TWENTY FIRST REPORT

ESTIMATES COMMITTEE
(1985-86)

(EIGHTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)

BANKING

[Action taken by Government on the Recommendations contained in the Eighty-fourth report of Estimates Committee (Seventh Lok Sabha)]

Presented to Lok Sabha on 20.12.85

LOK SABHA SECRETARIAT
NEW DELHI

December, 1985/Agrahayana, 1907 (S)
Price : Rs. 2.00

CORRIGENDA TO TWENTY FIRST REPORT OF ESTIMATES COMMITTEE (ACTION TAKEN) ON BANKING.

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(VII)	2	3	For on 30th April 1984 Read by 12th Dec., 1985.
3	1.11	6	For achievements Read achievments
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(1985-86)

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(1985-86)

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INTRODUCTION

I, the Chairman of the Estimates Committee having been authorised by the Committee to submit the Report on their behalf present this 21st Report on action taken by Government on the recommendations contained in the Eighty-fourth Report of the Estimates Committee (Seventh Lok Sabha) on the Ministry of Finance-Deptt. of Economic Affairs-Banking.

2. The Eighty-fourth Report was presented to Lok Sabha on 30th April, 1984. Government furnished their replies indicating action taken on the recommendations contanied in that Report on 30th April, 1984. The draft Report was adopted by the Committee on 6 December, 1985.

3. The Report has been divided into following Chapters :—

I. Report.

II. Recommendations/Observations which have been accepted by Government

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

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

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

4. An analysis of action taken by Government on the recommendations contained in Eighty-fourth Report of Estimates Committee (Seventh Lok Sabha) is given in Appendix. It would be observed that out of 38 recommendations made in the Report, 24 recommendations, ile. about 63 per cent have been accepted by Government and the Committee do not desire to persue 8 recommendations i.e. about 21% in view of Government's replies. Replies have not been accepted in respect of 3 recommendations i.e. about 8 per cent. Final replies of Government in respect of 3 recommendation i.e. about 8 per cent are still awaited.

NEW DELHI;
December 10, 1985
Agrahayna 19, 1907 (S)

CHINTAMANI PANIGRAHI,
Chairman,
Estimates Committee

CHAPTER I

REPORT

1.1 This Report of the Estimates Committee deals with action taken by Government on the recommendations contained in their 84th Report (7th Lok Sabha) on the Ministry of Finance (Deptt. of Economic Affairs)-Banking, which was presented to Lok Sabha on April 30, 1984.

1.2 Action taken notes have been received in respect of all the 38 recommendations contained in the 84th Report and categorised as follows :-

(i) Recommendations/Observations which have been accepted by the Government :—

Sl. Nos. 1, 2, 3, 6, 7, 8, 9, 11, 13, 14, 15, 18, 20, 21, 22, 24, 25, 30, 31, 32, 34, 35, 37 and 38

(Total 24—Chapter II)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies :

Sl. Nos. 4, 16, 17, 23, 26, 28, 29 and 33

(Total 8—Chapter III)

(iii) Recommendations/Observations in respect of which Government's replies have not been accepted by the Committee :

Sl. Nos. 12, 19 and 36

(Total 3—Chapter IV)

(iv) Recommendations/Observations in respect of which final replies of Government are still awaited :

Sl. Nos. 5, 10 and 27

(Total 3—Chapter V)

1.4 The Committee will now deal with the action taken by Government on some of their recommendations.

Implementation of Recommendations made by Working Group on customer Service

Recommendation (Sl. No. 12, Para No. 3.34)

1.5. The Committee found that expansion of Branch net work since nationalisation of major banks in 1969 led to deterioration in the standards of customers service. According to RBI' review, out of 176 recommendations made by a Working Group on Customer Service, in their Reports submitted in August, 1975 and March, 1977, Government had accepted 136 recommendations. While the State Bank of India and its subsidiaries implemented more than 100 recommendations, 14 nationalised banks implemented only 90 rocommendations. The Committee desired that the rest of recommendations be implemented by all public sector banks within a year *i.e.* March. 1985 at the latest. In order to ensure that this time limit was adhered to, Boards of Directors of these Banks should review the progress in this direction periodically.

1.6 The Ministry of Finance have in their Action Taken Reply stated ;—

> "Necessary action in this regard has already been initiated by RBI. The public sector banks have been advised to submit periodical reports to their Boards indicating the progress made in the implementation of the recommendations of the Working Group from time to time. The progress in implementation of the recommendations is being monitored by RBI by obtaining periodical reports from banks and giving necessary advice to them. In addition, the Small Group constituied by the Government also overseas the implementation of the recommendations relating to improvement in customer service "

1.7 **The Committee are disappointed that despite specific directions to the Ministry that all the recommendations made by the Working Group on Customer Service should be implemented by the Nationalised Banks latest by March, 1985, the Ministry have merely replied that the progress in implementation of the recommendations is being monitored by Reserve Bank of India by obtaining periodical reports from Banks and giving necessary advice to them. The Committee desire that the matter should be given the attention that it deserves and the concerned Banks should be directed to implement, without any further delay, the recommendations of the Working Group accepted by the Government. The Committee would like to be apprised of the action taken by the Ministry and the results achieved in this regard within the next six months.**

Flow of Bank Credit to weaker Sections

Recommendation (Sl. No. 19, Para No. 5.16)

1.8 According to the targets set by the Reserve Bank of India, the scheduled commercial banks were required to ensure that by March 1985 (i) the share of priority sector advances in the total gross bank credit reaches the level of 40 per cent, (ii) advances to weaker sections of society should reach the level of 25 per cent of priority sector advances or 10 per cent of total bank credit and (iii) direct finance to agriculture (including allied activities) should reach a level of at least 15 per cent of the total credit. The Committee were disappointed that while the targeted percentage of providing direct finance to agriculture had already been reached by scheduled commercial banks, they were nowhere near the targets as far as flow of credit to priority sectors and weaker sections of society was concerned.

1.9 Attaching great importance to the flow of credit to priority sectors particularly weaker sections of society, the Committee had observed that if banks lagged behind in that field, the very purpose of nationalisation of banks would be defeated and small borrowers would continue to be at the mercy of private money lenders. The Committee, had therefore, strongly recommended that performance of public sector banks in that respect should be closely watched by the Boards of the Banks, the Reserve Bank of India and the Banking Division of the Ministry of Finance to ensure that there was no shortfall whatever in achievement of the national targets set by the Reserve Bank of India.

1.10 The Ministry of Finance have, in their Action Taken reply (finalised for submission to the Committee on 30.4.1985) stated :—

> "Government/Reserve Bank of India attach great importance to the flow of credit into priority sectors and within them to the weaker sections. With a view to ensure that the banks continually exert to attain the given objectives, their performance is kept under continuous review and such of the banks as do not show substantial progress in priority sector lending and credit assistance to weaker sections are advised to take special measures to achieve the stipulated targets by March, 1985.
>
> There has been substantial improvement in the performance of the public sector banks in this regard as can be seen from the fact that their priority sector advances accounted for 39·4% of their total advances by March 1984. The target for March 1985 is 40% which is likely to be exceeded. Their advances to weaker sections accounted for 21.3% of their priority sector advances as against the target of 25%. Banks lagging behind in performance have been specifically asked to take measures to attain the objectives."

1.11 Observing that the flow of credit to weaker sections of society had fallen behind the targets laid down for the period ending March, 1985, the Committee had desired improvements being made in the monitoring system at various levels to achieve the national targets set by the Reserve Bank of India for March, 1985. The reply of the Ministry of Finance is inadequate in as much as it merely states the achievements in advances to weaker sections being 21.3% of the total priority sector advances as against the target of 25%. The only concrete action taken in pursuance of the recommendations appears to be that the Ministry of Finance have "specifically asked" the Banks "to take measures to obtain the objective". The Committee would like the Ministry of Finance to improve their control mechanism and operate it energetically to ensure that social objectives of Nationalisation of Banks

are duly reflected in the targets laid down by the RBI for advances weaker sections of Society and that these targets are achieved.

Concealment of bad and doubtful Debts

Recommendation (Sl. No. 36, Para No. 6.22)

1.12 Ministry of Finance had informed the Committee that out of total outstanding credit of Rs. 36,128 crores at the end of 1982 in respect of public sector banks, debts amounting to Rs. 28,345 were fully secured and were considered good, debts amounting to Rs. 4,054 were considered good but were secured by the personal liabilities of one or more parties in addition to the personal security of the Debtor, but debts amounting to Rs. 3,729 crore had no other security than the Debtors personal security. The Committee could not have any indication as to the amount of "bad and dubtful debts" because banks had claimed statutory protection from divulging such information. The Committee were of the view that as after nationalisation banks had become accountable to parliament, the amount and broad details of bad and doubtful debts of public sector banks should no longer be kept a secret but should be disclosed in their Annual Reports. The Finance Secretary assured in evidence that the question whether banks should continue to have such a protection was already under examination by a Committee appointed by the Reserve Bank in March, 1982, under the Chairmanship of Shri A. Ghosh, Deputy Governor. The Estimates Committee desired the outcome of the said Committee to be intimated to them.

1.13 Ministry of Finance have, in their reply, merely stated that "the recommendation has been noted."

1.14 The Committee expected that the Ministry of Finance will, in reply to their recommendation, inform them of the decisions taken by Government on the finding and recommendations of the Ghosh Committee appointed by the Reserve Bank in March, 1982 to consider the desirability of greater or fuller disclosure in the published accounts of Banks. The Committee are however surprised at the bald reply given to them that "the recommendation has been noted." The reply leads the Committee to an inescapable conclusion that either the Ghosh Committee had not submitted its report by the time the reply to the Committee was finalised (30.4.1985) or the report, if since submitted, is being soft-paddled by the Ministry. This is highly regrettable. The Committee would like to be informed of decisions taken on the finding and recommendations of this Committee within the next four months.

Implementation of Recommendations

1.15 The Committee would like to emphasise that they attach the greatest importance to the implementation of the recommendations accepted by Government. They would, therefore, urge that Government should keep a close watch so as to ensure expeditious implementation of the recommendations accepted by them. In case where it is not possible to implement the

recommendations in letter and spirit for any reason, the matter should be reported to the Committee in time with reasons for non-implementation.

1.16 The Committee also desire that final replies in respect of the recommendations contained in Chapter V of this report may be furnished to be Committee expeditiously.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Sl. No. 1, Para No. 1.14)

As early in 1935, Government had set up the Reserve Bank of India (RBI). RBI has been acting as the Banker to the Government, bankers' bank regulatory authority, and looking after public debt and currency management. In 1949, the Banking Regulation Act was passed empowering the RBI to control and regulate the functioning of commercial banks. Later, in pursuance of the recommendations of All India Rural Credit Services Committee, the Imperial Bank was converted into the State Bank of India from 1st July, 1955 by the State Bank of India Act 1955. In 1968 Government introduced "Social Control" over banks by which they were directed to provide larger volume of credit to hitherto neglected sectors and make bank credit a more effective instrument of economic development. The progress made in this direction was not found adequate with the result that Government nationalised 14 major scheduled commercial banks in July 1969, followed by nationalisation of 6 more banks in April, 1980.

Reply of Government

Government have no comments on the above observations.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1/86-Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 2, Para No. 1.15)

The objectives underlying the nationalisation of banks were to "subserve national priorities and objective" and to "serve better the needs of the economy and to promote the welfare of the people". The Committee's examination, however, revealed that despite the fact that the share of the public sector in India's banking has risen to 91 per cent, priority sectors' share in gross bank credit even after 14 years of nationalisation had reached 37.2 per cent as against 14.6 per cent at the time of nationalisation. Out of the priority sectors share of 27 percent, the share of weaker sections of society is still quite less i.e. 7 percent. As far as the Committee can see, public sector banks have to go a long way to achieve fully the objectives for which the banks were nationalised.

Reply of Government

It is recognised the public sector banks have to cover more gronnd for fully achieving the objectives of bank nationalisation. Efforts are being made by them to enlarge the flow of credit to the Priority Sectors and within those sectors to the weaker sections of the community. The share of Priority Sector Advances in total credit of public sector banks has risen to 39.4% by March 1984. By March 1985, it is likely to exceed the targeted level of 40%. So fare as advances to weaker sections are concerned public seetor banks had attaincd the level to 21.3% of priority sector advances as against the targeted levei of 25% to be achieved by March 1985.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1/84-Coord. dated 30th April, 1985]

Recommendation (Sl No. 3, Para No. 1.16)

In their 8th Report presented on 11 August, 1983, the Rajya Sabha Committee on Papers Laid on Table have pointed out that despite a clear direction given by the Estimates Committee in their 62nd Report of 1973, Government failed to submit a Consolidated Report on the working of public sector banks regularly. The Estimates Committee would urge Government that the consolidated Report should be brought out annually without fail in future.

Reply of Government

The information incorporated in the Consolidated Report has to be collectcd from banks, through various returns. With the massive branch expansion and diversification of banking business, collection of data from all the banks takes considerable time, resulting in delay in compilation and preparation of the Report. Efforts will be made to reduce the gap between laying the Annual Reports and the Consolidated Report on the Tables of both the Houses of Parliament.

[Ministry of Finance, Department of Eeconomic Affairs (Banking Division) O M. No 15/1/84-Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 6. Para No. 3.13)

While the Committee note with satisfaction the fact that the branch network of scheduled commercial banks has expanded by more than five times from 8,321 at the time of nationalisation to 42,027 at the end of June, 1983, they would like to draw attention to the wide gap which still exists between population coverage per bank office in Metropolitan/Port towns on the one hand and rural/semi-urban ares on the other, As against population coverage of 65,000 per bank office on an average at the time of nationalisation the population coverage at the end of June, 1983 was 16,000 per bank office. While overall population coverage per bank office in Metropolitan/port towns is 7,000, there is, on an average, one bank office for a population of 19,000 in rural/semi-urban areas. It has been stated that under the Current Branch Licensing Policy (1982-85) which was formulated in consultation with the Government of India the target is to achieve by March, 1985 a coverage of one bank office for a population of 17,000 in the rural and semi-urban areas as per 1981 census.

The Committee recommend that while formulating the new Branch Licensing Policy, for the period beyond 31 March, 1985, it should be made obligatory on the part of schedule commercial banks to locate a minimum percentage of new Branch offices in rural/semi-urban areas.

Recommendation (Sl. No. 8, Para No. 3.15)

The Committee find that there are wide regional disparities in the matter of population coverage by scheduled commercial banks. As at the end of June, 1983, as against the All India national average of 16,000 per bank office, there is one bank branch office for a population of 30 thousand in Manipur and Assam and 29 thousand in Sikkim, 23 thousand Tripura and Bihar, 21 thousand in U. P. and West Bengal, 20 thousand in Orissa and Arunachal Pradesh and 19,000 in Madhya Pradesh. The Committee would urge Government/RBI to ensure that such inter-state disparities in population coverage are reduced to the minimum.

Reply of Government

The basie objectives of the branch expansion policy have been to accelerate the pace of expansion of bank offices in hitherto unbanked rural and semi-urban centres and also to rectify the existing imbalances in the spread of banking facilities in the country.

The main thrust of the current branch licensing policy covering the period April, 1982 to March, 1985 continues to be on improving banking facilities in rural/semi urban areas with greater emphasis on ensuring proper spatial distribution of bank branches to provide comprehensive coverage for all rural/semi-urban areas. Under the branch expansion programme for the period April, 1982 to March, 1985, a restrictive policy has been followed in permitting expansion in Urban/Metropolitan/Port Towns areas and banks have been allowed to open offices in these areas on a highly selective basis. While allowing the banks to open offices at these centres, their performance in regard to opening of branches in rural/semi-urban areas have been taken into account.

The work relating to the formulation of the next policy for the period 1985-1990 which coincides with the Seventh Five Year Plan has already been taken up by the Reserve Bank of India. The observations/recommendations of the Committee would be given careful consideration while formulating guidelines under the policy.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O. M. No. 15/1/84—Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 7, Para No. 3.14)

It is indeed surprising that even though a Block Headquarters is a focal point in our developmental Administration, bank branches have been opened in only 292 out of 675 identified unbanked block Headquarters, 9 block Headquarters are adequately covered by commercial banks, 134

Block Headquarters do have a commercial bank office within a distance of 3 Kms., 167 block headquarters are served only by a branch of Regional Rural Bank. There are still 73 block headquarters falling beyond 3 Kms, from the nearest bank office which are yet to be covered. The Committee recommend that coverage of block headquarters by Commercial banks, Regional Rural Banks should be speeded up.

Reply of Government

Of the 675 block headquarters identified as unbanked in 1978, 616 have already been covered by commercial banks/Regional Rural Banks functioning either at the block head-quarters proper or at nearby places. There are 59 unbanked block headquarters still to be provided with banking facilities. Of these, 55 are located in the North Eastern Region. The banks have expressed difficulties in opening offices at these block headquarters mainly due disturbed law and order situation prevailing in the Region; inaccessibility due to difficult terrain and non-availability of promises for housing offices and staff. The Chief Secretaries of the Governments of the States/Union Territories have been advised to render necessary assistance to the allottee banks for opening offices at the block headquarters. The matter is being pursued with the banks.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1/84—Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 9, Para No. 3.25)

The Committee cannot resist the impression that the manner in which Boards of Directors of Nationalised Banks are constituted by the Central Government leaves much to be desired. Under the Nationalised Banks (Management Misc. Provision) Schemes, 1970 and 1980, the Board is to consist among others of three Directors to represent the interests of farmers, workers and artisans and not more than five Directors having practical knowledge or knowledge in respect of one or more matters likely to be useful for the working of the nationalised banks. On receipt of a complaint alleging that one of the non-official Directors on the Board of New Bank of India had mis-used his position by helping the firms/companies in which he was interested as a partner/Director, the Committee called for a factual note. In reply, the Ministry of Finance pleaded *inter alia*, that it is not desirable for Government to make a roving enquiry into the affairs of the persons proposed to be appointed as a Director on the Board of a Nationalised bank or his relatives." If this plea of Government is accepted, it would mean that even an undesirable person with a shady past could, without any fear of detection, get into the Board of Directors of any nationalised bank. The Committee recommend that a thorough probe should be made into this case and the result reported. The Committee also suggest that in future the character and antecedents as also the business interests of the person concerned should be ascertained by discreet enquiries so that the conduct and dealings of every person who is appointed as Non-official Director is above board. In any case, persons who are likely to abuse the position to help their relatives and friends or the firm/company in which they have a pecuniary or other interest should be rejected outright.

Reply of Government

After having the matter throughly examined in consultation with Reserve Bank of India and the concerned nationalised bank, a detailed report has already been sent to Lok Sabha Secretariat on 24.4.1984 as per the directions of the Estimates Committee.

In so far as the question of ascertaining the character and antecedents as also the business interest of the persons proposed to be nominated on the Boards of Directors of nationalised banks is concerned, the directors so appointed are expected to disclose their business interest. There is also prohibition on loans and advances to directors and the concerns in which they are interested. Reserve Bank of India have issued guidelines in the matter of credit facilities to the relatives of directors and the concerns in which they are interested. However, Government would take a declaration as in the past from the person so appointed on the Board before issuing a formal notification that he is not ineligible to be appointed as a Director on the Board. It will be appreciated that it is not possible to undertake a thorough probe into antecedents of all persons having considered for appointment on the basis of "discreet enquiries". However, Government agree with the observations of the Committee that persons who are likely to use their position on the Boards for any pecuniary or other personal interest or for helping their relatives and friends in getting undue advantage should not be considered for appointment.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1/84—Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 11, Para No. 3.29)

The Committee find that in 17 out of 28 public sector banks, the officer-clerk ratio ranges between 1:2 and 1:3 indicating that there is large complement of officers in these banks. The Committee are not sure whether this imbalance has arisen due to either shortages in clerical strength or due to the banks having opened more branches in rural and semi-urban areas and each such branch has to have one Manager. The Committee recommend that the Reserve Bank of India should undertake a review of staffing pattern in the public sector banks and take steps to ensure that administrative set up of any public sector bank does not become top-heavy.

Reply of the Government

The ratio of officers to clerks varies from bank to bank partly because of historical reasons when some of the banks were under private management and partly because of structural differences in these banks, including the composition of the rural and semi-urban branches. Reserve Bank of India has, been advised undertake an urgent review of the staffing pattern in public sector banks to find out the reasons for such variance and to recommend measures necessary for cutting down the expenditure.

Government have imposed a ban on creation of new posts in public sector banks upto 31.3.1985 except to the extent required for manning the new bank branches to be opened. Instructions have already been issued making it obligatory for the banks to get Government's clearance for creation of senior level posts viz. posts in Scales IV, V, VI and VII in order to ensure that the banks are not top heavy.

[Ministry of Finance, Deptt. of Economic Affiairs (Banking Division) O. M. No 15/1/84—Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 13, Para No. 3. 35)

The Finance Secretary assured the Committee in evidence that system were being improved to provide better customer service and these include computerisation of clearing operations in Metropolitan cities and setting up of regional collection counters. The Committee were given to understand that the Bank of India, Andhra Bank and Central Bank have introduced a "Card System"which enables the customer to draw money upto a maximum of Rs. 1,000 at the time without undergoing the usual formalities. The Committee suggest that other banks should also go in for such a system to avoid long queues of customers at the bank offices.

Reply of the Government

Credit cards do facilitate customers in meeting their expenditure with a considerable degree of convenicece. Howeve , such facilities involve the provision of short-term credit to card holders. Expans on of the card system needs to be kept under review from the view point of overall credit policy. The banks are likely to face, in the absence of mechanisation in their branches, considerable accounting problems particularly in reconciling entries relating to the Credit Card Scheme as the scheme gains momentum. Large scale expansion of credit card business would be possible only after the accounting systems in banks have been put on a satisfactory footing and a reasonable level of mechanisation has taken place in the Banking industry.

Government agree that it is necessary to avoid long queues of customers at the bank branches. Banks are, therefore, constantly being urged to bring about an improvement in customer service. Banks have also been encouraged to expand the Teller System to facilitate easy deposit/withdrawal of money.

[Ministry of Finance, Department of Economic Affairs (Banking Divsion) O. M. No. 15/1/24-Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 14, Para No. 3. 36)

If introduction of computerisation in a phased manner can bring about greater efficiency and smoother working of banks and customer service, Banks should certainly go in for it but it should be ensured that it does not result in any retrenchment of existing staff and does not affect the employment potential in this sector.

Reply of the Government

The Indian Banks, Association representing managements in the banking industry has signed a settlement in September, 1983 with the three major unions in the banking industry representing the workmen employees on the issue of introduction of computers and machines in banks. One of the conditions in the agreement is that there shall be no retrenchment of the existing staff.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O. M. No. 15/1/84-Coord. dated 30th April, 1985]

Recommendation (Sl. No. 15, Para No. 4. 10)

The Ministry of Finance have claimed that the aggregate deposits of scheduled Commercial Banks have increased from Rs. 4,646 crores in June, 1969, (i. e. prior to nationalisation) to Rs. 56, 879 crores in 1983 (as on 11.11.83)-an increase of more than 13 times apparently, the rate of this growth in deposit mobilisation does not take into account the appreciation in prices over the years. If the inflation factor is taken into consideration, the rate of growth would work out to be far less. The Committee would, therefore, recommend that Reserve Bank of India should make a realistic assessment so that a comparative picture of deposit mobilisation in real terms over a period becomes available.

Reply of the Government

While it is true that the deposit figures mentioned above are at current prices and, therefore, contain an element of price appreciation, there is no doubt that even at comparable rates the banking system has achieved a good measure of success in bringing the savings of the people into the institutional fold. This can be clear from the fact that in June 1969, total outstanding bank deposits accounted for 15.5 per cent of the national income at current prices. By June, 1983, the proportion had increased to 38. 3 per cent.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O. M. No. 15/1/84-Coord. dated 30th April, 1985]

Recommendation (Sl. No. 18, Para No. 4. 21)

The Committee were assured during evidence that hikes in Cash Reserve Ratio would not, if any way, effect the flow of credit to priority sectors and especially to weaker sections of society and small scale industries. The

Committee's attention in this connection has been drawn to the guidelines issued by the Reserve Bank of India on 20 October, 1983, exhorting the banks to meet, despite increase of Cash Reserve Ratio, all legitimate credit requirements of productive activite and pay special attention to the needs of small borrowers. Banks have also been asked to use their influence with their clients in the large and medium industries sector to ensure that payments due to suppliers in the small scale industries are not delayed. The Committee urge the Reserve Bank of India to see that these guidelines are implemented by banks in letter and spirit.

Reply of the Government

The priority sector targets are monitored on an on-going basis and special attention is given to the priority sector sub-targets for direct lending to agriculture, weaker sections and specific programmes like the Integrated Rural Development Programme, the Differential Rate of Interest Scheme and the Scheme for self-Employment of Educated Unemployed Youth. The Sectoral Deployment of credit is kept under review to ensure that credit is used only for productive purposes. In the meeting with the Chief Executives of Scheduled Commercial Bank held in October, 1984, Governer, RBI had exhorted that bank should make every effort not only to achieve the overall target but also the various sub-target for priority sector lending. The overall priority sector target of 40% of total advances is likely to be exceeded by the target date of end March, 1985. Furthermore, banks had been advised to pay special attention to meeting the general credit requirements of small scale industry and they should use their influence with their clients in thelarge and medium scale industry to ensure prompt payments of their dues to the small scale industry.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O. M. No. 15/1/84-Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 20, Para No. 5. 17)

The Sixth Five Year Plan had stipulated that by the terminal year of the Plan i. e. 1984-85, credit to agricultural sector would be Rs. 5415 crores made up of short term credit of Rs. 4000 crores (i. e. Rs. 2500 crores by cooperatives and Rs. 1500 crores by commercial banks and regional rural banks) and term loans of Rs. 1415 crores (i. e. Rs. 795 crores by Cooperatives and Rs. 620 crores by commercial banks and regional rural banks). As far as the scheduled commercial banks are concerned, the direct credit provided by them to agriculture (including allied activities) is hardly 15 per cent. The Committee feel that agricultural sector deserves a much larger share of the total bank credit than what it is getting at present. The Committee hope that claims of this sector would be given due consideration by Government/Reserve Bank of India while fixing new targets for sectoral deployment of credit.

Reply of the Government

Government recognise the imperative need for adequate credit support from financial institutions to the agricultural sector. The public sector banks have been asked to lend 15 per cent of their aggregate credit as Direct Finance to Farmers by March 1985 and to raise this proportion to 16 per cent by Mach 1987. Related to a growing credit protfolio these proportions themselves ensure larger flow of credit to Agriculture from the public sector banks. Besides, the Regional Rural Banks—institutions of relatively recent origin—are also expected to enlarge to availability of credit to Agriculture, particularly to small and marginal farmers and landless labourers.

[Ministry of Finance, Department of Economic Affairs, (Banking Division) O. M. No. 15/1/84—Coord. dated 30th Aprii, 1985.]

Recommendation (Sl. No. 21, Para No. 5.18)

The Committee cannot help pointing out that not only the flow of credit to weaker sections of society is not adequate but out of whatever is sanctioned to them by banks a substantial portion is pocketed by middlemen. This exploitation of the poor and illiterate people must stop. One way to eliminate this malpractice could be that the Banks concerned should establish direct rapport with the beneficiaries rather than deal with them through intermediaries. A representative of the Ministry of Finance assured the Committee in evidence that they would issue suitable instructions to Banks in this regard.

Reply of the Government

Reserve Bank have advised the banks to ensure the end-use of the loans and for this purpose the banks normally disburse sanctioned loans directly to dealers for the price of the assets financed. The intermediaries accepted by the banks are recognised institutions like cooperative societies, Large-Sized Adivasi Multipurpose Society/Societies, SC/ST Development Corporations, Khadi and Village Industries Commission etc. However, the observations of the Committee and the need for ensuring that borrowers belonging to weaker sections receive full measure of credit assistance sanctioned to them, have been conveyed to the banks for issue of suitable instructions to the field functionaries.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1/84—Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 22, Para No. 5.25)

From the population group-wise, and region-wise credit deposit ratios made available by the Ministry of Finance to show how much of the deposits mobilised in an area were given by way of credit to people of that area, the Committee find that as against the national target of Credit Deposit ratio of 60 percent for rural and semi-urban offices of scheduled commercial banks to be achieved by March, 1979, scheduled Commercial banks were able to reach this target only by December, 1981 in the case of rural branches. They have failed to achieve this target even upto December, 1982 in their semi-urban branches. The Committee urge that the reasons for this slow progress may be analysed and effective steps taken to achieve without further delay the targetted ratio in their semi-urban branches as well.

Reply of the Government

The main reason for delayed attainment of the targetted Credit: Deposit Ratio of 60 per cent in rural areas was accelerated deposit growth of these branches. For example, the deposit growth of rural branches in 1978 was Rs. 698 crores, which increased to Rs. 1060 crores in 1980, Rs. 1296 crores in 1981, and Rs. 1475 crores in 1982. Because of this increasing size of incremental deposits, banks took longer time to make up the short fall of about 5 percentage points in the Credit: Deposit Ratio of rural branches obtaining at the end of 1977. The latest available provisional data for March, 1984 show that the C.D ratio of rural branches of banks was 64.0%.

The Credit: Deposit Ratio of semi-urban branches has, however, continued to hover around 5.1.53 per cent despite significant growth of advances. For example, the per branch advances in semi-urban centres have increased from Rs. 43 lakhs in December, 1979 to Rs. 76 71 lakhs in December, 1983.

The causes for lack of higher lending in semi-urban branches were studied by Reserve Bank through a sample study of 181 semi-urban branches in 20 districts in ten States. Some of the factors identified for restrained growth of advances of semi-urban branches were :—

(a) lack of infrastructural development;

(b) absence of entrepreneurship and weak organisations for promotion of industrial development;

(c) availment of credit by the larger industrial borrowers from nearly urban/metropolitan branches;

(d) affluence of potential borrowers; etc.

The study also found that banks could increase their advances in semi-urban branches through provision of adequate trained staff at the branches, adequate delegation of powers to branch managers and encouraging practical response to lending potential even in a climate of sizeable overdues.

The findings of the study have been brought to the notice of banks and State Governments for corrective action.

[Ministry of Finance, Department of Economic Affairs (Banking Division O.M. No. 15/1/84—Coord. dated 30th April, 19 5.]

Recommendation (Sl. No. 24, Para No. 5. 59)

Scheduled Commercial Banks have been extending credit support to a number of on-going socio-economic schemes and programmes in the country. This is as it should be. One such programme is the Integrated Rural Development Programme which seeks to improve the lot of the poorest of the poor, small marginal farmers, share, croppers, agricultural labourers, rural artisans, scheduled castes/scheduled tribes, fishermen and other weaker sections of society. A representative of the Ministry of Finance indicated during evidence that "there may be about 6 crores of families, which may be under the poverty line." During the first 3 years of the Sixth Five Year Plan *i. e.* 1980-81 to 1982-83, a total term credit of Rs. 1470.62 crores is stated to have been disbursed, a total subsidy of Rs. 952.00 crores allowed, and 18.75 lakh families assisted under this Programme.

Reply of the Government

In the above paragraph the progress made in implementation of Integrated Rural Development Programme during the first 3 years of the Sixth Plan *i.e.* 1980-81 to 1982-83 has been given. The data on progress made in the implementation of the programme for 1983-84 and 1984-85 (upto February, 1985) is given as under:—

(Rs. in crores)

During	No. of families assisted (in lacs)	Subsidy allowed Rs.	Subsidy utilised Rs.	Term credit disbursed Rs.
1983-84	36.85	407.36	406.09	773.51
1984-85 (upto February, 1985)	31.46	407.36	365.60	666.32

It may be seen from the above data that the term credit disbursed during 1983-84 was Rs. 773.51 crores which was much higher than the target of Rs. 600 crores fixed for each year of the 6th Five Year Plan. Similarly, the total number of beneficiary families assisted during the year was 36.85 lacs as against an annual target 30 lac families during the 6th Plan period.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O. M. No. 15/1/84-Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 25, Para No. 5.60)

The Committee, however, note with concern the fact that though as early as in November, 1981 a high level review of the Integrated Rural Development Programme had disclosed that the programme had run into some "operational problems" and that the progress in disbursal of institutional credit was "not satisfactory". It was only in February, 1983 that instructions were issued by the Reserve Bank of India for the implementation of 20 Point Programme as a whole and not specially IRDP. In February, 1983, a study was conducted by Reserve Bank of India on the basis of which instructions were issued on 9 May, 1983. Further instructions were issued on 27 May, 1983. The Sixth Five Year Plan had envisaged that during the plan period 600 families per community block would be assisted per year. The representative of the Ministry of Finance could not give any block-wise figures to show to what extent the block-wise target had been met. It also transpired in evidence that even Government agencies had reported "lack of coordination or cooperation from the banking system" In the circumstances, the Committee recommend that all Loopholes or deficiencies in the existing system of implementation and monitoring of this programme should be plugged early and operational problems overcome. The Committee would stress the need to ensure assistance for formulation of bankable schemes, smooth and regular processing of applications throughout the year; proper coordination between bank officials and State Government officials and postlending supervision to ensure proper utilisation of funds.

Reply of the Government

In this connection it is mentioned that the Programme in its present form was a new one and further more was extended to the entire country only in the middle of the first year of the Sixth Plan *i. e.* in October, 1980. Keeping in view the practical problems being faced at the field level the Government/Reserve Bank of India have been taking all necessary and possible corrective steps from time to time. Some of the steps taken in this regard are as under:—

(a) Detailed instructions were issued by the Reserve Bank of India to commercial banks in December, 1981 for preparing bankable schemes and increasing the pace of lending to IRDP beneficiaries. The banks were advised that IRDP applications should be disposed of within a period of a fortnight or so and their branches should be vested with sufficient discretionary powers to enable them to dispose of such applications at the branch level itself. The banks were also advised that the progress made in the implementation of IRDP should be reviewed at the Standing Committee meetings of the District Consultative Committees once in a month. Banks were further advised that their branches should strictly adhere to the liberal norms for security etc. applicable to IRDP beneficiaries. These instructions were reiterated to banks in August, 1982.

(b) At the meeting of the Finance Minister which the Chief Executives of Public Sector Banks held on 15th February, 1982 it was decided that the banks should participate actively in the implementation of the New 20-Point Programme and that for this purpose Reserve Bank of India would set up a Working Group. Accordingly a Working Group on the role of banks in the implementation of the New 20-Point Programme was constituted by the Resereve Bank of India. Certain modifications in the targets/sub-targets as also of some of the segments of the priority sectors were suggested by the Working Group.

On the basis of the recommendations of the Working Group the requisite instructions were issued by Reserve Bank of India in February, 1983.

(c) The Governor, Reserve Bank of India convened two meetings of the Chief Executive Officers of the Public Sector Banks, one in February, 1983 and another in December, 1983. The need to achieve the targets and sub-targets for priority sector advances was emphasised in these meetings. The banks were advised to draw up an operational plan to step up the pace of lending for priority sectors and to take all steps to increase lending to IRDP beneficiaries and other weaker sections particularly to Scheduled Castes/Scheduled Tribes. For successful implementation of IRDP, Chief Executive Officers of Public Sectors Banks were advised that all the problems being faced in the proper implementation of the programme should be discussed and sorted out with the State Government Officers in the State Level Bankers Committee meetings and District Consultative Committee meetings. The progress of lending should be reviewed monthly at the District level and quarterly at the State level. Each bank was advised to review its performance quarterly at the Board level.

(d) In view of the critical importance of mointoring of IRDP, banks have been advised by Reserve Bank of India to constitute small functional sub-committees of the District Consultative Committees for regular monitoring of the Programme. The sub-committee which is chaired by the District Collector is to meet once a month. The Chief Executive of DRDA Reserve Bank's Lead District Officers, Lead Bank Officer, representatives of NABARD and other Banks having major share in IRDP lendings are among its members. The proceedings of the Sub-Committee are placed before the DCC

(e) Banks' branches sanction loans only for productive and economically viable projects. Banks are required to make direct payment to the suppliers. With a view to ensure the best end-use of the bank loans the bank officials visit the farm/business premises of the borrowers to see that the loan is used for the purpose for which it was sanctioned. DRDAs, are also charged with the responsibility of verifying the assets created out of the loans.

(f) State Governments were advised on August 3, 1983. to set up Block Level Advisory Committees for each block comprising Chairman of the Block Panchayat Samiti, BDO, Banks' representatives, non-official having practical experience in agriculture, rural economy, cooperation, etc. and local MIS to help in proper indentification of the beneficiaries and effective implementation of the Programme. The State Governments have also been advised to set up District level Sub-Groups to oversee the grievances of smaller borrowers.

(g) A high level committee on credit support for IRDP under the Chairmanship of the Secretary, Rural Development was constituted by the Government of India in August, 1981. The Committee Was re-constituted in December, 1983 to enable all the agencies involved in implementation of the Programme to become its member. The Committee meets at periodical intervals reviews the progress and also considers the operational problems which arise while implementing the programme.

(h) As regards appointment of suitable officers for formulation and appraisal of schemes on scientific basis the Deputy Governor, Reserve Bank of India has issued detailed guidelines *vide* RBI's circular No. RPCD. PS. BC. 18/C. 568(A)/84 dated 14th January, 1984. Instructions regarding security relaxations, formulation of bankable schemes and quick disposal of applications were further reiterated in this circular. According to these guidelines banks are not required to ask for any security for small loans upto Rs. 5000/- for productive agricultural purposes. Banks have been advised to take strict action against the erring bank staff/officers who violate these instructions.

2. NABARD has set up a Working Group to go into the constraints experienced by the Cooperative Banks in the financing of IRDP and recommend measures for removing the impediments in order to increase their participation in the programme. Detailed guidelines to cooperative banks will be issued after the Working Group submits its report.

3. Since District Rural Development Agencies and Block Development Officers are responsible for the progress of IRDP and fulfilment of the block-wise targets which progress is monitored at State Level it is not considered necessary to maintain blockwise detailed information at the national level. Only State wise information is being maintained and monitored at the centre by the Ministry of Rural Development. However, in case of any specific complaint, the matter is taken up with the concerned State Government/Bank for remedial action.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1/84-Coord. dated the 30th April, 1985.]

Recommendation (Sl. No. 30, Para 5.65)

The Committee find that during the year ending June, 1982, banks identified 435 sick units among large industries 1,020 sick units among medium units and 26,973 sick units among small scale and after carrying out viability studies, placed 244 large scale units and 1,982 small scales under "nursing programme". The Committee would like to know out of the sick units placed under nursing programme during the year 1982, how many have been rehabilitated so far. The Committee would also like a study to be undertaken to see if the units which continue to be sick despite assistance from Banks had in fact used the assistance for the purpose for which it was meant.

Reply of Government

The matter was examined in consultation with Reserve Bank of India. Reserve Bank of India have reported that they have no information in regard to the number of units rehabilitated out of those sick units which were placed under nursing programme in 1982. However, during the year ended December, 1982, 4922 sick SSI units and 178 medium and large sick units with outstanding bank credit of Rs 63.82 crores and Rs. 108.92 crores respectively were reported to have been removed by the banks from the list of sick industrial units. Reserve Bank of India have also reported that the banks and financial institutions sanction assistance to sick units keeping in view their need based requirements. Banks are also required to ensure that the funds provided by them are put to right use by the borrowing units. This is being done by necessary presanction scrutiny and post sanction follow up and supervision. The banks are also required to carry out a close monitoring of the accounts of sick units. In the case of units where the sickness is severe or chronic, the banks usually constitute a management committee for taking important day-to-day management decisions. Cash/financial operations are closely watched by these Committees. Some times concurrent auditors are also appointed with the approval of the banks to ensure that all payments and receipts are properly accounted for. Wherever necessary the banks also stipulate appointment of a Finance Director. In the view of the Reserve Bank of India, there is a remote possibility of the additional assistance sanctioned by the banks for rehabilitation being misdirected. Reserve Bank of India has also reported that the banks do not appear to have brought to its notice any case of misuse of rehabilitation assistance which resulted in the delay of the revival of sick units. Reserve Bank of India is undertaking a study to examine the success of the rehabilitation/nursing programme of the sick units taken up for rehabilitation/nursing in 1982. Completion of the study is likely to take some time since the state of the units before and after implementation of the nursing programme is to be studied in detail in coordinarion with the concerned banks. Government will take such decisions as are considered appropriate on the receipt of the findings of the study by Reserve Bank of India.

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) O. M. No.15/1/84-Coord. dated 30th April, 1985.]

Recommendation Sl. No. 31 (Para No. 5.66)

The Committee welcomes the launching of a scheme by the Ministry of Industry for providing self-Employment to educated unemployed youth under which the banking system would provide credit of the order of Rs. 325 crores during 1983-84. Each beneficiary is eligible for a composite loan of Rs. 24,000/—which will carry interest at 10 per cent in backward areas and 12 per cent in other areas. The Committee have been informed that beneficiaries of the scheme will be identified by a Task Force at District Industries Centre level. The Committee stress the need to ensure that beneficiaries are selected with due care and caution so that benefits of the scheme reach the persons who really deserve it.

Reply of the Government

Following the announcement made by the then Prime Minister on 15th August, 1983, in her Independence Day address to the Nation, the Government had formulated a Scheme for providing self-employment to 2.5 lakhs educated unemployed youths over a period of one year. The beneficiaries are eligible for a composite loan not exceeding Rs. 25,000/— for undertaking self-employment ventures in industry, service and business at the rate of interest of 10% in backward areas and 12% in other areas. The scheme covers educated unemployed youth with minimum educational qualification as 10th class pass who are within the age group of 18-35 years. The scheme extends to all areas of the country except cities with more than 10 lakhs population as per 1981 census. Operational responsibility of the scheme has been assigned to District Industries Centres in collaboration with lead banks of the respective areas. The banking system was initially required to provide credit to the extent of Rs. 325 crores during the year ending 15th August, 1984, under the scheme (capital subsidy of 25% is available from the Government). This All India loan target has actully been exceeded since total loans sanctioned were around Rs. 401 crores upto 31.3.1984 (which comes to over 1% of the total advances of the public sector banks).

The Ministry of Industry has decided to continue the scheme during the current financial year, 1984-85 also. The target for this year has been set at financing of 2.5 lakhs self-employment ventures for the country as a whole. A new feature incorporated in this current years scheme is that the proportion of industrial ventures to be sanctioned during the current year. Out of the total target set for each State/DIC shall not be more than 30% of the cases sanctioned in order to ensure that more productive assets are created.

The Estimates Committee has stressed the need to ensure that beneficiaries are selected with due care and caution so that benefits of the scheme reach the persons who really deserve it. For ensuring this, Ministry of industry have issued instructions to the State Governments that the existing DIC Task Force in each DIC should be expanded (over and above the representative of the lead Bank) by inclusion of a representative each of two more leading banks of the district having larger representation in the districts in respect of number of branches, quantum of priority sector advances, etc.

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) O. M. No. 15/1/84—Coord. dated 30th April. 1985].

Recommendation (Sl. No. 32, Para No. 5.67)

The interest chargeable from borrowers varies from scheme to scheme but, whatever be the rate, public sector banks should ensure that the total amount of interest charged on a loan does not exceed the principal.

Reply of the Government

Concessional rates of interest have been stipulated by Reserve Bank of India for advances to priority sector borrowers. Besides, banks should not compound interest in respect of current dues under agricultural advances. So long as an advance is outstanding, the borrowers concerned should pay interest to the bank for making use of the bank's funds. Nonetheless, considering the poor repayment capacity of small and marginal farmers, the Reserve Bank of India (*vide* its guidelines dated 16.3.1984) have stipulated that the interest should not exceed the principal amount in respect of advances granted to them.

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) O. M. No. 15/1/84—Coord., dated 30th April, 1985].

Recommendation (Sl. No. 31 Para No. 6.20)

The Committee find that during the last 4 years (1978-1981) the percentage of recovery of direct agricultural advances to demand ranged between 57.0 and 58.5 per cent in respect of short term advances and between 41.5 and 46.8 per cent in respect of term loans. Poor recovery performance has been attributed by the Ministry of Finance to a number of factors including (i) lack of experience in agriculture lending; (ii) defective processing of loan applications; (iii) lack of integrated approach in lending; (iv) unsatisfactory marketing arrangements; (v) lack of suitable adequate staff for efficient supervision and recovery; (vi) natural calamities; (vii) mis-utilisation of loans etc. The Committee feel that in effecting recoveries, while stern action should be taken against wilful defaulters, recoveries should be put off or rescheduled in the case of farmers whose repaying capacity is adversely affected on account of circumstances beyond their control e.g. natural calamities, like droughts, floods, etc. The Committee further feel strongly that for the recovery of loans agricultural land ought not to be attached and sold thereby depriving the farmers of their means of livelihood for ever. Instead other methods of recovering the loans should be thought of.. One such method involving the land could at best be taking temporary possession of it and leasing it out for a few years to adjust the lease amount realised against the outstanding loans.

Reply of the Government

The banks were advised by Reserve Bank of India in December, 1979 to convert crop loans into medium term loans and allow extension/rephasing in the case of term loans when the default is due to natural calamities like floods, etc.

2. So far as attachment or sale of land or other methods of recovery such as taking temporary possession of land and leasing it out for a few

years to adjust the amount realised against the outstanding loans are concerned, the experience of the bankers is that when land is put to sale in execution of decrees, there are no persons to buy it. It is, therefore, doubtful whether there would be persons available to take the land on lease. Further, from such a course of action, the legal aspects arising *viz.*, the banks' right as a mortgagee (without possession) to take temporary possession of the land to lease it out, would need examination and may even require incorporation in loan documents.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O. M. No. 15/1/84—Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 35, Para No. 6.21)

The Committee are surprised to learn that the existing data Reporting system as devised by the Reserve Bank of India gives statistics of recovery of direct agricultural advances only but not advances granted by banks to other sectors of economy. A representative of the Ministry of Finance assured the Committee that Reserve Bank of India had since prescribed a new format and when data about other sectors of economy starts flowing in, a complete picture of recovery performance of banks would become available. The Committee would await this.

Reply of the Government

The Reserve Bank of India have reported that the system of calling information regarding overdues of banks under broad sectoral heads *viz.* industry, agriculture, SSI, other priority sectors and others on half yearly basis has been devised. The position relating to category-wise overdues of public sector banks as on 30th June, 1983 is as under :—

Sector	Overdue amonnt Rs. in Crores	Percentage Share of the Sector
1. Large and medium Industry	996.79	28.11%
2. S.S.I.	665.95	18.79%
3. Agriculture	1006.61	28.41%
4. Other Priority Sectors	355.28	10.04%
5. Others	519.07	14.65%
	543.70	100.00

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) O. M. No. 15/1/84—Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 37, Para 6.28)

During the Half-an-Hour Discussion in Lok Sabha on 17 August, 1983 it transpired that in some of the banks reconciliation of accounts had been pending since 1973. As for the pending work in respect of Savings Bank and Current Accounts, it was pending since 1979 in some branches and since 1980 in others. It also transpired that a number of branches of nationalised banks go without external audit for years. Earlier, in its Report presented on 11 August, 1983, the Rajya Sabha Committee on papers laid had pointed out that a large number of items of accounts in respect of almost all the public sector banks have been left "unreconciled, incomplete, unscrutinised and the arrears for several years." That Committee had observed: "The Committee see no plausible reason why the audit of the public sector banks should not be brought under the Comptroller and Auditor General while a large number of financial and credit Institutions including the State Financial Corporation and a Commercial Bank in a State are already under his jurisdiction in respect of audit." Ministry of Finance, have now intimated, *inter alia*, that instructions have been issued to Banks for liquidating the arrears in so far as inter-branch accounts are concerned by drawing up a time bound programme and that in pursuance of the recent settlement between the Indian Bank's Association and the Unions representing the Bank Employees, banks are also considering introduction of computers in a limited scale for the purpose of reconciliation of inter-branch accounts. The Committee recommend that the Ministry of Finance should reflect in their Annual Reports the progress made by public sector banks in liquidation of these arrears and also take an early decision on the suggestions for bringing the public sector banks within the purview of C&A.C. audit.

Reply of the Government

The Committee's recommendation that the progress made by public sector banks in liquidation of their arrears in reconciliation (Inter-Branch reconciliation accounts) should be reflected in the Annual Report of Ministry of Finance, has been noted and efforts are being made to bring about an improvement in this respect. As regards, bringing the audit of the public sector banks under the Comptroller & Auditor General, it is stated that presently auditors of SBI are appointed by Reserve Bank of India and those of the subsidiaries of the SBI are appointed by State Bank of India. *i.e.* the holders of the share capital of the respective banks (This is in line with the relevant provision of the Companies Act, 1956). In the case of 20 nationalised banks, the Central Government being the owners of these banks, the Board of Directors, constituted by the Government (Consisting of directors representing, among others, the officials of Central Government and Reserve Bank of India) are authorised to appoint the Auditors of the respective banks. The banks have to obtain Reserve Bank of India's prior approval before appointing statutory auditors each year.

For ensuring the independance of the auditors and also with a view to broad base the decision making in respect of the selection of the statutory auditors of the public sector banks, Reserve Bank of India has constituted a Standing Advisory Committee on Bank Audits (SAC) in 1981 consisting of representatives of the Government of India (MF) Comptroller and Auditor General of India, Reserve Bank of India, etc. The names for inclusion in the panel of statutory central auditors of the public sector banks are selected by the SAC from among those firms of Chartered Accountants registered with the Comptroller and Auditor General's Office and fulfilling certain norms prescribed for the purpose. This procedure enables the Reserve Bank of India to utilise the expertise of the office of the Comptroller and Auditor General and a wide field of choice is selecting the auditors as suggested by the Committee.

Periodical rotation and resting of these empanelled auditors presently by Reserve Bank of India also is effective in ensuring that no particular auditor is allowed to continuously associate himself with any particular bank. In view of this, there may not be any need for a change in the existing system, which is getting stabilised.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O. M. No. 15/1/84 dated 30th April, 1985.]

Recommendation (Sl. No. 38, Para No. 6.37)

The Committee cannot but express their grave concern over the alarming rise in bank frauds. The number of bank frauds in public sector banks has gone up from 1422 cases involving a total amount of Rs. 7.38 crores in 1978 to 2065 cases involving a total amount of as much as Rs. 19.53 crores in 1982. In the first half of 1983 year, 1169 bank frauds involving Rs. 1117 crores have already taken place and at this rate, the year 1983 may end up with more cases than in any year in the past 5 years. During this entire period 1978 to 1983 (upto June), there have been a total of 9,541 bank frauds involving an aggregate amount of Rs. 82.79 crores. Government's assessment of the situation is that banks already have a vigilance machiney and adequate procedures but these frauds take place not because there are any loopholes in procedures but because such procedures are not followed. A respresentative of the Ministry of Finance conceded in evidence that "over the years so much stress has been laid on developmental activities that they (banks) have neglected their house keeping activities like reconciliation of accounts." The Committee would urge that vigilance machinery in banks may be strengthened, stipulated procedures tightened, frauds prone areas of banking operations identified, reconciliations of accounts updated, audit arrangements strengthened and proper supervision at all levels undertaken. The Reserve Bank of India should critically study the *modus-operandi* of fraud cases and forewarn the Banks to be cautious. The Committee trust that whenever bank employees are found guilty of fraud or being in collusion with persons committing such frauds, they should be awarded exemplary punishment to serve as a warning to others.

Reply of the Government

The Reserve Bank of India has reported that according to the existing method adopted by it in the matter of compilation of statistics of frauds, which had occurred during the earlier years but reported by the banks in a subsequent year would be shown as frauds in the subsequent years. For example, a bank fraud committed in 1981 but detected in 1983 and reported by the bank in 1984 would appear in the statistics relating to the year 1984. This method is being adopted as otherwise figures relating to frauds prepetrated in a particular year will have to be altered each time a fraud perpetrated in that year is actually detected in a subsequent year. The year-wise data are not comparable to assess the trend of frauds in banks.

Further, a fraud which has been perpetrated by way of forgery of a cheque or draft collected through an account with a bank, which is not the paying bank, would involve both the collecting bank and the paying bank. As per the extant instructions, both the collecting and the paying banks would have to report the fraud to the Reserve Bank. Consequently, in the statistics complied by the Reserve Bank this fraud would be reflected as two frauds and, therefore, the amount involved in the fraud will also increase to that extent. Similarly, in a case of shortage of securities, the bank may Report the entire balance outstanding in the account as the amount involved in the fraud though only a part of the amount in the account would be affected by the fraud. Thus, though the number of bank frauds and the amount shown under the successive years may be higher than those for the earlier years, this may be viewed in the light of the position explained above.

2. As regard steps taken to prevent the occurrence or recurrence of bank frauds, the Reserve Bank of India have been issuing instructions/guidelines to banks from time to time suggesting safeguards for prevention of frauds, indicating the deficiencies which had come to light as a result of the scrutiny of the frauds cases. The banks have been specifically advised to review and revamp the vigilance machinery, take urgent steps to tone up control and supervision, strength management information system, follow-up and inspection/audit arrangements and draw up a time-bound programme for clearing the arrears in balancing the books and reconciliation of inter-branch and other accounts. Both Government and Reserve Bank have asked the public sector banks to strengthen the control mechanisms, including internal audit/inspection machinery and make them effective so as to eliminate the scope of frauds and malpractices and to take not of warning signals like non-submission or irregular submission of control returns and arrears in house-keeping and affluent living of employee beyond their means. Banks have also been advised to take a serious view of irregularities committed by employees and to give to erring staff members punishment befitting the seriousness of the irrigularity. They have also been asked to ensure quick disposal of departmental enquiries, and to report progress to their Boards of Directors periodically.

A Special Investigation Cell has also been set up in the Reserve Bank of India for investigating, *inter alia*, major cases of frauds for ensuring that suitable follow-up action is taken by the concerned banks. The Banks have also been asked to refer the cases to CBI, whenever considered necessary, for investigation so that a proper investigation in regard to the involvement of staff of banks could also be made and appropriate punishment awarded.

The Reserve Brnk has been pursuing more vigorously with the banks the question of setting right the deficiencies revealed in operational aspects and clearing the arrears in house-keeping, reconciliation of accounts, etc. The amounts involved in regard to unreconciled inter-branch entries upto the end of 1981, which stood at R. 2,00, 169.05 crores at the end of 1982 have been brought down to Rs. 1,68,565.26 crores at the end of 1983. In April 1984 the Officer Incharge of the Regional Office of the Reserve Bank of Ihdia have been specifically advised by the RBI to hold periodical meetings with the senior executives of bank in regard to reconciliation of inter-branch accounts and to report the progress made by public sector banks in this regard.

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) O.M. No. 15/1/84—Coord. dated the 30th April, 1985.]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSEE IN VIEW OF GOVERNMENTS REPLIES

Recommendation (Sl. No. 4, Para No. 2.10)

According to the Ministry of Finance, from the year 1980-81 onwards, the credit policy of RBI was aimed at restraining growth of credit without, however, denying to the economy its essential credit requirements for production of goods. Though the basic stance of the credit policy of the RBI had been one of "restrain and caution", changes in this policy were made three times during 1982-83 i.e. in April, June and October, 1982. On 30 April, 1983, the Governor of Reserve Bank outlined further measures which the Banks would be persuing during the first half of the financial year 1983-84. In October, 1983, the credit policy was further liberalised. Defending these changes, the Ministry of Fiance have claimed that these were "seasonal measures" and had to be "resounded, retained, revised or re-inforced." While the Committee do concede that the credit policy cannot remain static for all times to come and that it will have to respond and react to emerging trends in the economic scene of the country, they feel that it should be possible for the RBI to atleast ensure that credit policy is not changed too frequently. The Committee feel that it should not be too difficult for the RBI to ensure that the credit policy remains stable for a reasonable time.

Reply of the Government

The Reserve Bank are in agreement that credit policy stability should be maintained to the maximum possible extent to promote a steady growth of the economy. When underlying economic conditians change, hawever, suitable changes in credit policy are required to be made in the interest of monetary and financial instability. In fact, the essense of monetary and credit policy is its ability to react expeditiously to short-term variations in the monetary/credit situation in the context of the current trends in output and prices. It is the practice to review the credit policy twice a year viz., in April before the commencement of the slack season and again in October before the start of the busy season, and major changes in credit policy measures are announced at meetings held by Governor with the Chief Executives of major scheduled commercial banks. Efficacious operation of credit policy requires that changes in various instruments of regulation of credit be made from time to time, in consonance with contemporary changes in output, prices and liquidity. While making changes, however, care is taken to ensure that the credit policy is supportive of the productive sectors of the economy.

In 1983-84, there were a number of changes in credit policy; the purpose of these measures was essentially to ensure a smooth adjustment by banks to the changes in output and liquidity without any disruptions in or adverse effects on production. Less frequent policy changes in the context of fluctuations in output and other basic economic variables, would imply a greater element of rigsidity in credit operations calling for drastic adjustments later involving disruption in the production activity.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1/84—Coord. dated 30th April, 1985]

Recommendation (Sl. No. 16, Para No. 4.11)

The Committee find that bank deposits had increased to Rs. 26,550.79 crores as at the end of 1978, registering an increase of 24.47 percent over the previous year. But in subsequent years, scheduled commercial banks failed to maintain that tempo of deposit mobilisation. The yearly rate of growth of deposits was 18.50 per cent in 1979, 17.28 percent in 1980, 19.57 percent in 1981, and 14.80 percent in 1982. If the progress made in deposit mobilisation upto 11 November, 1983 is any indication, the year 1983 is not expected to end up in a better rate of growth. What has surprised the Committee more is that while during the last 3 years, non-banking companies had been able to attract more deposits, their yearly growth of deposits being 31.0 per cent in 1979-80, 21.3% in 1980-81 and 31.3 percent in 1981-82, the growth of bank deposits had been comparatively sluggish. A representative of the Ministry of Finance pointed out in evidence that these non-banking companies, both in public and private sectors, give interest upto 15 percent on deposits as compared to 11 percent by banks. Non-resident deposits are already being paid 2 precent more by Banks. The Committee recommend that interest in bank deposits may be suitably raised so that scheduled commercial banks are able to attract larger deposits.

Reply of the Government

The deposit growth of banks in any given year is influenced by a variety of factors such as the rate of growth of the economy, the rate of savings, the rate of inflation and public spending, the rate of inflow of foreign remittances, and so on. Interest rate is certainly an important variable, but the attractiveness or otherwise of bank deposits is not solely determined by it. Other factors like security of funds, facility of interests receipts, concessions of tax exemptions, facility of temporary credit, facility of repayment, etc. also have a bearing thereon. Interest rates on company deposits are higher because there is an element of compensation to the depositors for lack of all the facilities mentioned above. Besides the deposits rates of banks have to be determined keeping in view the socio-economic obligations placed on them for undertaking deployment of funds at concessional rates of return—be it investment in Government securities or lending to weaker sections—and maintaing cash with the Reserve Bank to meet liquidity requirements.

It is however, recognised that to the extent possible the depositors should be given the maximum rate possible as incentive for holding their savings in banks. This aspect is continually kept under review by the Government/Reserve Bank of India. The Committee's observations have been separately brought to the notice of the Reserve Bank.

Regarding the comparative performance of non-banking companies and banks in mobilisation of deposits it may be mentioned that the term 'aggregate deposits' in the case of non-banking companies include borrowings from bank/financial institutions/other companies, security deposits from dealers/contractors, advances against orders, etc. If these funds are excluded from the calculations, as they should be because they are not deposits in banking terms, the growth of public deposits of non banking companies registered a growth of only 11.9 per cent in 1981-82.

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) O. M. No. 15/1/85—Coord. dated the 30th April, 1985.]

Recommendation (Sl. No. 17, Para No. 4.20)

The Committee agree that if and when the bank deposits grow at a faster rate than anticipated, thereby creating excess liquidity in the banking system, the Cash Reserve Ratio of Banks has to be raised to see that such liquidity does not go to fuel the inflationary tendencies in our economy or result in "counter productive build up of inventories." The Committee, however, find that in the Year 1983 the Cash Reserve Ratio was raised by the Reserve Bank of India so frequently and so suddenly on each occasion that even banking circles were taken by surprise. The ratio was enhanced from 7 to 7.5 percent from the week beginning 27 May, 1983 and from 7.5 to 8.0 percent from the 29 July, 1983, thereby impounding Rs. 275 crores at each stage. This was followed by another hike from 8 to 8.5 percent from the week beginning 27th August, 1983, resulting in the impounding again of a like amount. On 8 November, 1983, RBI asked the Banks to maintain, in addittion to the present CRR of 8.5, an incremental Cash Reserve Ratio of 10 percent of the increase in net demand and time liability over the level as on 11 November, 1983. The Committee would like the Reserve Bank of India to examine if trends in deposit mobilisation cannot be predicted more accurately to avoid the need for frequent hikes at short intervals in the Cash Reserve Ratio.

Reply of the Government

The forecasts of deposit growth are made on the basis of certain premises, more importantly the likely growth in real income, the expected increase in prices, the budgetary position, the balance of payments expectations and the past trends in deposit mobilisation. A forecast of deposit accreation for the full financial year is worked out sometime in April on the basis of the information available at that time in regard to the important parameters referred to above. This forecast is kept under continuing review in the light of later information which becomes available as the year progress. Since the initial forecast is based on certain assumptions, uncertainty in the estimates is unavoidable as the parameters in the context of which they are prepared themselves chage; and it is difficult in the result to predict the growth of deposits without reasonable margins for error. If mid-term policy changes are not devised the growth of excess liquidity would have deleterious effects on the economy.

The year 1983-84 started with excess liquidity in the banking system and it was considered essential to contain the inflationary potential implicit in the then existing and imminent excess liquidity, without hampering in any way the essential process of production. With a view conserving liquidity in the first half of 1983-84 an increase in the cash reserve ratio from 7 per cent to 8 per cent of net demand and time liabilities was announced in April 1983. The increase was effected in two phases; a rise of 0.60 percentage point to 7.50 per cent effective from May 27, 1983 and the next rise of 0.50 percentage point taking the ratio to 8 per cent effective from July 29, 1983.

The external payment position turned out to be significantly different from what was envisaged and the initial calculations of the growth of deposits and the liquidity of the banking system were not borne out. In the absence of regulatory measures there would have been a wayward credit expansion which would have merely compounded the problem on the supply side and accentuated the inflationary pressures. With a view to regulating the growth of liquidity the cash reserve ratio was raised from 8.0 per cent to 8.5 per cent at the end of August 1983 and further to 9.0 per cent from early February 1984; in addition, and incremental 10 per cent cash reserve ratio was prescribed with effect from November 12, 1983.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1/84—Coord. dated 30th April, 1985]

Recommendation (Sl. No. 23, Para No. 5.26)

Analysis of the Credit Deposit Ratios of scheduled commercial banks in various regions has revealed that at the end of June, 1982, while the Credit Deposit Ratio in rural offices of scheduled Commercial banks was 80.7 per cent in the Southern region, it ranged between 49.6 and 56.1 percent in the Northern, Eastern and Western regions and was only 45 8 per cent in the North-Eastern Region. In respect of semi-urban offices also, the Southern Region topped the list with the Credit Deposit Ratio of 60.4 percent followed by Northern Region (52.1 percent). Central Region (51.6 percent), Western Region (47.8 percent), North Eastern Region (37.6 percent) and Eastern Region Region (33.5 percent). These ratio not only reveal staggering regional disparities but also strengthen the impression of the Committee that sizeable part of deposits received in rural and semi-urban areas of the country are not being ploughed back by scheduled commercial banks in these areas. Such imbalances, to say the least, are deplorable. The Committee would stress the need to see that these imbalances are rectified as early as possible in the interest of balanced development of all regions of our country.

Reply of the Government

The credit : deposit ratio in the rural & semi-urban areas of various regions at the end of June 1981 and March 1981 and March 1984 are given below :—

	Rural areas		Semi-urban areas	
	June 1981	March 1984	June 1981	March 1984
Northern	48.8	55.6	52.6	57.4
North-Eastern	37.7	48.9	34.8	39.8
Eastern	49.6	56.3	30.8	33.8
Central	51.7	60.1	48.3	52.9
Western	53.1	54.3	46.2	51.3
Southern	81.6	90.2	62.2	63.4
All India	57.7	64.1	49.1	53.0

Banks have already been advised to achieve a credit : deposit ratio of atleast 60 per cent separately in respect of their rural and semi-urban branches on an all-India basis. They have also been asked to ensure that there are no wide regional disparities in deployment of bank funds. With the implementation of Integrated Rural Development Programme, 20 Point Programme and District Credit/Annual Action Plans, the flow of credit in the relatively less developed regions is expected to improve. The State Governments have also been asked to assist in the identification of beneficiaries, formulation of suitable schemes and providing infrastructural facilities.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O. M. No. 15/1/84—Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 26, Para No. 5.61)

While noting the fact that Public Sector Banks' aggregate assistance under the 20-Point Programme had gone up from Rs. 2037 crores (57.72 lakh accounts) at the end of December, 1981, to Rs. 2620 crores (74.84 lakh accounts) by the end of December, 1982, the Committee are amazed to learn that at present no State-wise or district-wise targets of credit support to be extended by the banks under this Programme are laid down.

The Committee feel that considering the importance of this programme, year-wise targets of credit support expected of banks in the implementation of this Programme should be laid down so that the role and performance of banks in making this programme a success can be evaluated.

Reply of the Government

The question of fixing targets for the various items of the 20—Point Programme was considered by the Working Group on the role of banks in the implementation of New 20-Point Programme. In this connection, it was observed by the Working Group that a number of points in the Programme were multi-dimensional embracing primary, secondary and tertiary activities and persons belonging to different target groups—allottees of surplus land, released bonded labour, SC/ST families and IRDP—coming below the poverty line should be covered under this Programme. While the points relating to increased irrigation, dry land agriculture, increased production of pulses and vegetables and social and farm forestry relate to agriculture, the points relating to handicrafts, handlooms and small and village industries and public distribution system relate to small industry and service activities. Development of bio-gas and other alternate energy sources relate to both agriculture and small industry. Maximisation of power generation relates to infrastructure. In view of the variegated nature of the activities covered, it was felt by the Group that it would be neither necessary nor feasible to fix targets for each of the individual points or for the 20—Point Programme as a whole. The Working Group analysed the elements of the 20—Point Programme where banking system could render assistance and it identified the beneficiaries of the 20—Point Programme. It was observed by the Working Group that the assistance under 20—Point Programme will, to a large extent, be under the concept of priority sector lending and, therefore, it reviewed and widened the definition of weaker sections and priority sector to include beneficiaries of 20—Point Programme. Targets for assistance to weaker sections and priority sector have been laid down for the banks. According to these targets bank advances to priority sector should reach 40% of their total advances by the end of March 1985. Of these advances to priority sectors at least 25% should be accounted for by weaker sections.

2. As regards State-wise targets it was observed by the Working Group that keeping in view the diverse geographical features, credit absorption capacity of the regions, credit requirements of industry and trade and need for development of backward areas, it may not be possible to achieve a uniform target in each State, nor would it be practicable to stipulate different targets on State-wise basis. In the Group's view, the more important consideration is whether the banking system continues to meet the credit requirements of the weaker sections, particularly under the various schemes for such sections. The very idea of preparation of District Credit Plans/Annual Action Plans is to achieve this and in Group's view there was no case for fixing any State-wise targets.

3. In view of the foregoing it has not been considered necessary to fix separate targets for 20-Point Programme beneficiaries, either point-wise or State-wise. It may be observed that one of the important points under the 20-Point Programme is IRDP. In regard to IRDP, banks have been advised that the credit requirements under the Programme are to be assessed and credit and physical component of IRDP shown separately in District Credit Plans/Annual Action Plans and allocated among all the participating banks.

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) O.M. No. 15/1/84—Coord dated 30th April, 1985.]

Recommendation (Sl. No. 28 Para No. 5.63)

The Committee find that even though the number of villages "adopted" by the public sector banks has gone up from 47,393 at the end of June, 1977 to 1,21,008 at the end of 1981 and the amount outstanding increased from Rs. 221.86 crores to Rs. 1227.55 crores, neither any study has been undertaken to assess the impact of the Village Adoption Scheme nor the implementation of this scheme is being monitored, at the national level by Government/Reserve Bank of India. A study group of the Committee had made an on the spot visit to a village in Mahabalipuram adopted by the Indian Overseas Bank and gathered the impression that village had made all round progress The Committee, therefore, feel that this scheme, if implemented in the true spirit and in accordance with the guidelines issued by the Reserve Bank of India in 1980. could prove a boon to the villages, promote integrated development of the village economy, ensure intensive and schemative lending instead of scattered lending and help in better supervision over credit. The Committee recommend that progress made under this scheme may be monitored at the national level by the Banking Division of the Ministry of Finance.

Reply of the Government

According to the guidelines issued to banks by Reserve Bank of India in December, 1980, adoption of a village by a bank should only mean that it has declared its intention to do intensive lending in the area and does not mean that other banks are excluded from financing in that areas. The bank adopting the village should take special interest in the development of the village in co-ordination with other banks. Thus by its very nature the scheme does not lend itself to centralised monitoring.

According to latest data available, banks had adopted 1.39 lakh villages and financed 50.70 lakhs agricultural loan accounts involving an amount of Rs. 1551.04 crores as at the end of June, 1983 as against 1.27 lakh villages with financial involvement of Rs. 1243.71 crores in 41.69 lakh accounts at the end of June, 1982.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1/84—Coord. dated 30th April, 1985.]

Recommendation (Sl. No. 29. Para No. 5.64)

The Committee regret to find that though under the Lead Bank Scheme, Lead Banks had prepared the District Credit Plan as well as Annual Action Plans for the years 1980, 1981 and 1982 which provided details of various schemes proposed to be taken up, the number of beneficiaries expected to be covered and the quantum of credit deployment, the Ministry of Finance have reported that "RBI do not have complete data in respect of the achievements made under the Annual Action Plans, 1980, 1981 and 1982." The Committee feel that the lead bank had to play an effective role in bringing about conditions conducive to development by undertaking socio-economic surveys, identifying schemes and projects and converting them into bankable ones, locating entrepreneurs, and helping them in setting up projects successfully. All this underscores the need to have a perfect information system. The Committee would, therefore, urge Reserve Bank of India to work out a simple but meaningful information system so that progress made from year to year in to implementation of this scheme is available at District level and a broad consolidated consolidated picture at the national level.

Reply of the Government

Reserve Bank of India have simplified the format of statistical returns under the "Lead Bank Scheme" for monitoring the new Annul Action Plans with effect from quarter/year ending March 1985/June 1985 respectively.

Ministry of Finance, Deptt. of Economic Affairs (Banking Division)
O M. No. 15/1/84—Coord. dated. 30th April, 1985]

Recommendation (Sl. No. 33 Para No. 6.10)

The Committee find that the overall profits of 28 public sector banks have gone up from Rs. 55.94 crores in 1980 to 77.56 crores in 1982. When asked about the scope for improving the profitability further, a representative of the Ministry of Finance attributed the low income of public sector banks to a variety of factors. He explained that banks had to keep 35 per cent of their deposits in Government securities where the return was low and 8½ per cent with the Reserve Bank of India in the form of Cash Reserve. Out of the remaining, 35 to 40 per cent had to be deployed by Banks in Priority Sectors where too the return was low. Deployment of finances on Food Procurement Programme and Export Sector also yields low returns. Interest of only 4 per cent is being charged by Banks on advances under the Differential Rate of Interest Schemes. A non-official organisation has, however, expressed the view that low profits of public sector banks are due to "substantial increase in expenditure particularly establishment expenses of public sector banks." Analysis of data furnished by the Ministry of Finance and evidence led before the Committee has revealed that the establishment cost as percentage of their total expenditure ranges between 25 and 32 per cent in the case of 9 banks. These banks are State Bank of Bikaner & Jaipur (32.12%), State Bank of Hyderabad (30.43%), State Bank of Indore (30.56%), State Bank of Mysore (30.88%), State Bank of Saurashtra (31.02%), Dena Bank (27.0%), Union Bank of India (26.02%), Oriental Bank of Commerce (25.64%) and Vijaya Bank (30.27%). The Committee recommned that the establishment expenditure of these banks may be brought down to a reasonable level so as to bring about improvement in the overall profitability of public sector banks.

Reply of the Government

The nine banks mentioned in the report of the Committee have been requested to undertake a review of the staffing pattern in their banks for bringing down the establishment expenditure to a reasonable level. The banks have reported that they have already taken a number of steps for bringing down the establishment expenditure. Some of the specific areas on which attention has been focusesd for reducing the establishment expenses relate to recruitment of staff, control of overtime payment, selective use of outside training programmes, proper deployment of existing staff for optimum results, etc. However, it has to be recognised that with the increase in wages and expansion of the branch network some increase in establishment costs is unavoidable. The final accounts of the public sector banks for the year 1984 are in the process of eompilation. It is only after these reports are compiled that the impact of the steps taken by the banks for reducing the establishment expenses would be known.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1 84—Coord. dated 30th April, 1985.]

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT'S REPLIES HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 12, Para No. 3.34)

The Committee find that expansion of Branch net-work since nationalisation of major banks in 1969 has led to deterioration in the standards of customers service. According to RBI's review, out of 176 recommendations made by a Working Group on Customer Service, in their Reports submitted in August, 1975 and March, 1977, Government had accepted 136 recommendations. While the State Bank of India and its subsidiaries have implemented more than 100 recommendations, 14 nationalised banks are stated to have implemented only 90 recommendations. The Committee cannot but deplore the slow place of implementation of these recommendations. The rest of the recommendations may be implemented by all public sector banks within a year i.e. March, 1985 at the latest. In order to ensure that this time limit is adhered to, Boards of Directors of these Banks should review the progress in this direction periodically.

Reply of the Government

Necessary action in this regard has already been initiated by RBI. The public sector banks have been advised to submit periodical reports to their Boards indicating the progress made in the implementation of the recommendations of the Working Group from time to time. The progress in implementation of the recommendations is being monitored by RBI by obtaining periodical reports from banks and gives necessary advice to them. In addition, the small Group constituted by the Government also overseas the implementation of the recommendations relating to improvement in customer service.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1/84—Coord. dated 30th April, 1985]

Recommendation, Sl. 19 (Para No. 5.16)

According to the targets set by the Reserve Bank of India, the scheduled commercial banks were required to ensure that by March 1985 (i) the share of priority sector advances in the total gross bank credit reaches the level of 40 per cent, (ii) advances to weaker sections of society should reach the level of 25 per cent of priority sector advances or 10 per cent of total bank credit and (iii) direct finance to agriculture (including allied activities) should reach a level of at least 15 per cent of the total credit. The Committee are disappointed that while the targeted percentage of providing direct finance to agriculture has already been reached by scheduled commercial banks, they are nowhere near the targets as far as flow the credit to priority sectors and weaker sections of society are concerned. The level reached for priority sectors upto June, 1983 is only 35.4 per cent as against the target of 40 per cent of total credit. The credit level for weaker sections of society that has been reached by public sector banks upto the end of September, 1983, is 19.3% of priority sector advances and 7.5 per cent of total credit as against the targets of 25 per cent and 10 per cent respectively. What is worse is that some of the leading public sector banks like Oriental Bank of Commerce, Dena Bank, Vijaya Bank, Bank of Maharashtra and New Bank of India have not achieved even these low levels and are lagging far behind. The Committee attach great importance to the flow of credit to priority sectors particularly weaker sections of society because if banks lag behind in this field, the very purpose of nationalisation of banks would be defeated and small borrowers will continue to be at the mercy of private money lenders. The Committee, therefore, strongly recommend that performance of public sector banks in this respect should be closely watched by the Boards of the Banks, the Reserve Bank of India and the Banking Division of the Ministry of Finance to ensure that there is no shortfall whatever in achievement of the national targets set by the Reserve Bank of India.

Reply of the Government

Government/Reserve Bank of India attach great importance to the flow of credit into priority sectors and within them to the weaker sections. With a view to ensure that the banks continually exert to attain the given objectives, their performance is kept under continuous review and such of the banks as do not show substantial progress in priority sector lending and credit assistance to weaker sections are advised to take special measures to achieve the stipulated targets by March 1985. The Boards of Directors have also been asked to keep the performance of their respective banks in this regard under continuous review.

There has been substantial improvement in the performance of the public sector banks in this regard as can be seen from the fact that their priority sector advances accounted for 39.4% of their total advances by March 1984. The target for March 1985 is 40%, which is likely to be exceeded. Their advances to weaker sections accounted for 21.3% of their priority sector advances as against the target of 25%. Banks lagging behind in performance have been specifically asked to take measures to attain the objectives.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1/84—Coord. dated 30th April, 1985.]

Recommendation, Sl. No. 36 (Para No. 6.22)

Ministry of Finance have intimated that out of total outstanding credit of Rs. 36,128 crores at the end of 1982 in respect of public sector banks, debts amounting to Rs. 28,345 are fully secured and are considered good, debts amounting to Rs. 4,054 were considered good but were secured by the personal liabilities of one or more parties in addition to the personal security of the Debtor, but debts amounting to Rs. 3,729 crore have no other security than the Debtor's personal security. The Committee could not have any indication as to the amount of "bad and doubtful debts" because banks have claimed statutory protection from divulging such information. The Committee are of the view that as after nationalisation banks have become accountable to Parliament, the amount and broad details of bad and doubtful debts of public sector banks should no longer be kept a secret but should be disclosed in their Annual Reports. The Finance Secretary assured in evidence that the question whether banks should continue to have such a protection was already under examination by a Committee appointed by the Reserve Bank in March, 1982, under the Chairmanship of Shri S. Ghosh, Deputy Governor. The Committ will examine, inter alia, the desirability of greater or fuller disclosure in the published accounts of Banks, having regard to the need for disclosure, public accountaibility of banks, requirement of confidentiality between banker and customer and the requirements of maintaining the image, reputation and credit worthiness of banks. The Committee would await a decision on the findings and recommendations of this Committee.

Reply of Government

The recommendation has been noted.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No, 15/1/84—Coord. dated the 30th April, 1985.]

CHAPTER V

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

Recommendation, Sl. No. 5 (Para No. 2.11)

The Committee are of the firm view that if the credit policy of the RBI is to be really effective, it must not be confined to the banking sector alone but should also aim at checking the growth of black money in the country. The Chief Economic Adviser in the Ministry of Finance recalled during evidence that Wanchoo Committee had estimated the black money in 1968-69 to be around Rs. 1400 crores, another estimate had placed it at Rs. 1800 crores, and according to yet another estimate, it could be roughly Rs. 30,000 crores in 1976-77. He pointed out that so far "we do not have scientifically acceptable estimate of the black money." He indicated that Government had already requested the National Institute of Public Finance to conduct a study and provide an authoritative view in this matter. The Committee would like to be apprised of the outcome of this study.

Reply of Government

The Report of the National Institute of Public Finance study is still awaited.

[Ministry of Finance, Dep rtment of Economic Affairs (Banking Division) O.M. No.15/1/84-Coord. dated 30th April, 1985.]

Recommendation, Sl. No. 10 (Para No. 3.26).

It transpired during evidence, that even though the term of appointment of a Director is only for 3 years, there are instances where non-official Directors had continued in that capacity for as many as 25 years. A representative of the Ministry of Finance explained that as far as nationalised banks were concerned they had eliminated such cases after 1977 and that such cases were there only in subsidiary banks of the State Bank of India. He pointed out that non-official Directors on the Boards of SBI's subsidiary banks were made by the SBI and not by the Government and that private shareholders of these banks were, under the law, free to appoint a Director for more than one term. The Committee feel that as subsidiaries of the State Bank of India are also in the public sector, appointment of Directors should be for a maximum period of two terms. If necessary, the SBI Act should be suitably amended for this purpose.

Reply of Government

All the Directors of the Boards of associates expect shareholders, directors are normally appointed by State Bank of India with the approval of RBI for a maximum period of two terms (of 3 years each). The Shareholders directors of these banks are, however, elected by the shareholders and there is no provision in the State Bank of India (Subsidiary Bank) Act, 1959 restricting the period of office to any specific period or term. Such directors are on the Boards of the State Bank of Bikaner & Jaipur, State Bank of Indore, State Bank of Mysore and State Bank of Travancore only as the remaining subsidiaries are fully owned by the State Bank of India. Most of these directors are continuing on the Boards for more than 8 years. In the case of the remaining three subsidiaries which are wholly owned by the State Bank of India, appointment of directors is done by the State Bank of India for a maximum period of two terms of 3 years each.

The Committee's suggestion is presumably regarding amendment of the State Bank of India (Subsidiary Banks) Act, 1959 (and not State Bank of India Act, 1955) to provide for appointment of Directors on the subsidiaries of SBI for a maximum period of 2 terms. This is being examined by Government in consultation with Reserve Bank of India.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M.No. 15/1/84-Coord, dated 30th April, 1985.]

Recommendations, Sl. No. 27 (Para No. 5.62)

The Committee note that the banks' lending under the scheme of Differential Rate of Interest has increased from Rs. 192.49 crores (No. of borrowal accounts 25.10 lakhs) at the end of December, 1980 to Rs. 311.50 crores (Rs. 32.69 lakh borrowal accounts) at the end of December, 1982. Advances under this scheme are given at the rate of interest of 4%. Only borrowers who fulfil the land holding and income criteria are eligible for such advances. The Committee understand that after the National Institute of Bank Management had given its Report on the working of this scheme in December, 1982. Government have appointed a Working Group to review the DRI scheme. The Committee would like to be apprised of the outcome of this review.

Reply of Government

Following the Report of the National Institute of Bank Management on Differential Rate of Interest Scheme, a Task Force was constituted in the Ministry of Finance to review the DRI Scheme and to make specific recommendations regarding any changes which might be necessary in the scheme. The Task Force has submitted its report to the Government. The recommendations of the Task Force are under examination.

[Ministry of Finance, Department of Economic Affairs (Banking Division) O.M. No. 15/1/84-Coord. dated 30th April, 1985.]

NEW DELHI;
December 19, 1985
Agrahayana 28, 1907 (Saka)

HINTAMANI PANIGRAHIC
Chairman,
Estimates Committee.

APPENDIX

(*Vide* Introduction)

Analysis of action taken by Government on the 84th Report of the Estimates Committee (7th Lok Sabha)

I	Total number of recomendations	38
II	Recommendations which have been accepted by Government (Sl. No. 1, 2, 3, 6, 7, 8, 9, 11, 13, 14, 15, 18, 20, 21, 22, 24, 25, 30, 31, 32, 34, 35, 37, and 38	24
	Percentage to total	63%
III	Recommendations which the Committee do not desire to pursue in view of Government's replies (Sl. Nos. 4, 16, 17, 23, 26, 28, 29 & 33)	8
	Percentage to total	21%
IV	Recommendations in respect of which replies of Government have not been accepted by the Committee (Sl. Nos. 12, 19 and 36)	3
	Percentage to total	8%
V	Recommendations in respect of which final replies of Government are still awaited (Sl. Nos. 5, 10, 27)	3
	Percentage to total	8%

LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA SECRETARIAT PUBLICATIONS

Sl. No.	Name of Agent	Sl. No.	Name of Agent

BIHAR

1. M/s. Crown Book Depot, Upper Bazar, Ranchi Bihar.

GUJARAT

2. The New Order Book Company Ellis Bridge, Ahemadabad-380006. (Tel. No. 79065)

MADHYA PRADESH

3. Modern Book House, Shiv Villas Palace, Indore City.

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5. The International Book Service, Decan Gymkhana, Poona-4.

6. The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-40001.

7. M/s Usha Book Depot, Law Book Seller and Publishers, Agents Govt. Publications, 585, Chira Bazar, Khan House, Bombay-400002.

8. M&J Services, Publishers, Representative Accounts & Law Book Seller, Mohan Kunj, Ground Floor, 68 Jyotiba Fuele Road, Nalgaum-Dadar, Bombay-400014.

9. Subscribers Subscription Services India, 21, Raghunath Dadaji Street 2nd Floor, Bombay-400001.

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10. The Manager, M. M. Subscription Agencies, 1st Lay Out, Sivananda Colony, Coimbatore-641012.

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11. Law Publishers, Sardar Patel Marg, P. B. No. 77, Allahabad, U.P.

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12. Mrs. Manimala, Buys and Sells. 123, Bow Bazar Street, Calcutta-12.

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13. Jain Book Agency, Connaught Place, New Delhi. T. No. 351663

14. J.M. Jain & Brother, Mori Gate, Delhi. (T. No. 225064)

15. Oxford Book & Stationery Co., Scindia House, Connaught Place, New Delhi-110001.

16. Bookwell, 4, Sant Nirankari Colony Kingsway Camp, Delhi-110009.

17. M/s Rajendra Book Agency. IV-D/59, IV D/60, Lajpat Nagar, Old Double Storey, Delhi-110024.

18. M/s. Ashoka Book Agency, BH-82, Poorvi Shalimar Bagh, Delhi-110033

19. Venus Enterprises, B-2/85, Phase-II, Ashok Vihar, Delhi

20. The Central News Agency, 23/90, Connaught Place, New Delhi. (T. No. 344448) (T. No. 344478)

21. Amrit Book Company, N-21, Connaught Circus, New Delhi-110001 (T. No 40398)

22. M/s. Vijay Book Agency, 11-1-477, Mylargadda, Secunderbad-500361

23. Books India Corporation, Publishers, Importers & Exporters, L-27, Shastri Nagar, Delhi-110052. (T. No. 269631) (T. No. 714465)

E.C. No. 1118

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Sixth Edition) and Printed by Gupta Printing Works, Delhi-110006.