THIRTY-FOURTH REPORT

STANDING COMMITTEE ON FINANCE
(2002)

(THIRTEENTH LOK SABHA)

MINISTRY OF FINANCE

(DEPARTMENTS OF ECONOMIC AFFAIRS & EXPENDITURE)

DEMANDS FOR GRANTS
(2002-2003)

[Action taken by the Government on the recommendations contained in the Twenty Seventh Report of the Standing Committee on Finance on Demands for Grants (2002-2003) of the Ministry of Finance (Departments of Economic Affairs & Expenditure)]

Presented to Lok Sabha on 19.12.02

Laid in Rajya Sabha on 19.12.02

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

December, 2002/*Agrahayana*, 1924 *(Saka)*

CONTENTS

COMPOSITION OF STANDING COMMITTEE ON FINANCE — 2002

Shri N. Janardhana Reddy — *Chairman*

MEMBERS

Lok Sabha

2. Shri Ramsinh Rathwa
3. Shri Rattan Lai Kataria
4. Shri Kirit Somaiya
5. Shri Kharebela Swain
6. Shri Raj Narain Passi
7. Shri S. Jaipal Reddy
8. Shri Ramesh Chennithala
9. Shri Kamal Nath
10. Shri Pravin Rashtrapal
11. Shri Sudarsana E.M. Natchiappan
12. Shri Rupchand Pal
13. Shri Varkala Radhakrishnan
14. Dr. Daggubati Ramanaidu
15. Shri Chada Suresh Reddy
16. Shri Prakash Paranjpe
17. Shri Raashid Alvi
18. Shri T.M. Selvaganapathi
19. Shri Trilochan Kanungo
20. Shri Sudip Bandyopadhyay
21. Shri Sharad Pawar
22. Shri Abdul Rashid Shaheen
23. Capt. Jai Narain Prasad Nishad
24. Shri Prabodh Panda
25. Shri Amir Alam Khan

** 26. Dr. M.V.V.S. Murthy

*** 27. Shri Jyotiraditya Madhavrao Scindia

$ 28. Shri Surender Singh Barwala

$$$ 29. Shri Nagmani

* 30. Smt. Renuka Chowdhury

Rajya Sabha

31. Dr. Manmohan Singh

32. Shri S.S. Ahluwalia

*33. Shri Dina Nath Mishra

34. Shri Parmeshwar Kumar Agarwalla

35. Dr. Biplab Dasgupta

36. Shri P. Prabhakar Reddy

37. Prof. M. Sankaralingam

**38. Shri Raj Kumar Dhoot

39. Shri Palden Tsering Gyamtso

@40. Shri Prithviraj Dajisaheb Chavan

@@41. Shri Praful Patel

@@@42. Shri Murli Deora

$$43. Shri Prem Chand Gupta

#44. Dr. T. Subbarami Reddy

45. Vacant

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*

---

* Nominated *vice* Sh. Narendra Mohan *w.e.f.* 4.1.2002.

** Nominated *w.e.f.* 18.1.2002.

*** Nominated *w.e.f.* 11.3.2002.

@ Nominated *w.e.f.* 8.4.2002.

@@ Nominated *w.e.f.* 8.4.2002.

@@@ Nominated *w.e.f.* 10.4.2002.

$ Nominated *w.e.f.* 19.4.2002.

$$ Nominated *w.e.f.* 22.4.2002.

Nominated *w.e.f.* 22.4.2002.

Nominated *vice* Shri Sanjay Nirupam *w.e.f.* 8.5.2002.

$$$ Nominated *w.e.f.* 5.7.2002.

% Nominated *w.e.f.* 2.9.2002.

INTRODUCTION

I, the Chairman of the Standing Committee on Finance having been authorized by the Committee to submit the Report on their behalf present this Thirty-Fourth Report on action taken by Government on the recommendations contained in the Twenty-Seventh Report of the Committee (Thirteenth Lok Sabha) on Demands for Grants (2002-2003) of the Ministry of Finance (Departments of Economic Affairs & Expenditure).

2. The Report was presented to Lok Sabha on 23 April, 2002 and laid in Rajya Sabha on 24 April, 2002. The Government furnished the written replies indicating action taken on all the recommendations on 25 July 2002. The draft action taken report was considered and adopted by the Committee at their sitting held on 17 December, 2002.

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

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

NEW DELHI;
18 December, 2002
27 Agrahayana, 1924 *(Saka)*

N. JANARDHANA REDDY
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

1.1 This Report of the Standing Committee on Finance deals with the action taken by the Government on the recommendations contained in their Twenty Seventh Report (Thirteenth Lok Sabha) of the Standing Committee on Finance (2002) on Demands for Grants (2002-2003) of the Ministry of Finance (Departments of Economic Affairs & Expenditure) which was presented to Lok Sabha/laid in Rajya Sabha on 23 and 24 April, 2002 respectively.

1.2 The Report contained Eleven recommendations/observations. Action taken replies have been received from the Government in respect of all the recommendations contained in the Report. These have been analysed and categorized as follows:—

(i) Recommendations/observations that have been accepted by the Government:—

Sl. Nos. 1, 2, 3, 6, 7, 8, 9, 10, 11
(Total 9) (Chapter II)

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

(Total NIL) (Chapter III)

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

Sl. Nos. 4 & 5
(Total 2) (Chapter IV)

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

(Total NIL) (Chapter V)

1.3 The Committee desire that replies in respect of the recommendations contained in Chapter I of the Report may be furnished to them expeditiously.

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

Competent Authority for certifying fake currency notes.

Recommendation (Sl. No. 4, Para No. 16)

1.5 The Committee deplored that despite the fact that India Security Press (ISP), Nashik, ceased to be a legally competent authority for certifying the genuineness or otherwise of the currency notes due to its stoppage of Printing currency notes way back in 1962, Ministry could not take appropriate measures to set up/establish/notify any other agency/currency printing press/Bank Note Presses as the legal authority for the purpose for about 4 decades due to which inordinate delays had occurred in solving the cases involving fake currency notes by police and enforcement agencies. The Committee, therefore, desired to know as to why the Ministry could not realise the need to have the competent authority for the purpose for about four decades.

Further, pending amendment to the relevant section of Cr. P.C. which was a time consuming process, the Committee recommended that the possibility of transferring the Note Examination Cell of the CNP, Nashik, alongwith experts to Indian Security Press, Nashik should be expedited and the progress in that regard should be intimated to the Committee.

1.6 In their action taken reply the Ministry of Finance have stated as under: —

"The proposal for strengthening the existing Note Examination Cell in the CNP - Nashik and creation of a similar Cell in the BNP - Dewas has been approved *vide* this Ministry's Order dated 4th April, 2002 by creating four posts for the Counterfeit Note Examination (CNE) Cell in the Bank Note Press (BNP) Dewas and two posts in the Currency Note Press, (CNP) Nashik as under: —

Sl. No.	Name of Post	No. of Post	Pay Scale
(i)	Chief Expert	2*	Rs. 12000-16500
(ii)	Asstt. Works Manager	2*	Rs. 8000-13500
(iii)	Technical Officer/ Deputy Technical Officer	2	Rs. 6500-10500 Rs. 5500-9000

* one each for BNP and CNP respectively"

Pending amendment of the relevant Section of Cr.P.C. the Note Examination Cell at CNP - Nashik alongwith the experts has been transferred to India Security Press, Nashik *vide* this Ministry's Notification dated 28th May, 2002. It is further stated that need to amend

Cr.P.C. has been felt now on account of quantum jump in the number of reported siezers/detection during recent years.

1.7 The Committee are satisfied to note that in response to their recommendation, the Government has transferred the Note Examination Cell at CNP, Nashik alongwith experts to India Security Press, Nashik vide their Notification dated 28 May, 2002. They are, however, surprised that the Government has not realised the need to have the competent authority for certifying the genuineness or otherwise of the currency notes for about 4 decades. The Committee would like to be apprised of the reasons in this regard.

Shortfall in Lending to Agriculture — Contribution of RIDF

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

1.8 The Committee took a serious note of the fact that the Centurion Bank, Nedungadi Bank and Benaras State Bank, Private sector banks having shortfall in lending to agriculture have defaulted in depositing their share in RIDF. Further, the said new private sector bank which defaulted huge amount do not comply with the RBI's stipulation of having 25% of the total branch network in rural and semi-urban areas despite its existence for the last seven years. The Committee, therefore, recommended that those banks should be asked to contribute their share to RIDF without further delay. In case of their non-compliance RBI may consider imposition of penalties either monetary or otherwise.

1.9 In their action taken reply, the Ministry of Finance have stated as under:—

"Reserve Bank of India (RBI) have reported that as reported by National Bank of Agriculture and Rural Development (NABARD) the following contribution amount from concerned private sector banks have still not been received towards deposit in various tranches of the Rural Infrastructure Development Fund (RIDF):

Name of Bank	RIDF Tranche	Amount (Rs. in Crores)
Centurion Bank	III	5.04
	V	15.64
	VI	87.45
	VII	32.40
	Total	140.53
Nedungadi Bank	VII	4.98
Benaras State Bank	III	1.30
	VII	0.90
	Total	2.20
	Grand Total	147.71

Benaras State Bank has since been merged with Bank of Baroda. RBI has reported that Centurion Bank and Nedungadi Bank have requested for exemption from making such deposits. However, keeping in view the significance of infrastructural development in the growth of the states economy and the importance Government and RBI attach to this, these exemption requests had been turned down and the banks have been asked to deposit the aforesaid amount with NABARD forthwith."

1.10 The Committee deplore that despite the fact that the Centurion Bank, Nedungadi Bank and the Benaras State Bank have defaulted in depositing the amount equal to shortfall in their lending to agriculture with RIDF Tranches of NABARD in the stipulated period, RBI has not imposed any penalty on them. They are not satisfied with the reply of the Government that the request for exemption has been turned down by RBI and the Banks have been asked to deposit the shortfall with NABARD. They feel that had the RBI played a proactive role this situation would not have occurred. The Committee desire that RBI should play its regulatory role faithfully and monitor such cases in time.

The Committee would also like to know the name of the Private Sector banks which do not comply with the RBI's stipulation of having 25% of their branch network in rural and semi-urban areas and the action taken/proposed to be taken against them.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendations have been accepted by Govt.

Recommendation (Serial No. 1, Para No. 4)

"The Committee find that the Management expenses of the public sector general insurance companies have been in excess of the statutorily prescribed ceiling since 1997-98 except in respect of New India Assurance Company Ltd. during 1997-98 and 1998-99. The Committee believe that such high cost of management might render their business uncompetitive *vis-a-vis* the business of their counterparts in the private sector. They, therefore, recommend that the value of business per employee of these companies should be increased and also the computerisation/automation of the operations of these companies should be done on priority basis to ensure that the management expenses are within the prescribed limits."

Reply of the Government

The four public sector general insurance companies have taken various measures to control the expenses of management. These measures include, *inter-alia,* increase the premium income levels through innovative marketing, optimum utilisation of existing manpower, consolidation of offices, undertaking in-house survey to reduce survey fees and cost, reduction in cost of acquisition of business, reduction in travelling, telephone, printing & stationery expenses, etc. The four companies are also proposing to utilise the administrative staff for marketing functions which will increase in the volume of business.

As regards computerisation/automation of operations, the companies have already undertaken a massive computerisation program for their insurance operations. It is expected that computerisation of offices would enable the public sector insurance companies to increase their business volume and thereby contain management expenses to the permissible limit.

[Ministry of Finance, O.M. No.3(33)-Ins.III/2002, dated 24.7.2002]

Recommendation (Sl. No. 2, Para No. 10)

"The Committee are of the opinion that the practice of payment of commission to the agents in the insurance industry beyond the limit prescribed by the regulator in the name of publicity and administrative expenses breeds unhealthy competition among the players and hence detrimental to the orderly growth of the insurance industry. The Committee, therefore recommend that the Government should fix a ceiling on the money paid to the agents in the name of publicity and administrative expenses in addition to the prescribed commission to prevent the unscrupulous insurance players from circumventing the norm/ceiling prescribed in this regard. The Committee also recommend that no insurance company should be allowed to pay such high amounts in the name of publicity and administrative expenses which raise the operating expenses of the company harming its profitability and thereby rendering it unviable."

Reply of the Government

The Insurance Regulatory and Development Authority (IRDA) has informed that they have already prescribed limits on payment of commission to insurance agents, both life and general insurance. Any payment beyond the permissible commission like payment of any type of incentive or remuneration, including publicity and administrative expenses, is completely prohibited. Any insurer circumventing the norms prescribed in this regard and paying amounts under the head of advertising and publicity expenses are liable to fines and penalties under the Insurance Act. The Authority has also specifically directed the insurers not to make payments other than the prescribed commission and any such deviation would invite severe action by the Authority.

In view of the position taken by the Regulator on the issue of payment of commission, Government is not in favor of fixing a ceiling for publicity and administrative expenses in addition to the commission payable to the agents as prescribed by IRDA.

[Ministry of Finance, O.M. No. 3(33)-Ins.III/2002, dated 24.7.2002]

3. India Security Press — supplies and material

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

The main functions of India Security Press is to print postal stamps, postal and non-postal stationary, judicial and non-judicial stamps, RBI/SBI Cheques, Bonds, Saving Certificates, Postal orders, Passports, Promissory Notes and such other Security documents as may be required by the Central and State Governments, Public Sector Undertakings and local bodies. It has also started printing MICR Cheques etc.

(Non-plan)

Year	Budget Estimates	Revised Estimates	Actuals
2000-2001	75,00,00,000	70,00,00,000	34,52,10,000
2001-2002	75,00,00,000	75,00,00,000	74,94,16,729
2002-2003	80,00,00,000		

In written reply to a query as to why less than 50% only of the allocated amounts even compared to reduced revised estimates could be spent during 2000-01 the Ministry of Finance stated as below :—

"the following amounts could not be utilised during the year :

1) HAUV Films : Rs. 15 crores
2) BUCKRAM : Rs. 10 crores
3) PASSPORT PAPER : Rs. 8 crores

After processing of the proposals of procurement of the aforesaid items, the supply Orders were placed with the firm concerned during the financial year 2000-01. However, the delivery period for these items commenced from March 2001 onwards and hence the amount could not be utilised during the said financial year 2000-01."

The Committee are unable to arrive at any conclusion as to the specific reasons for underutilisation of allocated resources even at revised estimates because the reply furnished by the Ministry is not clear as to (i) when the supply orders were placed with the firms, (ii) the time limit given for supply of the items and (iii) the reasons for not supplying the said items by these firms well before the closure of the financial year ensuring the utilisation of allocated resources for the purpose.

Hence, the Committee recommend that the replies to the Committee should be elaborate incorporating relevant details enabling them to arrive at informed conclusions.

Reply of the Government

HAUV Films (Rs. 15 crores)

(i) The approval of the Ministry was conveyed on 16.11.2000 and the Supply Order was placed on the firm on 2.12.2000.

(ii) As per the delivery schedule, the delivery was to be completed between March 2001 and January 2002. However, the firm had delivered the first consignment of 1.5 lakhs sheets in advance in February, 2001. The payment for the consignment supplied in February 2001 was made in April 2001. Hence, the funds earmarked for this purpose could not be utilised during the financial year 2000-01.

(iii) This is a security item and the material is not available off-the-shelf. The supplier has to commence the production only after signing of the contract and the supplies are staggered.

Buckram (Rs. 10 crores)

(i) The approval of the Ministry was conveyed on 16.11.2000 and the Supply Order was placed on the firm on 1.12.2000.

(ii) As per the delivery schedule, the delivery was to be completed between March 2001 and September 2001. The first consignment was supplied by the firm in March 2001. The payment for the consignment supplied in March 2001 was made in April 2001. Hence, the funds earmarked for this purchase could not be utilised during the financial year 2000-01.

(iii) This is a security item and the material is not available off-the-shelf. The supplier has to commence the production only after signing of the contract and the supplies are staggered.

Passport Paper (Rs. 8 crores)

(i) The approval of the Ministry was conveyed in September 2000 and the Supply Order was placed on the firm on 6.10.2000.

(ii) As per the delivery schedule, the delivery was to be completed between December 2000 to August 2001. It was however, inadvertently mentioned alongwith the above two items that the delivery period commenced from March 2001. Since this paper was being imported for the first time and it contained a lot of high security features, the firm was asked to send 2 reams of trial sheets for conducting printing test. The trial sheets were received in April 2001. After suitability of the trial sheets was certified, the firm started manufacturing the paper. The first consignment was, therefore, received in June 2001. Hence, the funds earmarked for this purchase could not be utilised during the financial year 2000-01.

(iii) This is a high security item and the material is not available off-the-shelf. The supplier has to commence the production only after signing of the contract, conducting the suitability trials and the supplies are staggered.

Recommendation (Sl. No. 6, Para No. 23)

"Though the Committee appreciate the lowering of interest rate from 10.5% to 8.5% on loans sanctioned/disbursed out of RIDF VIII. However, they are of the opinion that the rate of interest applicable in this regard should be the rate prevailing at the time of disbursement of loan rather than the rate fixed at the time of announcement of the corpus of particular RIDF tranche *i.e.* 2 percent above the Bank Rate prevailing at the time of disbursement of loan mainly due to the time lag that exists between the announcement of the corpus and the actual disbursement out of that RIDF tranche during which interest rates could vary. Hence, it is pragmatic to link the interest rates on RIDF loans to State Governments to the Bank rate prevailing at the time of disbursement."

Reply of the Government

The size of the corpus of Rural Infrastructure Development Fund (RIDF) and the rate of interest applicable are decided tranche-wise and announced as part of Union Budget announcements and/or fixed immediately thereafter. Disbursements out of a particular tranche of

RIDF are, however, made over a few years and thus at any given time various tranches of RIDF are simultaneously in operation. Further, the delay in utilization of RIDF funds is due to a host of factors which include time and cost overruns, the time taken by State Governments in completing formalities after sanction of projects is communicated to them, release of State Government's contribution towards the project, etc. The contributing banks are thus in no way responsible for delay in disbursements out of RIDF. The rate of interest on deposits in RIDF are inversely linked to the banks' performance in lending to agriculture which are communicated to the banks at the time of making allocations. It is felt that changing these rate of interest mid-stream may not be appropriate.

[F.No.6-8/2002-AC dated 16th July, 2002]

Recommendation (Sl. No. 7, Para No. 28)

The Committee are of the view that the appointment of promotors of the companies which are indicated by the capital market regulator for indulging in market manipulation on the Board of Directors of Govt. controlled financial institution(s) goes against the letter and spirit of Corporate Governance. Hence, the Committee recommend that the persons connected with such companies either as promoters or as Directors should not be appointed as Director on the Board of Govt. owned controlled financial institutions. To ensure that only those persons who are not indicated/fined by the regulatory agencies of the business(es) in which the said person(s) is/are interested/involved is/are appointed on the Board of govt. owned/controlled financial institutions, the Committee want the Govt. to obtain prior information from all the concerned regulatory agencies about the pendency or otherwise of the investigations, if any, against the company(ies) in which the person(s) concerned is/are a promoter and/or director for indulging in market malpractises. In case the investigation if any, is under progress the Govt. should wait for the outcome of the investigation by the regulator.

It could also be been that in this specific case affidavit was obtained from the person stating that he has not been prosecuted, convicted or penalised in his capacity as director/partner or stakeholder in any company or a body incorporated/unincorporated for any offence or irregularity for violation of any provision of Income Tax

Act, Central Excise Act, Customs Act and the Foreign Exchange Management Act only leaving aside the most important act governing the capital market *i.e.* SEBI Act, 1992. The Committee, therefore recommend that henceforth the affidavit should be obtained in respect of the violations, if any, of the provisions contained in the SEBI Act, 1992.

Reply of the Government

The Government nominates two members on the SEBI Board. As regards UTI. Trustees are appointed by RBI, IDBI, LIC and SBI. The Committee's recommendations have been noted for compliance and have also been conveyed to the above agencies with a request to comply with the recommendations of the Committee while nominating trustees on the Board of Unit Trust of India. Banking Division and the Insurance Division would be responding separately in the matter.

[Ministry of Finance O.M. No. 9/14/CM/2002
dated 10th May 2002]

Recommendation (Sl. No. 7, Para No. 28)

The Committee are of the view that the appointment of promoters of the companies which are indicated by the capital market regulator for indulging in market manipulation on the Board of Directors of Govt, controlled financial Institution(s) goes against the letter and spirit of Corporate Governance. Hence, the Committee recommends that the persons connected with such companies either as promoters or as directors should not be appointed as Director on the Boards of Govt. owned controlled financial institutions. To ensure that only those persons who are not indicted/fined by the regulatory agencies of the business(es) in which the said person(s) is/are interested/involved is/are appointed on the Board of govt. owned/controlled financial institutions, the Committee want the Govt. to obtain prior information from all the concerned regulatory agencies about the pendency or otherwise of the investigations, if any, against the company(ies) in which the person(s) concerned is/are a promoter and/or director for indulging in market malpractises. In case the investigation if any, is under progress the Govt. should wait for the outcome of the investigation by the regulator.

It could also be seen that in this specific case affidavit was obtained from the person stating that he has not been prosecuted, convicted or penalized in his capacity as director/partner or stakeholder in any company or a body incorporated/unincorporated for any offence or irregularity for violation of any provision of Income Tax Act, Central Excise Act, Customs Act and the Foreign Exchange Management Act only leaving aside the most important act governing the capital market *i.e.* SEBI Act, 1992. The Committee, therefore recommend that henceforth the affidavit should be obtained in respect of the violations, if any, of the provisions contained in the SEBI Act, 1992.

Reply of the Government

Government accepts the recommendations of the Committee and in future clearance from the SEBI, under the provision of SEBI Act, 1992 will also be for appointment of Non-official Directors in the Board of FIs.

[Ministry of Finance, Banking Division, F.No. 16(7)/2002-IF.1 dated 28th June, 2002]

Recommendation (Sl. No. 8, Para No. 39)

Point No. 39

The Committee take a serious note of the contention of the Government Reserve Bank of India that some of the new private sector banks could not bring down their promoters stake to the stipulated level of 40% of the paid up capital due to their having comfortable Capital Adequacy Ratio and profitable operation since commencement of the business as they believe that the RBI's stipulation in this regard is not contingent upon the banks having these factors. The Committee therefore recmmend that these banks which have been getting repeated extensions despite having profitable track record and receiving exemptions from entry norms for free pricing of the public issue should not be given any more extensions and they be made to bring down their promoters stake to the stipulated level without further delay otherwise the very purpose of such a stipulation might be lost.

The Committee also want RBI that while formulating such policies they should invariably interact with the other regulatory agencies concerned with the issue to ensure that the policies they frame are pragmatic and are not flexible enough which leave scope for any exemptions or extensions to fulfil the prescribed norms.

Reply of the Government

1. Recently, in line with Foreign Direct Investment permitted up to 49 per cent from all sources in private sector banks through automatic route, RBI in consultation with Government, has allowed the maximum

limit of shareholding of Indian promoters of private sector banks upto 49% of the paid-up capital of the Bank.

2. Out of the four private sector banks, which were to complete the dilution of promoters equity, to bring promoters equity to 40% as per ealier guidelines, the promoter's equity of UTI is now within the permissible limit of 49% as per new guidelines. The requirement of dilution of stake by ICICI Bank would no longer be valid due to the reverse merger of the promoting company *viz.* ICICI Ltd. with the Bank. Indusind Bank Ltd. has offloaded equity shares constituting 6.39% of their equity in the open market and presently the promoters' holding is 49.86%. In IDBI Bank Ltd. promoters' holding at present is at 57%. The IDBI Bank had stated that they are engaged in discussions with private equity investors for participating in fresh infusion in the bank and the process would fructify only by September, 2002. IDBI, the promoter, had requested RBI to grant time upto September, 2002 to achieve the required dilution. RBI had sought Government's no objection for the same. Government's no objection has been conveyed to RBI with the stipulation that this should be the last extension.

Recommendation (Sl. No. 9, Para No. 41)

Point No. 41 : Observations of Committee

The Committee are concerned to note that the public sector banks are not only investing amounts in excess of stipulated percentage in SLR securities but also such excess investments have been witnessing continuous increase since 1999. Further, the extent of excess investments in Gilt-edged securities by the commercial banks in public sector is higher than those of their counterparts in the private sector indicating higher degree of risk aversion among the public sector banks.

The Committee is of the view that the propensity of the public sector banks to invest huge amount of excess money in Gifts is due to the fear of incurring NPAs. However, they are of the opinion that risk bearing is inherent to the banking business and with the right kind of policies and attitude of the bankers such risk may be minimized if not eliminated/avoided altogether. Further the Committee believes that there is an enormous untapped entrepreneurial talent in the country wanting bank finance for their ventures. Hence, the Committee recommends that RBI should ensure that the public sector banks, which occupy predominant place in financial intermediation, should take proactive approach in lending to commerce and industry shedding their risk averseness and minimizing risk with right kind of policies and attitude.

Point No. 41 : Comments of RBI

Banks, under the present stipulation, are necessarily to invest a certain portion of their liabilities in Government and other approved securities. As such, banks are a major source of support for Government market borrowing programme and banks' propensity to invest *inter alia* would take into account, the size of the borrowing programme of the Government. In the past, SLR prescription was high and banks were investing in Government securities as matter of statutory prescription. With the financial sector reform measure undertaken since 1991, the SLR prescription has been broght down to the statutory minimum level of 25 per cent while the Government has started issuing securities at market related rates through auctions. Therefore, banks choose to investment in Government securities at their own volition, with a view to maximizing their returns through optimal deployment of funds in various assets *viz.* loans and advances, investments including investments in Government securities.

Bank credit to commercial sector, in the conventional sense, includes only advances in the form of loans, cash credit, overdrafts, bills purchased and discounted and investments in approved securities other than Government securities. With more instruments and avenues available for banks to lend to commercial sector, banks have been investing substantially, in recent years, in commercial paper, shares and debentures issued by the commercial sector, etc., which are not reflected in the conventional credit aggregates. These investments need to be factored in to arrive at a measure of the total flow of non-food resources from banks to the commercial sector and, in a liberalized economy; this aggregate gains more economic meaning than the conventional concept of credit. Moreover, the commercial sector is now also able to garner resources from sources other than banks *viz.* through bills re-discounted with financial institutions, capital issues, GDR issues, foreign currency convertible bonds and borrowing from financial institutions, etc.

RBI, both in the annual Policy Statement and in the Mid-term Review and in separate discussions with banks, highlights the importance of credit to stimulate growth in the economy. As such, policy has striven to ensure that the commercial sector does not suffer due to paucity of funds from the banking system. Over the past few years, credit policy initiatives have been geared at improving the efficiency of the credit delivery mechanism and reduction in the lending rates through rationalization of PLR.

Statement showing Action Taken on the recommendations/ observations contained in the Twenty Seventh Report of the Standing Committee on Finance.

Recommendation (Sl. No. 10, Para No. 44)

It could be seen from the reply that the companies in respect of which the stipulated time for offering a part of their equity to the public is about to be over have not come out with a public issue instead they approached the Government for removal of the condition by citing *inter-alia* the continuous losses suffered by them.

To give a fillip to the sagging capital markets the Committee recommend that the Govt. should not concede to their request for removal of such a clause or extension of time for complying with the stipulation on any grounds thereby ensuring that these companies tap the markets within the prescribed period.

The Committee are distressed to note that several MNC's have started de-listing from Stock Exchanges. This practice will erode the investors' confidence. The Committee notes that on the one hand they are postponing their IPO's on various grounds and on the other they have started de-listing from the bourses. They, therefore, recommend that the Govt. should look into this and come out with a clear policy guidelines in this regard.

Reply of the Government

The Committee's recommendations have been conveyed to the Department of Industrial Policy & Promotion (DIPP) and the Securities & Exchange Board of India for compliance and necessary action.

Recommendations (Sl. No. 11, Para No. 48)

The committee note that the development/installation of the CONTACT and GAINS software packages in the Principal Accounts Offices/Pay & Accounts Offices/Controller General of Accounts offices was completed during the last financial year. However, the Committee express their disappointment at the delay of about six years since the idea was mooted by then Director General, NIC. With the result the budgetary allocations remained unutilized since 1996 to 2001 and surrendered year after year. Hence the Committee recommend that in future the department should ensure that such long delays do not occur in developing and installing advanced software packages as part of computerisation of the accounts operations of the concerned departments so that budgetary allocations are not rendered haywire.

Reply of the Government

The above recommendations of the committee have been noted for future compliance.

CHAPTER III

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

-Nil-

CHAPTER IV

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

Action Taken Note

Demand No. 27
Deptt. of Economic Affairs

Competent Authority for certifying fake currency notes

With regard to a query as to whether there is any competent authority to certify genuineness of currency notes whose certification is admissible in the Court of Law. Ministry of Finance (Deptt. of Economic Affairs) informed as follows: —

"1. Section 292 of Code of Criminal Procedure (Cr.P.C.) deals with the subject. Section 292(1) reads as follows :

Any document purporting to be a report under the hand of any such Gazetted Officer of the Mint or of the India Security Press (including the office of the Controller of Stamps and stationery) as the Central Goverment may, by notification, specify in this behalf, upon any matter or thing duly submitted to him for examination and report in the course of any proceeding under this Code, may be used as evidence in any inquiry, trial or other proceeding under this code, although such officer is not called as a witness.

2. This section of the Cr.P.C. authorizes the officers of the India Security Press (ISP) to tender expert opinion as to the genuineness of bank notes. However, the provision has been rendered infructuous due to the fact that after 1962, the ISP has not been printing bank notes. In 1962, the Currency Note Press (CNP) was set up at Nashik after bifurcating the ISP. Upon this bifurcation, the technical equipment and experts were transferred to the CNP. Later, the Bank Note Press (BNP) was set up in Dewas (Madhya Pradesh) in 1973. Apart from these two Presses, the Bhartiya Reserve Bank Note Mudran Ltd. (BRBNML), a wholly owned subsidiary of the RBI, has established a bank note press each at Salboni in West Bengal and Mysore in Karnataka.

3. It would, thus be seen that the present duties of ISP do not included the printing of bank notes. As such, officers of this unit are not in a position to certify genuineness of bank notes. On the other hand, the four bank note presses mentioned above do not figure in the Section 292 of Cr. P.C.

Thus, at present there is no agency whose experts could be authorised by the Government under this section to undertake examination of counterfeit notes.

4. In the absence of any designated/notified authority as admissible under Cr. P.C. the suspected counterfeit notes are sent by the investigating agencies to CNP, Nashik and BNP, Dewas for expert opinion. They have been discharging this function to the best of their capability. However, their services are constrained by the following factors:

a. "As a ready pointed out, these Presses are not the prescribed/ notified authorities under section 292 of the Cr.P.C. and therefore their opinion suffers from legal infirmity.

b. While the CNP has a rudimentary Note Examination Cell, BNP does not have any sanctioned posts for the Cell."

In reply to a query as to whether the Govt. have received any request from any law enforcement agency (ies) suggesting establishment of such an authority the Ministry of Finance replies as under : —

"It has been brought to the notice of the Government by various agencies like RBI and police authorities that inadequate system/ measures for examination of fake bank notes result in inordinate delays in the investigation of the cases pertaining to fake bank notes detected at RBI officers, various commercial bank branches and seized by police and other enforcement agencies".

In order to rectify the situation, the Ministry of Finance has taken the following action: —

"A proposal has been sent to the Ministry of Home Affairs to amend Section 292 of the Cr. P.C. so as to empower the Government to notify experts from the following organisations to tender expert opinion with regard to bank notes:

i. Note Printing Presses
ii. Security Printing Presses
iii. Forensic Science Laboratories
iv. Government Examiners of Questioned Documents
v. State Examiners of Questioned Documents.

A proposal has been mooted for strengthening the existing Note Examination Cell in the CNP, Nashik and creation of a similar cell in the BNP, Dewas.

Pending completion of action 1 on the above proposals, possibility of transferring the Note Examination Cell of the CNP, Nashik alongwith experts to the ISP, Nashik is being explored as an interim measure".

Reply of the Government

The proposal for strengthening the existing Note Examination Cell in the CNP – Nashik and creation of a similar Cell in the BNP – Dewas has been approved *vide* this Ministry's Order dated 4th April, 2002 by creating four posts for the Counterfeit Note Examination (CNE) Cell in the Bank Note Press (BNP) Dewas and two posts in the Currency Note Press, (CNP) Nashik as under :—

Sl. No.	Name of Post	No. of Post	Pay Scale
(i)	Chief Expert	2*	Rs. 12000-16500
(ii)	Asstt. Works Manager	2*	Rs. 8000-13500
(iii)	Technical Officer	2	Rs. 6500-10500
	Deputy Technical Officer		Rs. 5500-9000
	* one each for BNP and CNP respectively.		

Pending amendment of the relevant Section of Cr. P.C. the Note Examination Cell at CNP - Nashik alongwith the experts has been transferred to India Security Press, Nashik *vide* this Ministry's Notification dated 28th May, 2002. It is further stated that need to amend Cr. P.C. has been felt now on account of quantum jump in the number of reported seizers/detection during recent years.

Standing Committee on Finance (Action Taken on 27th Report)

Recommendation (Para No. 20)

"The Committee take a serious note of the fact that the aforementioned private sector banks having shortfall in lending to agriculture have defaulted in depositing their share in RIDF. Further, the said new private sector bank which defaulted huge amount do not comply with the RBI's stipulation of having 25% of the total branch network in rural and semi-urban areas despite its existence for the last seven years. The Committee, therefore, recommend that these banks should be asked to contribute their share to RIDF without further delay. In case of their non-compliance RBI may consider imposition of penalties either monetary or otherwise."

Reply of the Government

Reserve Bank of India (RBI) have reported that as reported by National Bank for Agriculture and Rural Development (NABARD) the following contribution amount from concerned private sector banks have still not been received towards deposit in various tranches of the Rural Infrastructure Development Fund (RIDF):

Name of Bank	RIDF Tranche	Amount (Rs. in Crores)
Centurion Bank	III	5.04
	V	15.64
	VI	87.45
	VII	32.40
	Total	140.53
Nedungadi Bank	VII	4.98
Benaras State Bank	III	1.30
	VII	0.90
	Total	2.20
	Grand Total	147.71

Benaras State Bank has since been merged with Bank of Baroda. RBI has reported that Centurion Bank and Nedungadi Bank had requested for exemption from making such deposits. However, keeping in view the significance of infrastructural development in the growth of the States' economy and the importance Government and RBI attach to this, these exemption requests had been turned down and the banks have been asked to deposit the aforesaid amount with NABARD forthwith.

[F.No.6-8/2002-AC dated 16th July, 2002]

CHAPTER V

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

– Nil –

NEW DELHI;
18 December, 2002
27 Agrahayana, 1924 *(Saka)*

N. JANARDHANA REDDY,
Chairman,
Standing Committee on Finance.

MINUTES OF THE TWENTY THIRD SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Tuesday, 17 December, 2002 from 1500 hrs. to 1600 hrs.

PRESENT

Shri N. Janardhana Reddy — *Chairman*

MEMBERS

Lok Sabha

2. Shri Ramsinh Rathwa
3. Shri Rattan Lal Kataria
4. Shri Pravin Rashtrapal
5. Shri Sudarsana E.M. Natchiappan
6. Shri Rupchand Pal
7. Dr. Daggubati Ramanaidu
8. Shri Abdul Rashid Shaheen
9. Capt. Jai Narain Prasad Nishad
10. Shri Prabodh Panda
11. Smt. Renuka Chowdhury

Rajya Sabha

12. Dr. Manmohan Singh
13. Shri Dina Nath Mishra
14. Shri Parmeshwar Kumar Agarwalla
15. Prof. M. Sankaralingam
16. Shri Raj Kumar Dhoot
17. Shri Palden Tsering Gyamtso
18. Shri Prithviraj Dajisaheb Chavan
19. Shri Murli Deora
20. Dr. T. Subbarami 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. *** *** ***

3. *** *** ***

4. *** *** ***

5. The Committee, thereafter, took up the following draft action taken reports for consideration and adopted the same without any modification/amendment:—

(i) draft action taken report on the Recommendations contained in the Twenty Seventh Report (13th Lok Sabha) of the Standing Committee on Finance on Demands for Grants (2002-2003) of the Ministry of Finance (Departments of Economic Affairs and Expenditure);

(ii) *** *** ***

(iii) *** *** ***

(iv) *** *** ***

(v) *** *** ***

6. The Committee then authorised the Chairman to finalise the Reports in the light of the amendments suggested and also to make verbal and other consequential changes and present the reports to both the Houses of Parliament.

The Committee then adjourned.

APPENDIX

(*Vide* Para 3 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE TWENTY-SEVENTH REPORT OF THE STANDING COMMITTEE ON FINANCE (THIRTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2002-2003) OF THE MINISTRY OF FINANCE (DEPARTMENT OF COMPANY AFFAIRS)

		Total	% of Total
(i)	Total number of recommendations	11	
(ii)	Recommendations/observations which have been accepted by the Government (*Vide* Recommendations at Sl. Nos. 1,2,3, 6,7,8,9,10 & 11)	9	81.81
(iii)	Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies (*Vide* Recommendations at Sl. No. Nil)	Nil	00.00
(iv)	Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (*Vide* Recommendations at Sl. Nos. 4&5)	2	18.18
(v)	Recommendation/observation in respect of which final reply of the Government is still awaited (Nil)	Nil	00.00