TWENTIETH REPORT

STANDING COMMITTEE ON FINANCE (2001)

(THIRTEENTH LOK SABHA)

MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS & EXPENDITURE)

DEMANDS FOR GRANTS (2001-2002)

[Action taken by the Government on the recommendations contained in the Thirteenth Report of the Standing Committee on Finance on Demands for Grants (2001-2002) of Ministry of Finance (Departments of Economic Affairs & Expenditure)

Presented to Hon'ble Speaker on 28.12.2001
Laid in Lok Sabha on...........................
Laid in Rajya Sabha on........................

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

December, 2001/Pausa, 1923 (Saka)

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COMPOSITION OF STANDING COMMITTEE ON FINANCE (2001)

Shri Shivraj V. Patil — *Chairman*

MEMBERS

Lok Sabha

2. Shri Raashid Alvi
3. Shri Sudip Bandyopadhyay
*4. Shri Prabodh Panda
5. Smt. Renuka Chowdhury
6. Shri G. Putta Swamy Gowda
7. Shri Rattan Lal Kataria
8. Shri Brahmanand Mandal
9. Shri M.V.V.S. Murthy
10. Shri Kamal Nath
11. Shri Rupchand Pal
12. Shri M. Padmanabham
13. Shri Prakash Paranjpe
14. Shri Raj Narain Passi
15. Dr. Sanjay Paswan
16. Shri Varkala Radhakrishnan
17. Shri Pravin Rashtrapal
18. Shri Ram Singh Rathwa
19. Shri S. Jaipal Reddy
20. Shri T.M. Selvaganpathi
21. Mohammad Shahabuddin
22. Shri C.N. Singh
23. Shri Kirit Somaiya
24. Shri Kodikunnil Suresh
25. Shri Kharabela Swain
26. Shri Narayan Dutt Tiwari
27. Vacant
28. Vacant
29. Vacant
30. Vacant

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*Nominated *vice* Shri Ajoy Chakraborty to the Committee *w.e.f.* 23 July, 2001.

Rajya Sabha

31. Shri S.S. Ahluwalia
32. Shri Krishna Kumar Birla
33. Shri Vijay Darda
34. Dr. Biplab Dasgupta
35. Shri K. Rahman Khan
36. Shri Suresh A. Keshwani
37. Shri Narendra Mohan
38. Shri Praful Patel
39. Shri P. Prabhakar Reddy
40. Shir N.K.P. Salve
41. Prof. M. Sankaralingam
42. Shri Amar Singh
43. Shri Ranjan Prasad Yadav

*44. Shri Solipeta Ramachandra Reddy

**45. Dr. Manmohan Singh

SECRETARIAT

1. Shri P.D.T. Achary — *Additional Secretary*
2. Dr. (Smt.) P.K. Sandhu — *Joint Secretary*
3. Shri R.K. Jain — *Deputy Secretary*
4. Shri S.B. Arora — *Under Secretary*
5. Shri Srinivasulu Gunda — *Committee Officer*

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*Nominated to the Committee *w.e.f.* 9 April, 2001.

**Nominated to the Committee *w.e.f.* 29 November, 2001.

INTRODUCTION

I, the Chairman of the Standing Committee on Finance—2001, having been authorised by the Committee to submit the Report on their behalf present this Twentieth Report on action taken by Government on the recommendations contained in the Thirteenth Report (Thirteenth Lok Sabha) of the Committee on Demands for Grants (2001-2002) of the Ministry of Finance (Department of Economic Affairs & Expenditure).

2. The Thirteenth Report was presented to Lok Sabha/laid in Rajya Sabha on 24 April, 2001. The Government furnished the replies indicating action taken on all the recommendations on 17 July, 2001. The Draft Action Taken Report was considered and adopted by the Standing Committee on Finance at their sitting held on 27 December, 2001.

3. An analysis of action taken by Government on the recommendations contained in the Thirteenth Report (Thirteenth Lok Sabha) of the Committee is given in the Appendix.

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

NEW DELHI;
27 *December*, 2001
6 *Pausa*, 1923 *(Saka)*

SHIVRAJ V. PATIL,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This report of the Standing Committee on Finance deals with action taken by Government on the recommendations contained in their Thirteenth Report (Thirteenth Lok Sabha) on Demands for Grants (2001-2002) of Ministry of Finance (Departments of Economic Affairs and Expenditure) which was presented to Lok Sabha on 24 April, 2001.

2. Action Taken Notes have been received from the Government in respect of all the 12 recommendations contained in the Report. These have been categorised as follows:—

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

Sl Nos. 6, 7, 8, 9 & 10

(Chapter II-Total 5)

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

Sl. Nos. 4 & 11

(Chapter III-Total 2)

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

Sl. Nos. 3, 5 & 12

(Chapter IV-Total 3)

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

Sl. Nos. 1 & 2

(Chapter V-Total 2)

3. The Committee desire that the replies to the recommendations contained in Chapter I and the final replies in respect of the recommendations contained in Chapter V for which only interim replies have been given by the Government should be furnished to them expeditiously.

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

A. Imports of Coins from abroad — Investments

Recommendation (Sl. No. 3, Para No. 17)

5. As there was considerable delay in completion of the formalities for importing the coins resulting in underutilisation of the allocated budgetary provisions, the Committee in their Thirteenth Report on Demands for Grants (2001-2002) of Ministry of Finance (Departments of Economic Affairs and Expenditure) observed and recommended *inter-alia* as follows:—

> "...the contract for import of coins during 1999-2000 was finalised only in September — October *i.e.* six months after allocation of budgetary provisions. The Committee have no doubt that the decision to import coins must have been taken well before the budget. The Ministry thus took a very long time for finalisation of the proposal. The Committee are of the view that had the Ministry taken the decision within reasonable period of time, the underutilisation to the extent of more than 50% of the revised estimates would not have occurred. The Committee therefore recommend that in such cases the Ministry should commence the ground work well in advance anticipating the likely problems so that bugetary allocations meant for the purpose are fully spent during that year itself.
>
> It could be seen that due to delay in processing of the tenders floated for import of coins the budgetary allocation of Rs. 355 crore was revised downwards to Rs. 180 crore at revised estimates stage. However, the actuals incurred fell short of reduced revised estimates by about 49 crore. The Committee would like to be apprised of the specific reasons as to why the actuals fell far short of even the reduced revised estimates together with the actuals pieces of coins imported during the year."

6. The Ministry of Finance (Deptt. of Economic Affairs) in their action taken reply stated as under:—

"With regard to import of coins in 1999-2000, it is stated that the cabinet approval dated 4.2.99 was received in the Department on 15.2.99. The expenditure sanction was issued on 30.8.99. As per tender schedule, a minimum time of 6 months is required after cabinet approval for floating the tenders, sale of tender papers, receiving bids, their technical/commercial evaluation and processing the proposal in the Ministry. Therefore, there was no delay in this case.

After award of the contract for supply of coins, 4-5 months elapse before the first consignment of coins is received. This time is required for manufacture of pre-production samples, their inspection and approval, manufacture of coins and their transportation by land and sea route from the site of manufacture to Indian ports. Subsequent consignments are received at periodic intervals as per delivery schedule. In 2000-2001, the contracts were signed in September—December 2000. Hence, only 4 consignments of coins could be received before the end of the financial year, which led to underutilisation of the budgetary allocation.

The actual pieces of coins received during the year 2000-2001 were as follows:

Denomination	Quantity (Million pieces)
Rupee 1	260.304
Rupees 2	300.000
Rupees 5	515.500

7. The Committee observe that it is not clear from the action taken reply furnished by the Ministry as to whether the Cabinet approval given on 4.2.1999 for importing coins is applicable for the entire amount of coins imported during 1999-2000 and subsequent years also. In case, the Cabinet approval dated 4.2.1999 was applicable for importing coins during 1999-2000 only, whether a separate cabinet approval was obtained for importing coins during 2000-2001 and why the contracts for importing coins were signed about six months after commencement of the Financial year 2000-2001 leading to meagre import of 4 consignments of coins during the year which in turn led to underutilisation of the provisions meant for the purpose.

In the absence of specific reply to the Committee's recommendation it is not possible for the Committee to come to any conclusion in this regard. The Committee therefore reiterate their earlier recommendation.

B. Role of Nominee Directors

Recommendation (Sl. No. 5, Para No. 26)

8. As there are cases of companies diverting funds lent by Financial Institutions to unauthorised purposes despite the presence of nominees of Financial Institutions on their boards, the Committee in their report on Demands for Grants (2001-2002) of Ministry of Finance (Departments of Economic Affairs and Expenditure) observed and recommended *inter-alia* as under:

> "Financial Institutions have been appointing nominee directors on the Boards of assisted companies with a view to protecting their interest. The Committee regret to observe that inspite of this and the claim made by Govt. that the Financial Institutions have sufficient powers under loan agreements to ensure that sensitive matters are brought by the assisted companies before their Boards and monitored regularly, there have been cases where some companies have diverted the funds taken from Financial Institutions for purposes other than those mentioned in the loan agreement. It appears to the Committee that either the powers given to Financial Institutions are not adequate or they are not being used effectively. This is corroborated by the fact that in a few cases, the nominee directors were withdrawn instead of invoking the powers of Financial Institutions under the loan agreement.
>
> The Committee are of the view that had it been made compulsory for the managements of the companies to bring sensitive matters having impact on their financial health before their Boards the above mentioned cases of diversions despite the presence of nominee directors on the Boards could not have occurred. Hence, the Committee recommend that it should be made mandatory on the part of the management(s) of the companies to bring all matters of importance especially those having implications for the financial health of the companies before the Board. In the event of management's failure to adhere to such a stipulation deterrent punishment in the form of monetary penalties may also be prescribed. If necessary, the relevant Act may suitably be amended."

9. The Ministry of Finance (Department of Economic Affairs) in their action taken reply stated *inter-alia* as under:—

Financial Institutions are concerned about protection of their interest in assisted companies. For this purpose they appoint their nominee directors on these companies to ensure safeguarding the interest of institutional lenders. In order to ensure effective role of nominee directors in monitoring the activities of the companies, the financial institutions have issued detailed guidelines to their nominee directors. These guidelines are quite wider in scope and comprehensive ones. The guidelines *inter-alia* includes directions to nominee directors as given below:

(i) To safeguard the interest of the institution and also serve the interest of sound public policy.

(ii) Take active and vigilant interest in the deliberation of the company.

(iii) Make suggestions for effective management practices, effective functioning of the Board and continued growth.

(iv) To ensure that all important policy matters and developments having bearing on the performance of the company are brought to the notice of the Board.

(v) The prior approval of the institutions to be taken in important matters such as:

- Appointments/Reappointments, changes in term of appointment of MD/Full-time Director, Full-time Chairman, Consultants.
- To undertake expansion/diversification programmes.
- To intercorporate or other investments.
- Declaration of dividends.
- Modification in Memorandum/Article of Association.
- Proposal to raise additional funds.
- Proposal for substantial changes in technical, managerial, commercial and financial aspects of the project.
- Proposal for approval of transfer of companies shares from the promoter's group to others.

(vi) To ensure that company adopts best accounting practices

(vii) He has to submit feed-back report for corrective action to his institution.

The Standing Committee on Finance in its Eighth Report on Financial Institutions has made observations on role of nominee director. All the financial institutions were advised in March, 2001 to make appropriate action to ensure effective implementation of recommendation/observation made by the Committee.

The guidelines to nominee directors by financial institutions are already in existence and institutions are expected to ensure their implementation for better results for the benefit of the institutions and companies concerned. Government has not received any suggestions from any institution for issuing any directive or enacting/amending any Act for making the role of nominee directors more effective. It is not the dearth of specified guidelines but the lack of implementation of these guidelines which sometimes results into certain stray problem cases of diversion of funds etc. As and when any effective suggestion is received from any of the institution, Government will take appropriate action to remove any hurdle in the protection of interest of institutions that might require Government intervention for its removal.

In so far as inter-corporate loans and investments are concerned, Section 372A of the Companies Act, 1956 provides sufficient safeguards. The penalties for violation of provisions relating to inter-corporate loans and investments have also been increased ten times. There appear to be sufficient deterrents under the Companies Act, 1956 against diversion of funds.

10. The Committee are of the opinion that the root cause is not the dearth of specific guidelines for ensuring effective role of nominee directors but the lack of implementation of these guidelines, which enabled the unscrupulous entrepreneurs to divert funds taken from Financial Institutions for unauthorized purposes thereby rendering the accounts non performing.

The Committee do not agree with the contention that there are only stray cases of diversion as it runs contrary to the submission made to them by IDBI on 20 September, 2000 who *inter-alia* stated that a Report of RBI on NPAs pointed out that diversion of the funds for unauthorised purposes was instrumental to the occurance of NPAs in the Indian financial sector. The Governor, RBI during evidence held in September, 2000 also stated that some borrowers had really taken advantage and diverted funds leading to present chaotic conditions.

The Committee are surprised to find that none of the FIs having NPAs caused due to diversion of the funds lent by them chose to report to the Government for taking remedial action in this regard.

The Committee are of the considered opinion that had it been made mandatory for the managements of the companies to bring all sensitive matters having impact on their financial health, before their boards by amending relevant Acts, if necessary and had the nominee directors played their role effectively, the cases of diversion of funds would not have occurred. They, therefore, reiterate their recommendations and desire that the Ministry of Finance should ensure effective implementation of the guidelines by the nominee directors in monitoring the activities of the Companies.

The Committee would also like to be apprised of the action taken against those nominee directors who failed to implement the guidelines in protecting the interests of the financial institutions and about corrective measures taken/proposed to be taken in this regard.

Acquisition of Flats — Investments

Recommendation (Sl. No. 12, Para No. 63)

11. As the budgetary allocations meant for acquiring residential flats for middle and senior level officers of Indian Audit and Accounts Service remained unspent during 1998-99 and 1999-2000 the Committee in their Thirteenth Report on demands for Grants (2001-2002) of Ministry of Finance (Departments of Economic Affairs and Expenditure) observed and recommended *inter alia* as under:—

"It is observed that though the proposal for acquiring 30 ready built flats has been under consideration since 1996 the amounts for the purpose could be allocated only in 1998-99 budget *i.e.* after two years of mooting the proposal.

Moreover, out of the allocation of Rs. 50 lakhs during 1998-99 and Rs. 4 crore during 1999-2000 no expenditure was incurred as the necessary approvals could not be obtained. The allocation of Rs. 1 crore made during 2000-2001, which was scaled down to Rs. 40 lakhs at RE stage also remained unutilised. The Committee take a serious note of the gross negligence and financial imprudence on the part of the concerned authorities in allocating the resources continuously year after year even at RE stage without the necessary approvals. It is not clear from the reply of the Government whether the necessary approval for acquisition of flats has since been obtained. The Committee would like to be apprised in this regard together with the latest position about the acquisition of flats. They also recommend that responsibility should be fixed for gross negligence and financial imprudence in allocating funds for purchase of flats without obtaining approval for the purpose."

12. The Ministry of Finance (Department of Expenditure) in their action taken reply stated as follows:—

"A proposal for purchase of residential flats for the officers of Indian Civil Accounts Service posted in Delhi was originally submitted in 1996 for the then Secretary (Expenditure)'s approval. This was discussed in a meeting between Secretary (Expenditure) and CGA wherein the former gave his in principle approval to the same.

Subsequent to obtaining the in-principle approval of Secretary (Exp.), opening of a Capital Head for this purpose was requested for. The relevant head was opened in 1998-1999 by providing a token provision of Rs. 50 lakhs. This time lag in allocation of funds was, in the main, on account of the proposal being appraised indepth at various levels, including the Ministry of Urban Affairs who desired ascertainment of satisfaction level of ICAS officers in respect of general pool accommodation.

Initially, the cost of the proposed procurement was estimated to be Rs. 5 crores. Accordingly, a provision of Rs. 4 crores was made in the year 1999-2000 and the balance money of Rs. 1 crore was provided in the budget estimates of 2000-2001.

Subsequently, the cost of procurement was revised downwards to Rs. 3.65 crores in the year 2000-2001. The payment plan being considered envisaged release of 10% of the total cost (Rs. 36.5 lakhs) as advance and the balance 90% on acquisition of property.

In anticipation of the acquisition spilling over to the year 2001-2002, the budget provision for the year 2000-2001 was revised at RE stage from Rs. 1 crore to Rs. 40 lakhs. The balance of Rs. 3.25 crores (of the total envisaged cost of Rs. 3.65 crores) was accordingly provided in the budget estimates framed for the year 2001-2002.

During the above period, constant correspondence was being undertaken with the concerned agencies for obtaining necessary administrative approval so as to enable purchase of flats. As submitted earlier, however, procedural delays arose mainly because of a multiplicity of agencies such as Ministry of Urban Affairs & Employment, CPWD, Ministry of Law etc. examining the proposal indepth at various stages of processing.

It was, however, consistently ensured that the funds provided under this head were surrendered before the close of each financial year. For instance, in the last financial year itself, the RE provision of Rs. 40 lakhs under this head was surrendered on 2nd March, 2001 *i.e.*, almost a month before the close to the financial year so as to enable gainful utilization of funds elsewhere by passing of necessary reappropriation orders by the Ministry.

The proposal has been approved by the Ministry of Finance after obtaining necessary clearances from CPWD, Ministry of Urban Affairs & Employment and Ministry of Law."

13. The Committee are astonished to note that due to administrative hassles at various levels, the Ministry took about two years to open a capital head since the proposal for acquiring the flats was mooted originally. The Committee are of the view that this time lag of two years could have been reduced had the nodal Ministry/agency pursued the matter with concerned ministries vigorously. The Committee hope that due care would be exercised by the Ministry in future at least with a view to ensuring that such inordinate delays do not take place and funds are utilised gainfully.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 6, Para No. 31)

The Committee are constrained to observe that the public sector banks have not fulfilled the stipulated target of lending - 18% of NBC to agriculture inspite of having wide network of Branches in rural areas. They, therefore, recommend that these banks may be asked to achieve the stipulated target within a specified period. In the event of their failure to achieve the prescribed percentage of lending even after the specified period, RBI may consider imposing monetary penalties. The Committee would also like to be apprised of the concrete steps taken to include fulfilment of targets set for agriculture lending as a precondition for granting autonomous status to public sector banks.

The Committee are also concerned to note that there has been continuous decline in direct lending to agriculture by public sector commercial banks from 13.62% of Net Bank Credit (NBC) at the end of March 1997 to 11.75% of NBC at the end of March 2000 despite (i) having more than 70% of their branch network in rural areas and (ii) the Committee's recommendation contained in their earlier reports to improve the same to conform to stipulated targets. The data also show that direct agricultural lending by some big public sector banks *viz.* Punjab National Bank, Union Bank of India and Corporation Bank having autonomous status and with wide network of Branches in rural areas has witnessed continuous decline since 1997. The Committee, therefore, recommend that the banks should be asked to achieve a higher percentage of direct lending to agriculture.

While the direct lending to agriculture by public sector banks has been declining, there has been continuous increase in indirect lending to agriculture from 2.73% of NBC at the end of March 1997 to 4.01% of NBC at the end of March 2000 by these banks. Further, some of the public sector banks' indirect lending to agriculture exceeded the maximum stipulated percentage *i.e.* 4.5% of NBC whereas their direct agricultural advances fell short of the minimum prescribed percentage during 1998-1999 and 1999-2000. The Committee express their unhappiness at the non-adherence to the stipulations in regard to lending to agriculture by public sector commercial banks. They recommend that steps should be taken to ensure that indirect lending to agriculture by individual banks does not exceed 4.5%.

The Committee also recommend that attainment of stipulated percentage in respect of lending to agriculture (both direct and indirect separately) by individual public sector banks should be incorporated every year in their publication — Report on Trend and Progress of Banking in India from this year onwards to improve transparency in their operations and to generate informed public debate on the issue.

Reply of the Government

Reserve Bank of India (RBI) has reported that public sector banks have been advised to achieve the stipulated target for priority sector/agriculture lending within two years. At present, shortfall, in lending to agriculture is taken into account while making allocations under RIDF, which has to be deposited with National Bank for Agriculture and Rural Development (NABARD) at a certain rate of interest. It has been decided to link the rate of interest on Rural Infrastructure Development Fund (RIDF) deposits to the banks performance in lending to agriculture. Accordingly, banks would receive interest from NABARD on contribution to RIDF-VII at rates of interest inversely proportional to the shortfall in agriculture lending *vis-a-vis* the targets. The rates of interest are indicated in the table below:—

Sl. No.	Shortfall in lending to agriculture in terms of percentage to Net Bank Credit (i.e. Target minus Achievement)	Rate of interest on the entire deposits to be made in RIDF VII
1.	Less than 2 percentage points	10
2.	2 per cent to 4.99 percentage points	9.0
3.	5 per cent to 8.99 percentage points	8.0
4.	Above 9 percentage points	7.0

Further, if any bank does not achieve the stipulated targets by March 2003 as advised by RBI, the imposition of penalty would be considered at that time.

In so far as autonomy to public sector banks is concerned, Government has granted limited autonomy to public sector banks in the matter of recruitment, promotion, creation of posts, etc. The Boards of the Public Sector Banks which fulfil the criteria of net profits for the last three years, capital adequacy ratio of more than 8 per cent, net NPA level below 9 per cent of the net advances and minimum owned funds of Rs. 100 crore have been delegated powers and autonomy in the matter of creation, abolition, upgradation/modification of posts for their administrative offices upto the level of Deputy General Manager, recruitment of specilized officers and also undertake campus recruitment for partly meeting their requirement of probationary officers, eligibility and entitlement for reimbursement of entertainment expenditure and fee for club membership.

The question of providing autonomy in other areas is being considered and while taking a decision the recommendation made by the Hon'ble Committee for including 'Fulfilment of targets set for agricultural lending' as a pre-condition for granting autonomy to the public sector banks will be kept in view.

RBI has further reported that public sector banks have been advised to increase their direct advances to agriculture. The position is also being monitored by RBI. Indirect lending to agriculture in excess of 4.5% of Net Bank Credit is reckoned for overall priority sector lending and not for the agriculture lending target of 18%.

RBI has indicated that the attainment of stipulated percentage in respect of lending to agriculture (both direct and indirect separately) would be incorporated in the Report on Trend and Progress of Banking in India from this year onwards.

[Ministry of Finance, Department of Economic Affairs, IWSU, O.M. No. I-34011/6/2001, dated 17 July, 2001]

Recommendation (Sl. No. 7, Para No. 38)

The Committee are distressed to note that despite RBIs advice to increase the agricultural lending to conform to prescribed target the private sector commercial banks lending to farm sector has been declining continuously. As against already very low rates of lending of 10.35% of NBC at the end of the March, 1997, the percentage of lending to agriculture fell to 9.11% of NBC at the end of March, 2000 while the stipulated percentage is 18% of NBC. The Committee therefore conclude that the RBI's efforts at persuading these banks to lend in accordance with required stipulation have not had the desired impact. It was in this context that the Committee in their Sixth Report on Demands for Grants (2000-2001) had recommended that RBI/Govt. should set out a time-frame within which the private sector commercial banks have to improve their farm credit subtantially to conform to prescribed targets. Even though the recommended action was accepted by Government the Committee are surprised to observe that RBI advised the banks to take concrete steps *inter alia* to improve their farm credit substantially to conform to prescribed targets. The Committee are unable to understand as to why RBI instead of fixing the time limit itself asked the concerned banks to fix the time limit. They therefore recommend that RBI itself should prescribe the time-frame say 2 to 3 years instead of leaving it to the concerned banks. Further, even after the specified period if they continue to flout the stipulation, deterrent penalties should be imposed.

The Committee would also like to be informed of as whether in pursuance of RBI's advise any private sector bank(s) drew a strategy/ plan to achieve the stipulated agricultural lending in a time bound manner and the results achieved thereon.

The Committee note with concern that some of the private sector banks have extended indirect agriculture advances far in excess of the maximum stipulated percentage—4.5% of NBC (in some cases even 12-13%) while their direct agricultural advances fell far short of prescribed amounts and in some cases they are negligible compared to the indirect lending. Hence the Committee recommend that such violations should attract deterrent action against the banks concerned. The Committee would like to be apprised of the details as to the action taken against these banks for violating the norms made in this regard.

Reply of the Government

Reserve Bank of India has reported that it has prescribed a time-frame of two years for private sector banks to achieve the targets. At present the shortfall in lending to agriculture by private sector banks is taken into account while making allocations under Rural Infrastructure Development Fund (RIDF). In the case of RIDF-VII, the interest rate of RIDF deposit has been linked to the extent of shortfall. Accordingly, banks will receive interest from National Bank for Agricultural and Rural Development (NABARD) on contribution to RIDF-VII at rates of interest inversely proportional to the shortfall in agricultural lending as a measure of penalty *vis-a-vis* the targets. The rates of interest are indicated in the table below:—

Sl. No.	Shortfall in lending to agriculture in terms of percentage to Net Bank Credit (i.e. Target minus Achievement)	Rate of interest on the entire deposits to be made in RIDF VII
1.	Less than 2 percentage points	10
2.	2 per cent to 4.99 percentage points	9.0
3.	5 per cent to 8.99 percentage points	8.0
4.	Above 9 percentage points	7.0

As regards deterrent penalties against banks which fail to achieve the targets even after the period of two years, imposition of further penalties will be considered at that time.

Private sector banks have been advised by RBI to draw up a strategy/plan to achieve the stipulated agricultural lending in a time bound manner. A meeting of private sector banks was called by RBI in April 2001 during which banks indicated the action taken by them for improving credit flow to the priority sector. RBI has reported that it is monitoring the position closely. The banks have been advised to forward to RBI a copy of the review note for improving the credit flow to the priority sector as at the end of March and September.

RBI has further reported that it has taken up the matter of direct agriculture advances with the banks. They have been advised that the low percentage of direct lending to agriculture has been viewed seriously and that they should take appropriate steps to ensure that direct lending to agriculture improves within the stipulated time-frame of two years *i.e.* by March 2003.

[Ministry of Finance, Department of Economic Affairs, IWSU, O.M. No. I-34011/6/2001, dated 17 July, 2001]

Recommendation (Sl. No. 8, Para No. 40)

The Committee are deeply constrained to observe that there has been continuous decline in C.D. Ratio in rural and semi-urban areas in respect of public sector commercial banks since 1996. The Committee are of the view that since commercial banks are one of the most important formal channels of credit to vast population of rural and semi-urban areas, decline in lending by these financial intermediaries might force the people in these areas to go to money lenders who charge abnormally high rates of interest, for their genuine financial needs for productive purposes. Such high interest rates might render their ventures unviable thereby making them to borrow more and more to pay the earlier debt leading to debt trap. The Committee therefore recommend that concrete steps should be taken to increase CD Ratio in these areas by the public sector commercial banks. They would like to be apprised of the steps taken in this direction.

Reply of the Government

The credit deposit (CD) ratio is often considered to be an important indicator, among others, of the extent of contribution made by the banks to developmental activities in the concerned State. The CD ratio depends not only on the efforts made by the banks but also on varioüs other factors such as credit absorptive capacity of the region, infrastructural support, and the overall policy framework in the region. The CD ratio of Scheduled Commercial Banks for the country as a whole has increased from 55.5 per cent in March 1999 to 57.1 per cent in March 2000.

2. Various measures have been taken by banks for improving the CD ratio and also for increasing the flow of bank credit in rural and semi-urban areas. Reserve Bank of India had appointed Task Forces in some States to go into the reasons for low credit ratio and suggest measures for improving the same. Recommendations made by these Task Forces are being implemented and monitored on and ongoing basis in the State Level Bankers' Committee (SLBC) meeting periodically.

3. Special SLBC meetings were also held in the year 2000 in the States of Maharashtra, Karnataka, West Bengal, Goa, Uttar Pradesh, Orissa and also for North East States in which Minister of State for Finance had participated and discussed measures for improving bank credit in these States and other related matters. Union Finance Minister had also attended special SLBC meetings for the States of Bihar, Jharkhand and Madhya Pradesh. A special SLBC meeting for the State of Jammu & Kashmir was held in the month of May 2001. Decisions taken in these meetings are being implemented by banks and are being monitored regularly.

4. The Reserve Bank of India and NABARD have also taken several measures to further strengthen the flow of credit to farmers. Some of these measures are as indicated below:

- Introduction of cash credit facility for meeting composite credit requirements of farmers having good track record;
- Introduction of the Kisan Credit Card Scheme for agricultural borrowers;
- Banks have been advised to open specialized agricultural branches to take care of financing of high-tech agricultural projects;
- RBI has introduced simplification of loan application, delegation of powers to branch managers, introduction of composite cash credit limit to farmers, introduction of new loan products, cash disbursement of loans, discretion to banks on matters relating to margin/security requirements for loans above Rs. 10,000/- and dispensing with "No Dues Certificates" as a compulsory requirement.

5. Initiatives have also been taken to improve the flow or credit to SSI sector as indicated below:

- Setting up specialized SSI branches by public sector banks and special emphasis to be laid for obtaining ISO certification by these branches
- Delegation of greater powers to branch managers to grant limits, to simplify application forms and to fix own norms for assessment of credit requirement
- Enhancement of loan limit under composite loan scheme from Rs. 10 lakh to Rs. 25 lakh
- Increase in project cost limit under National Equity Fund (NEF) scheme from Rs. 25 lakh to Rs. 50 lakh. Likewise soft loan component has also been increased to Rs. 10 lakh.
- Increase in limit for non-insistence on collateral security from Rs. 1 lakh to Rs. 5 lakh
- Launching of Credit Guarantee Fund Scheme for small industries to cover collateral free and third party guarantee free loans of commercial banks to SSI sector including IT and software sector upto a limit of Rs. 25 lakh. A separate trust *viz.* Credit Guarantee Fund Trust for the purpose has been set up and the scheme has already become operational.

6. It has also been decided that banks should earmark 5 per cent of their Net Bank Credit for lending to women beneficiaries within three years.

7. All these measures are expected to increase flow of bank credit to rural and semi-urban areas and also improve the CD ratio of the banks.

[Ministry of Finance, Department of Economic Affairs, IWSU, O.M. No. I-34011/6/2001, dated 17 July, 2001]

Recommendation (Sl. No. 9, Para No. 46)

It is a matter of concern to observe that none of the public sector banks could lend under the DRI scheme upto the stipulated percentage during the last five years except State Bank of Hyderabad which lent 1.25% of aggregate advances under the scheme that too for three years out of the last 5 years. The Committee are not inclined to accept the plea of the Government that the banks are not able to fulfil the target due to lack of attractiveness of the DRI Scheme due to availability of capital subsidy schemes such as Swarnjayanti Gram Swarojgar Yojana, Prime Minister's Rojgar Yojana, Swarnajayanti Shahari Rozgar Yojana, etc. They are of the opinion that banks are not taking the desired initiative to lend under the scheme as per the RBI stipulation.

The Committee are surprised to see that due to availability of capital subsidy schemes the Government are inclined to wind up the scheme. However, the Committee are of the view that DRI scheme exclusively caters to the barest credit requirements of the weakest among the weak and hence it is a niche scheme for the benefit of these poor sections of the population. The Committee, therefore, recommend that the DRI Scheme should not be discontinued and instead concrete steps should be taken to ensure that commercial banks lend under the scheme as stipulated.

The Committee also express their serious unhappiness over the continuous decline in the already low percentage of lending under the scheme. The advances by public sector banks in terms of percentage under the scheme sharply fell from 0.40% in 1996 to 0.18% in 2000. It seems that although the RBI has been impressing on all the public sector banks the urgent need for concerted efforts to improve the performance under the scheme yet the same have not had the desired impact on the credit flow under the scheme from these banks.

The Committee are shocked to note that the performance of the Private Sector Banks in lending under the Scheme is much worse compared to that of their counterparts in the public sector. Not only their percentage of lending under the scheme is too low *vis-a-vis* prescribed targets but also some of the old private sector banks and all the new private sector banks could not lend any amount under the scheme during the last few years. The Committee are of the view that RBI remained a passive spectator at the insignificant or no lending at all under the scheme by these banks. The Committee therefore, recommend that they should not be allowed to continue to flout the norms in this regard with impunity and hence RBI/Government should prescribe a time frame within which both public and private sector Commercial banks would have to conform to lending under the scheme as per the prescribed targets. In the event of their continued lower lending *vis-a-vis* target, RBI may consider imposing monetary penalties.

Reply of the Government

DRI Scheme was introduced in 1972 as an Interest Subsidy Scheme. Subsequently several other Government Sponsored Capital Subsidy Schemes have been introduced such as Integrated Rural Development Programme (IRDP), Swarnajayanti Gram Swarojgar Yojana (SGSY), Prime Minister's Rozgar Yojana (PMRY), Swarna Jayanti Shahari Rozgar Yojana (SJSRY), Scheme of Liberation & Rehabilitation of Scavengers (SLRS). These capital subsidy schemes offer higher quantum of loan, larger capital subsidies and are, therefore more attractive for borrowers. The capital subsidy allowed under these schemes varies from 15% to 50% of the project cost subject to a certain ceiling. With a view to assess as to how the capital subsidy linked schemes are more attractive for borrowers, an hypothetical case of a borrowing of Rs. 100/- if availed under DRI Scheme and any other capital subsidy linked scheme is illustrated below. The rate of interest under DRI Scheme has been presumed @ 4% per annum, whereas in respect of other capital linked scheme it is presumed @ PLR presently prevailing 11.5% per annum. The repayment period of loan in both these cases is being presumed as three years. The capital subsidy in this case is being presumed @ 15%.

	Under DRI	Under Capital Subsidy linked Scheme
Amount of loan availed	100.00	100.00
Amount of Principal to be repaid	100.00	85.00
Interest accrued during Ist Year	4.00	9.77
Interest accrued during IInd Year	2.64	6.44
Interest accrued during IIIrd Year	1.32	3.22
Total Amount (Principal + Interest) to be repaid by the borrowers	107.96	104.43

From the above it would be evident as to why borrowers prefer subsidy-linked schemes over DRI Scheme. However, in deference to the recommendations/observations of the Committee, Government is again advising banks through RBI to make all out efforts to achieve targets under DRI Scheme.

[Ministry of Finance, Department of Economic Affairs, IWSU, O.M. No. I-34011/6/2001, dated 17 July, 2001]

Recommendation (Sl. No. 10, Para No. 54)

It is seen that some of the newly set up private sector banks could not make public issue after one year of commencement of their operations as stipulated by RBI and hence had to be given extension for going public. Moreover, some of these newly set up banks in the private sector having been in existence for 5-6 years with profitable track record could not bring down their promoters equity to the required level of 40 per cent of paid up capital even after getting repeated extensions. The Committee, therefore, would like to be apprised of the specific reasons as to why these banks inspite of having profitable track record have not brought down their promoters stake even after getting repeated extensions.

The Committee recommend that no more extensions should be given and these banks be asked to bring down their promoters equity to 40 per cent of paid up capital as prescribed without any further delay and they should be informed of the progress made in this regard by RBI.

Reply of the Government

Reserve Bank of India is being advised to instruct the newly set up private sector banks to bring down their promoters' equity to the required level of 40 per cent of the paid-up capital during the current financial year *i.e.* by 31st March 2002, and that no more extension should be given by Reserve Bank of India to these banks.

[Ministry of Finance, Department of Economic Affairs, IWSU, O.M. No. I-34011/6/2001, dated 17 July, 2001]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

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

The Committee regret to point out that though funds were allocated for procuring new passport machine costing Rs. 8 crore during 1997-98 the same could not be procured during that year due to which the funds had to be surrendered.

The Committee are of the view that floatation and finalization of tenders for procuring machinery and equipment is a time consuming process. They recommend the Government to examine the possibility of allocating nominal amounts if the tenders are floated for procuring machinery and equipment in the later half of the financial year *i.e.* at the time of Revised Estimates to avoid surrendering of the funds. In the instant case, the Committee would like to be apprised as to why the passport machine was not supplied to ISP during 1997-98 and whether any penalty was imposed on the supplier for the delay.

Reply of the Government

The process of making budgetary allocation starts approximately 6 months before the beginning of the financial year. At that point of time an assessment is made of the machinery and equipments to be procured during the coming financial year. The idea is to initiate the process of procurement immediately after the beginning of the financial year. It is never planned to start the process in the later half of the year. However, many a time the floating of tender is delayed because of unforeseen factors. Sometimes clarifications have to be obtained on the specifications of the equipment before publishing the tender. Time spent in correspondence with suppliers/manufacturers delays the tenders notice. Some times, the tender does not evoke adequate response and has to be re-floated. The tender notices have to be published through DAVP and at times, delays take place at their end too.

In brief, it is not possible to anticipate with any degree of certainty at the time of submission of proposals for budgtary allocation that a particular procurement will be delayed. It is always the effort of the Department to initiate the process of procurement right at the beginning of the year and to finalize it during the course of the year. It is only due to unforeseen factors that things get delayed. As such, it does not appear practically feasible to allocate nominal amounts for one or more items of machinery and equipment while making budgetary allocations.

So far as the question of delay in procurement of Passport machine is concerned, it is mentioned that after the approval of the Ministry on 21.8.1997, the supply order was placed on the firm on 10.9.1997. According to the Supply Order, the delivery was to be effected F.O.B. German port on or before 30.9.1998. The long delivery time was necessitated due to the fact that as the requirement of the APMS varies from customer to customer, the Company was required to custom build the machine according to ISP's specifications. The machine was to be despatched after pre-shipment inspection by a team of ISP officers. The inspection was carriedout between 17.9.98 to 27.9.98. As it takes 4-5 weeks for dismantling, packing and shipping of machinery after inspection, the date for delivery was amended to 31.10.1998. The actual date of shipment by the supplier from German port was 5.11.1998. The delay thus was only 5 days and was insignificant for imposition of any penalty.

[Ministry of Finance, Department of Economic Affairs, IWSU,
O.M. No. I-34011/6/2001, dated 17 July, 2001]

Recommendation (Sl. No. 11, Para No. 59)

The Committee are constrained to observe that due to delay in award of work relating to development of software package called CONTACT the amounts allocated even at revised estimates stage remained unutilised during 1997-98. Not only that this delay resulted in the amounts allocated even at RE stage during the next year *i.e.* 1998-99 for developing and installing the linked software package GAINS remaining unutilised. It is thus clear that the work for developing software package CONTACT could not be completed even during 1998-99 leading to non finalisation of the proposal for obtaining another software package GAINS. As a result, underutilisation of the allocations meant for the software package CONTACT during 1997-98 led to the underutilisation of funds allocated for another software package GAINS during 1998-99.

The Committee further note that due to much long time taken than anticipated for the work of system requirement specifications the allocations made at even revised estimates for the purpose remained largely unutilised during 1999-2000. The Committee are of the view that the authorities concerned should have exercised financial prudence by substantially reducing the allocations at RE stage during 1997-98, 1998-99 and 1999-2000 instead of allowing them to remain unutilised which resulted in surrendering the funds. They therefore, recommend that responsibility should be fixed for delay in awarding the contracts for obtaining the said software packages. They would also like to be informed whether the packages have since been procured.

Reply of the Government

The automation of accounting work in the Government of India is primarily the responsibility of the CGA's Office. In this effort National Informatics Centre also plays a crucial role. For past several years desktop based software were being used in the field offices. In order to cover more activities of Pay and Accounts Offices under computerization, it was decided to revise all the software packages. CONTACT and IMPROVE are two such packages which are running at Principal Accounts Offices and Pay and Accounts Offices respectively. The package GAINS is running at the Controller General of Account's office and receives data from CONTACT.

On the recommendation of DG, NIC in Oct. 95 it was decided to develop the software in ORACLE on Unix Platform using modern CASE tools. For this purpose a joint team of officials from CGA and NIC was constituted for software development. Initially, the team was able to develop some portions of the software but later, it was felt that in view of highly sophisticated nature of the software, help of outside professional agency would be necessary. A decision to this effect was taken in September 1997 and therefore provision in the RE stage of 1997-98 was enhanced to Rs. 11 lakes. However, since it required wide range of consultations with the end users on one side and the technocrats on the other so as to have latest state of the art technology, there was a delay in finalizing the System Design. The application involved assimilation of accounting activities of complex type taking place in various departments such as revenue collecting by Central Board of Direct Taxes or Central Board of Excise of Customs, Grants-in-aid etc. Apart from this, large number of bank transactions with all the public sector banks and Reserve Bank of India. The application has over 100 forms and reports and uses 174 ORACLE tables. The pilot software is then required to be tested extensively before it can be put to use. This activity finally got completed in Sep. 1999. From Jan. 2000 onward implementation of the package began in all the ministries and got completed by the beginning of 2001.

Development of software GAINS which has to receives data from CONTACT (ORA) was therefore delayed consequently. However, at present the development of GAINS is going on in full swing and it is expected that it will be fully operational shortly.

The RE proposals are decided sometime in the month of September/October. Due to highly sophisticated nature of the software, CONTACT (ORA) and GAINS it was difficult to anticipate five to six months in advance whether the targeted activities will be completed within the financial year or not. However, as soon as it was so realized during the later halves of these years, the budget allocation, which appeared to be unutilisable was surrendered promptly within the respective financial years.

[Ministry of Finance, Department of Economic Affairs, IWSU,
O.M. No. I-34011/6/2001, dated 17 July, 2001]

CHAPTER IV

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

Recommendation (Sl. No. 3, Para No. 17)

The Committee observe that the contract for import of coins during 1999-2000 was finalised only in September-October *i.e.* six months after allocation of budgetary provisions. The Committee have no doubt that the decision to import coins must have been taken well before the budget. The Ministry thus took a very long time for finalisation of the proposal. The Committee are of the view that had the Ministry taken the decision within reasonable period of time, the underutilisation to the extent of more than 50% of the revised estimates would not have occurred. The Committee therefore recommend that in such cases the Ministry should commence the ground work well in advance anticipating the likely problems so that budgetary allocations meant for the purpose are fully spent during that year itself.

It could be seen that due to delay in processing of the tenders floated for import of coins the budgetary allocation of Rs. 355 crore was revised downwards to Rs. 180 crore at revised estimates stage. However, the actuals incurred fell short of reduced revised estimates by about 49 crore. The Committee would like to be apprised of the specific reasons as to why the actuals fell far short of even the reduced revised estimates together with the actual pieces of coins imported during the year.

Reply of the Government

With regard to import of coins in 1999-2000, it is stated that the cabinet approval dated 4.2.1999 was received in the Department on 15.2.1999. The expenditure sanction was issued on 30.8.1999. As per tender schedule, a minimum time of 6 months is required after cabinet approval for floating the tenders, sale of tender papers, receiving bids, their technical/commercial evaluation and processing the proposal in the Ministry. Therefore, there was no delay in this case.

After award of the contract for supply of coins, 4-5 months elapse before the first consignment of coins is received. This time is required for manufacture of pre-production samples, their inspection and approval, manufacture of coins and their transportation by land and sea route from the site of manufacture to Indian ports. Subsequent consignments are received at periodic intervals as per delivery schedule. In 2000-2001, the contracts were signed in September-December 2000. Hence, only 4 consignments of coins could be received before the end of the financial year, which led to under-utilisation of the budgetary allocation.

The actual pieces of coins received during the year 2000-2001 were as follows:

Denomination	Quantity (Million pieces)
Rupee 1	260.304
Rupee 2	300.000
Rupee 5	515.500

[Ministry of Finance, Department of Economic Affairs, IWSU, O.M. No. I-34011/6/2001, dated 17 July, 2001]

Comments of the Committee

(Please refer Para No. 7 of Chapter I of this Report)

Recommendation (Sl. No. 5, Para No. 26)

Financial Institutions have been appointing nominee directors on the Boards of assisted companies with a view to protecting their interest. The Committee regret to observe that inspite of this and the claim made by Govt. that the Financial Institutions have sufficient powers under loan agreements to ensure that sensitive matters are brought by the assisted companies before their Boards and monitored regularly, there have been cases where some companies have diverted the funds taken from Financial Institutions for purposes other than those mentioned in the loan agreement. It appears to the Committee that either the powers given to Financial Institutions are not adequate or they are not being used effectively. This is corroborated by the fact that in a few cases, the nominee directors were withdrawn instead of invoking the powers of Financial Institutions under the loan agreement.

The Committee are of the view that had it been made compulsory for the managements of the companies to bring sensitive matters having impact on their financial health before their Boards the above mentioned cases of diversions despite the presence of nominee directors on the Boards could not have occurred. Hence, the Committee recommend that it should be made mandatory on the part of the management(s) of the companies to bring all matters of importance especially those having implications for the financial health of the companies before the Board. In the event of management's failure to adhere to such a stipulation deterrent punishment in the form of monetary penalties may also be prescribed. If necessary, the relevant Act may suitably be amended.

Reply of the Government

Financial Institutions are concerned about protection of their interest in assisted companies. For this purpose they appoint their nominee directors on these companies to ensure safeguarding the interest of institutional lenders. In order to ensure effective role of nominee directors in monitoring the activities of the companies, the financial institutions have issued detailed guidelines to their nominee directors. These guidelines are quite wider in scope and comprehensive ones. The guidelines *inter-alia* includes directions to nominee directors as given below:

(i) To safeguard the interest of the institution and also serve the interest of sound public policy.

(ii) Take active and vigilant interest in the deliberation of the company.

(iii) Make suggestions for effective management practices, effective functioning of the Board and continued growth.

(iv) To ensure that all important policy matters and developments having bearing on the performance of the company are brought to the notice of the Board.

(v) The prior approval of the institutions to be taken in important matters such as:

- Appointments/Reappointments, changes in terms of appointment of MD/Full-time Director, Full time Chairman, Consultants.

- To undertake expansion/diversification programmes
- To intercorporate or other investments
- Declaration of dividends
- Modification in Memorandum/Article of Association
- Proposal to raise additional funds
- Proposal for substantial changes in technical, managerial, commercial and financial aspects of the project
- Proposal for approval of transfer of companies shares from the promoter's group to others.

(vi) To ensure that company adopts best accounting practices.

(vii) He has to submit feed-back report for corrective action to his institution.

The Standing Committee on Finance in its Eighth Report on Financial Institutions has made observations on role of nominee director. All the financial institutions were advised in March, 2001 to make appropriate action to ensure effective implementation of recommendation/observation made by the Committee.

The guidelines to nominee directors by financial institutions are already in existence and institutions are expected to ensure their implementation for better results for the benefit of the institutions and companies concerned. Government has not received any suggestions from any institution for issuing any directive or enacting/amending any Act for making the role of nominee directors more effective. It is not the dearth of specified guidelines but the lack of implementation of these guidelines which sometimes results into certain stray problem cases of diversion of funds etc. As and when any effective suggestion is received from any of the institution, Government will take appropriate action to remove any hurdle in the protection of interest of institutions that might require Government intervention for its removal.

In so far as inter-corporate loans and investments are concerned, Section 372A of the Companies Act, 1956 provides sufficient safeguards. The penalties for violation of provisions relating to inter-corporate loans and investments have also been increased ten times. There appear to be sufficient deterrents under the Companies Act, 1956 against diversion of funds.

[Ministry of Finance, Department of Economic Affairs, IWSU,
O.M. No. I-34011/6/2001, dated 17 July, 2001]

Comments of the Committee

(Please refer para No. 10 of Chapter I of this Report)

Recommendation (Sl. No. 12, Para No. 63)

It is observed that though the proposal for acquiring 30 ready built flats has been under consideration since 1996 the amounts for the purpose could be allocated only in 1998-99 budget *i.e.* after two years of mooting the proposal.

Moreover, out of the allocation of Rs. 50 lakhs during 1998-99 and Rs. 4 crore during 1999-2000 no expenditure was incurred as the necessary approvals could not be obtained. The allocation of Rs. 1 crore made during 2000-2001, which was scaled down to Rs. 40 lakhs at RE stage also remained unutilised. The Committee take a serious note of the gross negligence and financial imprudence on the part of the concerned authorities in allocating the resources continuously year after year even at RE stage without the necessary approvals. It is not clear from the reply of the Government whether the necessary approval for acquisition of flats has since been obtained. The Committee would like to be apprised in this regard together with the latest position about the acquisition of flats. They also recommend that responsibility should be fixed for gross negligence and financial imprudence in allocating funds for purchase of flats without obtaining approval for the purpose.

Reply of the Government

A proposal for purchase of residential flats for the officers of Indian Civil Accounts Service posted in Delhi was originally submitted in 1996 for the then Secretary (Expenditure)'s approval. This was discussed in a meeting between Secretary (Exp.) and CGA wherein the former gave his in-principle approval to the same.

Subsequent to obtaining the in-principle approval of Secretary (Exp.) opening of a Capital Head for this purpose was requested for. The relevant head was opened in 1998-99 by providing a token provision of Rs. 50 lakhs. This time-lag in allocation of funds was, in the main, on account of the proposal being appraised indepth at various levels, including the Ministry of Urban Affairs who desired ascertainment of satisfaction level of ICAS Officers inrespect of general pool accommodation.

Initially, the cost of the proposed procurement was estimated to be Rs. 5 crore. Accordingly a provision of Rs. 4 crores was made in the year 1999-2000 and the balance money of Rs. 1 crore was provided in the budget estimates of 2000-2001.

Subsequently, the cost of procurement was revised downwards to Rs. 3.65 crores in the year 2000-2001. The payment plan being considered envisaged release of 10% of the total cost (Rs. 36.5 lakhs) as advance and the balance 90% on acquisition of property.

In anticipation of the acquisition spilling over to the year 2001-2002, the budget provision for the year 2000-2001 was revised at RE stage from Rs. 1 crore to Rs. 40 lakhs. The balance of Rs. 3.25 crore (of the total envisaged cost of Rs. 3.65 crores) was accordingly provided in the budget estimates framed for the year 2001-2002.

During the above period, constant correspondence was being undertaken with the concerned agencies for obtaining necessary administrative approval so as to enable purchase of flats. As submitted earlier, however, procedural delays arose mainly because of a multiplicity of agencies such as Ministry of Urban Affairs & Employment, CPWD, Ministry of Law etc. examining the proposal indepth at various stages of processing.

It was however, consistently ensured that the funds provided under this head were surrendered before the close of each financial year. For instance, in the last financial year itself, the RE provision of Rs. 40 lakhs under this head was surrendered on 2nd March 2001 *i.e.*, almost a month before the close of the financial year so as to enable gainful utilization of funds elsewhere by passing of necessary reappropriation orders by the Ministry.

The proposal has now been approved by the Ministry of Finance after obtaining necessary clearances from CPWD, Ministry of Urban Affairs & Employment and Ministry of Law.

[Ministry of Finance, Department of Economic Affairs, IWSU, O.M. No. I-34011/6/2001, dated 17 July, 2001]

Comments of the Committee

(Please refer para No. 13 of Chapter I of the Report)

CHAPTER V

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

Recommendation (Sl. No. 1, Para No. 5)

The Committee observe that due to delay in evaluation of the premises of SEBI occupied by Securities Appellate Tribunal (SAT) the budgetary allocations meant for payment of rent/purchasing premises could not be spent for the last four years. The Committee express their dissatisfaction at the fact that though the matter of documentation was taken up in August, 1998 the decision regarding mode of acquisition could be taken after about one and half years. The Committee are of the opinion that there was undue delay in deciding the mode of acquisition. The Committee would like to be apprised as to why CPWD has not been able to value the premises inspite of having been communicated to do the same in May, 2000. In this context, the Committee recommend that to obviate the surrendering of the funds allocated for the purpose year after year the need for valuation of the premises without any further delay should be impressed upon CPWD.

Reply of the Government

The Securities and Exchange Board of India, Securities Appellate Tribunal and Central Public Works Department (CPWD) were informed about the recommendation of the Standing Committee on Finance and requested to finalise the rental value of the premises urgently. On 26th June, 2001 CPWD has completed the fair rent assessment. The Securities and Exchange Board of India and Securities Appellate Tribunal have been requested to finalise the rent agreement expeditiously.

[Ministry of Finance, Department of Economic Affairs, IWSU, O.M. No. I-34011/6/2001, dated 17 July, 2001]

Recommendation (Sl. No. 2, Para No. 12)

In their action taken reply to the recommendation of the Committee for expeditious completion of the project, the Ministry of Finance had stated that the project work for modernisation of mint at Mumbai had been completed and at Kolkata work was at a fairly advanced stage whereas according to the annual Report of the monitoring Ministry *viz.* Ministry of Statistics and Programme Implementation (2000-2001) containing assessment of the status of the implementation, the project activities at Mumbai and Kolkata were far behind scheduled due to delay in Civil Works.

The Committee are of the opinion of that the concerned authorities are fixing the scheduled dates of completion of the project at Mumbai and Kolkata without even taking into consideration the ground realities. Hence, the Committee are inclined to concur with the assessment of the monitoring Ministry especially in the light of the fact that for the last 5 years their assessment of the completion of the project has proved to be correct.

The Committee are further of the view that had the project been completed in time hundreds of crores of rupees spent on import of coins could have been saved. They therefore recommend that earnest efforts should be made to complete the project without any further delay.

The Committee are of the view that a long term plan to bridge the gap between demand and supply of coins which is now under preparation should have been conceived and implemented long back. However, as the matter does not brooke further delay, the Committee recommend that the perspective plan may be devised/chalked out expeditiously to obviate the necessity of importing coins and the Committee be apprised of the same.

Reply of the Government

1. Modernisation of Mumbai mint has been completed and all major coinage process equipments have already been commissioned and are in regular use. The trial run and training of workmen on new equipments is in process. Production is expected to improve after redistribution of manpower on new advanced equipments. However, production has enhanced in stages during the last two years.

2. Modernisation work of Kolkata mint is nearing completion. Except one Strip Milling Machine, all other machines have been commissioned. The Strip Milling Machine has been erected and Technicians of the foreign supplier M/s MINO have started work for commissioning of it.

3. A long term plan for bridging the gap between demand and supply of coins based *inter-alia* on the following strategy is under preparation:—

(a) Introduction of second shift working in NOIDA Mint.

(b) Augmenting capacity of Kolkata & Mumbai Mints by replacing old and worn out equipments in phases.

(c) Adding capacity to Hyderabad (Cherlapally) and NOIDA Mints by installing additional stamping lines.

(d) Installing commemorative coin making facilities in Hyderabad (Cherlapally) & NOIDA Mints.

[Ministry of Finance, Department of Economic Affairs, IWSU, O.M. No. I-34011/6/2001, dated 17 July, 2001]

NEW DELHI;
27 *December*, 2001
6 *Pausa*, 1923 *(Saka)*

SHIVRAJ V. PATIL,
Chairman,
Standing Committee on Finance.

MINUTES OF THE THIRTIETH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Thursday, 27 December, 2001 from 1500 hrs. to 1700 hrs.

PRESENT

Shri Shivraj V. Patil — *Chairman*

MEMBERS

Lok Sabha

2. Shri Raashid Alvi
3. Smt. Renuka Chowdhury
4. Shri Rattan Lal Kataria
5. Shri M.V.V.S. Murthy
6. Shri Raj Narain Passi
7. Shri Varkala Radhakrishnan
8. Shri S. Jaipal Reddy
9. Shri Kirit Somaiya
10. Shri Kharabela Swain
11. Shri Narayan Dutt Tiwari

Rajya Sabha

12. Shri S.S. Ahluwalia
13. Shri K. Rahman Khan
14. Shri Suresh A. Keshwani
15. Shri Narendra Mohan
16. Shri Vijay Darda
17. Shri Solipeta Ramachandra Reddy

SECRETARIAT

1. Shri P.D.T. Achary — *Additional Secretary*
2. Dr. (Smt.) P.K. Sandhu — *Joint Secretary*
3. Shri R.K. Jain — *Deputy Secretary*
4. Shri S.B. Arora — *Under Secretary*

2. At the outset Chairman welcomed the Members to the sitting of the Committee. The Committee then took up for consideration the following draft Action Taken Reports and adopted the same without any amendments:—

(i) Action Taken Report on Demands for Grants (2001-02) of the Ministry of Finance (Departments of Economic Affairs and Expenditure)

(ii) ** ** **

(iii) ** ** **

(iv) ** ** **

(v) ** ** **

3. ** ** **

4. Keeping in view that the House was not in Session and there was no prospects of the Session being commenced before the end of the term of the Committee *i.e.* 31st December, 2001, the Committee authorised the Chairman to present the above mentioned Action Taken Reports to the Hon'ble Speaker under Direction 71A of the Directions by the Speaker, Lok Sabha. The Committee also desired that Hon'ble Speaker might be requested to order for the printing and publication/ circulation of these reports under Rule 280 of the "Rules of Procedure and Conduct of Business in Lok Sabha".

The Committee then adjourned.

APPENDIX

(*Vide* Para 3 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE THIRTEENTH REPORT OF THE STANDING COMMITTEE ON FINANCE (THIRTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2001-2002) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS AND EXPENDITURE)

		Total	% of Total
(i)	Total number of recommendations	12	
(ii)	Recommendations/Observations which have been accepted by the Government (*Vide* Recommendations at Sl. Nos. 6, 7, 8, 9 & 10)	5	41.66
(iii)	Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies (*Vide* Recommendations at Sl. Nos. 4 & 11)	2	16.66
(iv)	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee (*Vide* Recommendations at Sl. Nos. 3, 5, & 12)	3	24.99
(v)	Recommendations/Observations in respect of which final replies of the Government are still awaited (*Vide* Recommendations at Sl. Nos. 1 & 2)	2	16.66