infrastructure should not disown their primary responsibility of making recoveries."

Page 33, Para 54, line 23

After "Debt Recovery Tribunals which"

Add "are till now suffering from various deficiencies of legal and administrative nature"

Page 33, Para 54

At the end of the para *Add*

"so that recovery process gets toned up and DRTs get activated"

Page 40, Para 62

Delete para 62

Page 41, Para 63 lines 11 & 12

For "there is a need to improve the disclosure standards introduce measures to lure back retail investors"

Substitute "there is a need to improve the disclosure standards in order to have greater transparency introduce measures to restore investor confidence and bring them back to the market"

Page 41, Para 63, line 14

After "omissions and commissions"

Add "and to plug loopholes in the system"

Sub-para 63

At the end of sub-para *Add*

"They also desire that adequate steps should be taken to revitalize the markets and SEBI should also conduct an enquiry into erratic and volatile behaviour of stock markets and the report may be submitted to the Committee expeditiously"

Page 46, Para 71

Third sub-para

For	"The Committee are of the opinion that the number of tax payers in the country is still to small compared to potential tax payers in the country. Hence, on the revenue front, the Committee recommend that tax machinery should be geared up to ensure maximum tax compliance resulting in enhanced tax revenues"
Substitute	"The Committee are of the opinion that the number of tax payers in the country is still too small as compared to potential tax payers in the country. Hence, on the revenue front, the Committee recommend that the tax net should be widened for which tax machinery should be geared up to ensure the maximum tax compliance resulting in enhanced tax revenues. However, freedom fighters who are provided with telephone connection on concessional basis by the Government for their services rendered to the nation should be exempted from filing income-tax returns. They also desire that a study be conducted with a view to examine the feasibility of identifying rural rich."