

THIRTY SIXTH REPORT
STANDING COMMITTEE ON FINANCE
(2002)

(THIRTEENTH LOK SABHA)

MINISTRY OF DISINVESTMENT

DEMANDS FOR GRANTS
(2002-2003)

[Action taken by the Government on the recommendations contained in the Thirtieth Report of the Standing Committee on Finance on Demands for Grants (2002-2003) of Ministry of Disinvestment]

Presented to Lok Sabha on 19 December, 2002
Laid in Rajya Sabha on 19 December, 2002



सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

December, 2002/Agrahayana, 1924 (Saka)

CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE	(iii)
INTRODUCTION	(v)
CHAPTER I Report	1
CHAPTER II Recommendations/observations which have been accepted by the Government	3
CHAPTER III Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies	9
CHAPTER IV Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee	10
CHAPTER V Recommendations/observations in respect of which final replies of the Government are still awaited	11
Minutes of the sitting of the Committee held on 17 December, 2002	12
APPENDIX	
Analysis of the action taken by Government on the recommendations contained in the Thirtieth Report of the Standing Committee on Finance (Thirteenth Lok Sabha) on Demands for Grants (2002-2003) of the Ministry of Disinvestment	14

COMPOSITION OF THE STANDING COMMITTEE
ON FINANCE (2002)

Shri N. Janardhana Reddy — *Chairman*

MEMBERS

Lok Sabha

2. Shri Ramsinh Rathwa
3. Shri Rattan Lal Kataria
4. Shri Kirit Somaiya
5. Shri Kharabela 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

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

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

‡ Nominated *w.e.f.* 19.4.2002.

‡‡ Nominated *w.e.f.* 5.7.2002.

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

(iv)

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* Shri Narendra Mohan *w.e.f.* 4.1.2002.

@ 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.* 22.4.2002.

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

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

INTRODUCTION

I, the Chairman, Standing Committee on Finance, having been authorised by the Committee to submit the Report on their behalf present this Thirty Sixth Report on action taken by Government on the recommendations contained in the Thirtieth Report of the Committee (Thirteenth Lok Sabha) on Demands for Grants (2002-2003) of the Ministry of Disinvestment.

2. The Thirtieth Report was presented to Lok Sabha on 23 April, 2002 and laid in Rajya Sabha on 24 April, 2002. The Government furnished the replies indicating action taken on all the recommendations on 9 September, 2002. The Draft Action Taken Report was considered and adopted by the Standing Committee on Finance at their sitting held on 17 December, 2002.

3. An analysis of action taken by Government on recommendations contained in the Thirtieth 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

This report of the Standing Committee on Finance deals with action taken by Government on the recommendations contained in their Thirtieth Report (Thirteenth Lok Sabha) on Demands for Grants (2002-2003) of Ministry of Disinvestment which was presented to Lok Sabha on 23 April, 2002 and laid in the Rajya Sabha on 24 April, 2002.

1.2 Action Taken Notes have been received from the Government in respect of all the 8 recommendations contained in the Report. These have been categorised as follows:-

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

Sl. Nos. 2, 3, 4, 5, 7 & 8

(Chapter II-Total 6)

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

Sl. No. 6

(Chapter III-Total 1)

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

Sl. No. 1

(Chapter IV-Total 1)

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

NIL

(Chapter V-Total NIL)

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 the action taken by the Government on one of their recommendations.

Disinvestment—Policy and Procedure

Recommendation Serial No. 1, Para No. 6

1.5 The Committee noted that despite their earlier recommendation made in the Report on Demands for Grants (2001-02) and again in the Action Taken Report desiring that a Comprehensive Policy on Disinvestment should be framed, the Government has not brought out any such policy. The disinvestment had continued to be done on case to case basis and the procedure was also re-defined and modified from time to time. In the opinion of the Committee, a decade long exposure and exercise with disinvestment was sufficient to equip the Government with the requisite competence to bring out a uniform policy/procedure for disinvestment. The Committee, therefore, reiterated that the Government should shun its case-to-case basis approach and bring out an updated comprehensive policy document which should also be placed before the Parliament for its approval.

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

“Some more time is required for preparation of a comprehensive Policy Document. The Committee may kindly allow some more time for implementing the above recommendation.”

1.7 The Committee fail to understand as to why the Government could not prepare a Comprehensive Policy on Disinvestment even after more than 10 years of exposure and experience in the field. The Committee, note with dismay that still disinvestment is being carried out on a case to case basis which lacks transparency and hence it is creating an atmosphere of uncertainty. They are of the opinion that in the absence of any Comprehensive Policy the process of disinvestment has not gathered desired momentum and every transaction is being viewed with suspicion. Therefore, the Committee strongly reiterate their recommendation and urge upon the Government to come out with an updated comprehensive policy document on Disinvestment without further delay, which should be placed before the Parliament for its approval.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

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

One of the objectives of the disinvestment policy is to ensure spending on social and infrastructural sectors such as basic education, primary health and family welfare. However, the Committee find that there is no system to ensure that the funds thus received are utilized for these sectors. In their opinion, since the proceeds are deposited in the Consolidated Fund of India, the Government may change its priorities later on and utilize the proceeds in any other sector. The Committee, therefore, desire that the Government should put in place a system to ensure that a good portion of the same proceeds from the PSU disinvestments is actually spent on the social and infrastructural sectors as was envisaged in the objectives of the disinvestment.

Reply of the Government

The recommendations of the Committee were referred to the Ministry of Finance (Department of Economic Affairs). The comments of the Ministry of Finance are reproduced below:—

“The commitment of the Government to social and infrastructure sector is reflected in the enhanced allocation year after year in these sectors. The expenditure from the Budget in the Departments of Education, Health & Family Welfare in the past three years (upto 2001-02) has been between 4 to 7 times the total disinvestment receipts accruing in the year. If the investment in infrastructure is added this will increase even further.”

Ministry of Finance, however, has taken note of the recommendations of the Standing Committee.

[Ministry of Disinvestment OM No. 45011/3/2000-Parl. (Vol.II)
dated 6.9.2002]

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

The Committee are perturbed to note that the full complement of the sanctioned strength of the officers of the Department could be filled up only in the later part of the financial year 2000-01 beginning from September, 2000, resulting thereby in the mismatch in the budgetary allocation. It has further been observed by the Committee that despite having seen such a yawning gap between the BE/RE and actuals in the financial year 2000-01 which were Rs. 50 Lakhs, 10 Lakhs and 2.38 Lakhs, respectively, similar gross budgetary miscalculation under the same head was repeated in the subsequent financial year 2001-02 *where the BE was Rs. 40 Lakhs and the RE pegged at meager rupees 8 Lakhs. The Committee fail to comprehend as to why such a huge amount is allocated at BE/RE stage with actuals turning out to be relatively small. The Committee are of the opinion that such a practice has resulted in blocking of amount which could have been meaningfully and productively earmarked for some other head. The Committee, therefore strongly urge the Government to make budgetary allocations need based and realistic.

Reply of the Government

The above observations/recommendation of the Standing Committee on Finance concerns the domestic travel expenses of Ministry of Disinvestment for the Financial Years 2000-2001 and 2001-2002.

For a better part of Financial Year 2000-2001, the Ministry of Disinvestment (which was at that time a Department) was not having its full strength of officers. Since the disinvestment work was relatively new, it took some time to carefully identify suitable officers for posting in the senior and middle management levels. The disinvestment work was being shared by the Administrative Ministries. Therefore, there was less domestic travel during that year by the officers. As against BE provision of Rs. 50 lakhs and Revised Estimate of Rs. 10 lakhs, the actual expenditure was Rs. 2.38 lakhs.

Subsequently, during the Financial Year 2001-2002, the Budget Estimate on Domestic Travel Expenses was reduced to Rs. 40 lakhs from Rs. 50 lakhs of 2000-01. In September, 2001, when the Revised Estimate was prepared, it was assessed that the expenditure for the

remaining part of the year would be less than that anticipated. Therefore, the RE on this head was reassessed as Rs. 8 lakhs. It may be mentioned that the anticipated savings were re-appropriated to heads like Professional Services to meet the shortfall. In that manner, while preparing the Revised Estimate for the year 2001-2002, it was ensured that a more realistic assessment of expenditure on various heads was made and it was also ensured that funds allocated during BE stage are not blocked. As against the RE of Rs. 8 lakhs, the actual expenditure on domestic travel was Rs. 7.78 lakhs during the Financial Year 2001-2002.

Based on the experience gained during the Financial Year 2001-2002, the BE for domestic travel during the Financial Year 2002-2003 has been pegged at Rs. 10 lakhs only.

[Ministry of Disinvestment OM No. 45011/3/2000-Parl (Vol.II)
dated 6.9.2002]

Recommendation (Sl. No. 4, Para No. 17)

The Committee note that the Government have adopted a casual approach with regard to the allocation and re-appropriation of funds under this head. The Committee note that when the Government have chalked out an ambitious plan of disinvestment for the year 2001-02 it should have sought the opinion of the Ministry of Law as to who would bear the expenses towards professional and special services well in advance.

The Committee feel that if the Ministry had been alert in this matter, such a wide gap between the BE and the Actuals would not have occurred. They, therefore, recommend that the Government should obtain all opinions before hand so that budgetary allocations may not go haywire.

Reply of the Government

It may be stated that, from the beginning, a mechanism for consulting Department of Legal Affairs at appropriate stage in a disinvestment case has been put in place. However, the issue of payment to the various advisers appointed by a PSU had been considered by the Inter-ministerial Group (which has a member from Department of Legal Affairs) in the disinvestment case of BALCO. It was decided that the payment towards the legal and other consultations

was to be made by the company as the information memorandum and data bank, prepared for facilitation of the prospective buyers, could be used by it even if the company is not disinvested. However, subsequent to BALCO disinvestment, learned Additional Solicitor General, while preparing for the court cases filed before various High Courts/Supreme Court against BALCO disinvestment, rendered the opinion that the expenditure towards all consultations taken for the purpose of disinvestment of Govt. equity in a CPSU should be incurred by the Government of India, in the light of the provisions of the Companies Act.

[Ministry of Disinvestment OM No. 45011/3/2000-Parl (Vol.II)
dated 6.9.2002]

Recommendation (Sl. No. 5, Para No. 19)

The Committee note that there has been a substantial increase in the allocations made under this head for the current financial year *i.e.* 2002-03 as compared to the previous year. Though the increase has been justified on account of publications which may have to be published with respect to increase in the proposals of disinvestments, the Committee apprehend that the Department should make a realistic assessment particularly at the revised stage with a view to ensuring that funds do not remain unutilized and estimates are releasing *vis-a-vis* the actual expenditure likely to be incurred.

Reply of the Government

The BE on account of "Publication" for the Financial Year 2002-2003 is Rs. 50 lakhs. Till the end of June, 2002, an expenditure of Rs. 5,32,000 has already been incurred. The work is normally done through Govt. Press and the expenditure would be booked as and when the bills are received. With the pace of expenditure on account of publication experienced till June, 2002, it is expected that the expenditure on publication will be considerably higher compared to that of the previous years. However, the requirement would be re-assessed on the basis of available information at the time of preparation of RE for the year 2002-03, and savings, if any, anticipated would accordingly be either re-appropriated to other heads or surrendered.

[Ministry of Disinvestment OM No. 45011/3/2000-Parl (Vol.II)
dated 6.9.2002]

Recommendation (Sl. No. 7, Para No. 33)

The Committee find that though the disinvestment process in our country is continuing for more than a decade yet no guidelines regarding qualification/disqualification of bidders seeking to acquire the stake in PSUs through the process of disinvestment were formulated initially. It was only in July, 2001 when a circular was issued detailing some guidelines for disqualifications for bidders. The Committee note that it debars only those bidders who have been actually convicted for an offence or have been charge sheeted for an offence against national security and those who have been either indicted by SEBI or RBI. The Committee feel that these guidelines are not sufficient and do not cover the offences committed under the Official Secrets act and cases pertaining to wilful default of public money. The Committee are of the opinion that these offences are in no way less serious than those included in the guidelines.

Hence the Committee feel that weak, inadequate and porous guidelines are being used to qualify and disqualify bidders. The Committee strongly recommend that comprehensive guidelines for qualification/disqualification of bidders seeking to acquire stakes in the PSUs through the process of disinvestment may be drawn and included in the Disinvestment Policy. The Committee further desire that the scope of guidelines may also be broadened which include the business activities of unhealthy, unethical and unscrupulous nature in its ambit. They also desire that it should also cover the offences under the Official Secrets Act and those pertaining to wilful default of public money etc. in its purview.

Reply of the Government

Comprehensive guidelines for qualification/disqualification of bidders seeking to acquire stakes in the PSUs through the process of disinvestment have been prepared by the Ministry of Disinvestment. A copy of the guidelines is annexed (Annexure-II).

[Ministry of Disinvestment OM No. 45011/3/2000-Parl (Vol.II)
dated 6.9.2002]

Recommendation (Sl. No. 8, Para No. 36)

The Committee find that 80 percent of the workers of one of the units of a disinvested PSU have applied for VRS despite the claim of the Government that workers interest will be fully protected. It appears

to the Committee that it might be the handiwork of the new management to create such conditions and circumstances wherein the workers are left with no option but to seek VRS. The workers are transferred to far off areas in order to harass and compel them to seek voluntary retirement. In the opinion of the Committee, VRS is turning to be FRS (Forced Retirement Scheme) and the Government are acting as a mute spectator.

The Committee, therefore, strongly recommend to the Government to take necessary remedial steps and formulate a strategy to ensure proper redressal of the grievances of the workers of disinvested PSUs so that their interests and welfare is safeguarded.

Reply of the Government

Appropriate provisions for protecting the interests of the employees are made in the transaction agreements signed at the time of disinvestment in public sector undertakings. If employee of a disinvested public sector undertaking points out violation of provision of the transaction agreement, the Government will take appropriate remedial measure.

[Ministry of Disinvestment OM No. 45011/3/2000-Parl (Vol.II)
dated 6.9.2002]

CHAPTER III

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

Recommendation (Sl. No. 6, Para No. 25)

The Committee note that the asset valuation guidelines are inadequate and vague especially on the issue of land valuation of the disinvested PSU. Though the Government has taken the position that land value of a company under consideration for disinvestment is computed as part of the assets, the actual land value is not considered in most of the cases when the PSU concerned is disinvested/sold to another party. Hence, the Committee do not subscribe to the view of the Government that the value of the assets which are not giving income to the company is questionable. The Committee are of the view that since land is a tangible asset which has value irrespective of whether it fetches income at a particular time, the land should be valued separately and should be factored into the computation of the total value of the assets of the company which is disinvested.

The Committee, therefore, recommend to the Government to improve and modify the guidelines for evaluation of the assets of the PSUs under consideration for disinvestment which would take value of the land invariably into consideration.

Reply of the Government

As per the recommendation of the Committee, Ministry of Disinvestment has prepared a detailed document titled—"Strategic Sale of Central Public Sector Undertaking—Valuation". A copy of the same is enclosed as Annexure-I.

[Ministry of Disinvestment OM No. 45011/3/2000-Parl. (Vol. II)
dated 6.9.2002]

CHAPTER IV

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

Recommendation (Sl. No. 1, Para No. 6)

The Committee note that despite their earlier recommendation made in the Report on Demands for Grants (2001-2002) and again in the Action Taken Report desiring that a comprehensive policy on Disinvestment should be framed, the Government has not brought out any such policy. The disinvestment still continues to be done on case-to-case basis and the procedure is also re-defined and modified from time to time. In the opinion of the Committee, a decade long exposure and exercise with disinvestment is sufficient to equip the Government with the requisite competence to bring out a uniform policy/procedure for disinvestment. The Committee, therefore, reiterate that the Government should shun its case-to-case basis approach and bring out an updated comprehensive policy document which should also be placed before the Parliament for its approval.

Reply of the Government

Some more time is required for preparation of a comprehensive Policy Document. The Committee may kindly allow some more time for implementing the above recommendation.

[Ministry of Disinvestment OM No. 45011/3/2000-Parl. (Vol. II)
dated 6.9.2002]

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 hours.

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) ** ** **
- (ii) ** ** **
- (ii) ** ** **
- (iv) Draft action taken report on the Recommendations contained in the Thirtieth Report (13th Lok Sabha) of the Standing Committee on Finance on Demands for Grants (2002-2003) of the Ministry of Disinvestment; and
- (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 THIRTIETH REPORT OF THE STANDING COMMITTEE ON FINANCE (THIRTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2002-2003) OF MINISTRY OF DISINVESTMENT

	Total	% of Total
(i) Total number of recommendations	8	—
(ii) Recommendations/observations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 2, 3, 4, 5, 7 & 8)	6	75
(iii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies (Vide Recommendations at Sl. No. 6)	1	12.5
(v) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. No. 7)	1	12.5
(v) Recommendation/observation in respect of which final reply of the Government is still awaited (Nil).	Nil	Nil