

08

STANDING COMMITTEE ON FINANCE

THIRTEENTH LOK SABHA

**MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)**

FINANCIAL INSTITUTIONS-OBJECTIVES, PERFORMANCE AND FUTURE PROSPECTS

**LOK SABHA SECRETARIAT
NEW DELHI**

COMPOSITION OF STANDING COMMITTEE ON FINANCE (1999-2000)

Shri Shivraj V. Patil - *Chairman*

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- | | | |
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| 4. Shri S.B. Arora | - | Under Secretary |
| 5. Shri Srinivasulu Gunda | - | Committee Officer |

"Nominated *w.e!* 14 February, 2000

#Nominated *w.e!* 24 February, 2000

"Nominated *w.e!* 24 April, 2000

+Nominated *w.e!* 5 May, 2000

++Nominated *w.e!* 16 May, 2000

##Nominated *w.e!* 1 August, 2000

@Nominated *w.e!* 6 December, 2000

@@Shri Krishnamraju, MP, Lok Sabha and Shri Venkaiah Naidu, MP, Rajya Sabha ceased to be Members of the Committee on Finance consequent upon their appointment as Ministers in the Union Council of Ministers *w.e!* 30 September, 2000.

INTRODUCTION

1. The Chairman of the Standing Committee on Finance having been authorised by the Committee to submit the Report on their behalf present this Eighth Report on the Financial Institutions-Objectives, Performance and Future Prospects.

2. The Committee at their sitting held on 23 June, 2000 heard the audio-visual presentation of Ministry of Finance (Department of Economic Affairs) on the organisational structure of Financial Institutions, their objectives, performance, policy related matters, etc. and also that of NABARD, NHB, GIC and LIC on their respective objectives, performance, policy related matters etc.

3. The Committee at their sittings held on 18 July and 29 November, 2000 took oral evidence of the representatives of Ministry of Finance (Department of Economic Affairs) on the subject.

4. The Committee at their sitting held on 22 August, 2000 decided to have formal sittings at Mumbai to take oral evidence of the representatives of RBI and various Development Financial Institutions, Investment Institutions and Refinancing Institutions. Accordingly, the Committee at their sittings held at Mumbai from 18th to 20th September, 2000 took oral evidence of the representatives of Ministry of Finance (Deptt. of Economic Affairs), Reserve Bank of India, IFCI Ltd., ICICI Ltd., UTI, DBI Ltd., GIC, LIC, NABARD, IDBI and SIDBI on the subject.

5. At their sitting held on 5 October, 2000 the Committee took further oral evidence of the representatives of Ministry of Finance and SIDBI on the subject.

6. At their sitting held on 18 October, 2000 the Committee heard the audio-visual presentation by the representatives of SEBI and the Stock Exchange, Mumbai wherein representatives of National Stock Exchange, Mumbai were also present on the Objectives, Functions and Operations of their respective organisations.

7. The Committee at their sitting held on 19 December, 2000 partially considered the draft report. The Committee finally considered and adopted the draft report at their sitting held on 20 December, 2000.

8. The Committee wish to express their thanks to the Officers of the Ministry of Finance, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), concerned Development Financial Institutions, Investment Institutions and Refinancing Institutions and the Stock Exchange, Mumbai and National Stock Exchange, Mumbai for co-operation extended by them in placing before them their considered views and perceptions on the subject and for furnishing written notes and information that the Committee had desired in connection with the examination of the subject.

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

NEW DELHI;
20 December, 2000
Agrahayana, 1922 (Saka)

SHIVRAJ V. PATIL,

*Chairman,
Standing Committee on Finance*

REPORT

Chapter I

Objectives and Performance

Original Objectives

The Govt. of India established the Industrial Finance Corporation of India (IFCI) as the first national level Development Finance Institution (DFI) in 1948 by an Act of Parliament known as the Industrial Finance Corporation of India Act, (IFCI Act), 1948 with the basic objective of making medium and long term credit available to industrial concerns in India especially where normal banking channels were unavailable or recourse to capital issue methods was impracticable. Until establishment of IDBI in 1964, IFCI remained the main institution for implementing the Government policy initiatives for industrial development particularly in traditional segments like sugar, textiles and jute with emphasis on development of co-operatives and industrially backward areas.

1.2 Industrial Development Bank of India (IDBI) was established on 1 July, 1964 as a wholly owned subsidiary of Reserve Bank of India by an Act of Parliament with the basic objective of making it a catalyst to industrial development for co-ordinating the working of institutions engaged in financing, promoting or developing industry and by assisting the development of such institutions as it deems appropriate. The Principal objective of IDBI is extending project finance for setting up of new projects, expansion, modernisation and diversification of the ventures by subscribing to both debt and equity related instruments. Offering Financial products of non-project nature viz. equipment finance and asset credit to finance acquisition of assets to various corporates also forms part of IDBI's core objectives. Further, it extends corporate loans for meeting normal capital expenditure and also for long term working capital requirements.

1.3 Industrial Reconstruction Bank of India (IRBI) was set up in March, 1985 as a statutory body with the exclusive objective of financing revival/rehabilitation of sick and closed industrial units under IRBI Act, 1984 by converting Industrial Reconstruction Corporation of India Ltd. (IRCI Ltd.). IRCI was set up in 1971 in the context of depressed industrial climate of industrial sickness, industrial recession and closure of many industrial units not able to attract institutional finance for their rehabilitation to maintain output and employment.

Universal Banking

1.4 The term 'Universal Banks' refers to the combination of commercial banking and investment banking i.e. issuing, underwriting, investing and trading in Securities. The narrow definition of Universal Banking would combine lending activities and investment in equities and bond/debentures. In a very broad sense, however, the term Universal banks refers to those banks that offer a wide range of financial services, beyond commercial banking and investment banking. However, Universal banking does not mean that every institution conducts every type of business with every type of customer.

1.5 The Narasimham Committee II suggested that Development Financial Institutions (DFIs) should convert into banks or restructured Non Banking Finance Companies (NBFCs). The Khan Working Group held the view that DFIs should be allowed to become banks at the earliest. The RBI released a 'Discussion Paper' (DP) in January 1999 for wider public debate. The feedback on the discussion paper indicated that while universal banking is desirable from the point of view of efficiency of resource use, there is need for caution in moving towards such a system by banks and DFIs.

1.6 Explaining the imperative need that led to the change in objectives and role of FIs, MD & CEO, ICICI Ltd. while deposing before the Committee on 18 September, 2000 inter-alia stated as follows :-

“When we were set up, our role was to meet the long-term resource requirements of the industry. With liberalisation the role has slightly changed. It became developing India's debt market, financing India's infrastructure development etc. With globalisation, I think, the role is set to change further. Now we have to stress on profitability, share holder value, corporate governance, while at the same time not losing sight of our goals – the goals that were originally set for us – and the goals that were set up in the interim with the liberalisation.”

“I think we need to continue to support infrastructure and project finance in the years to come. But with the increased competition from globalisation we will have to stress other things such as profit motive, payment of dividend to share holders, corporate governance and so on and so forth.”

1.7 While making presentation before the Committee on ICICI Ltd. on 18 September, 2000 on the need for diversification, Managing Director, ICICI Ltd. stated as follows :-

“...we realised that for an FI to survive we needed to diversify. So, we started re-looking at our business strategies while not forgetting our key business. Our key business was and continues

to be financing a variety of projects. So, we said that in consonance with this what are the new business areas we could look at.”

“We slowly started our foray into retail finance business because we have to access the public money from the public, for our various bond issues; we also started looking at various retail products such as Auto loans, Home loans etc., so as to diversify our risk. Our strategy in the last four years has been while continuing to focus on our core business which is project financing in a variety of ways to diversify our risk because we do not want the NPA level to increase. Our target now is to bring this down through a combination of workouts and through diversification of portfolio which would reduce the inherent risk in the portfolio. Towards this end we also improved our risk management practices in all our project finance business. We articulated a phrase ‘Universal Banking’, which essentially means that while we continue to do our core business, we also look at other businesses in the banking area which will reduce overall risk. We realigned ICICI’s strategic focus by portfolio diversification to mitigate the risks inherent in operating on a single product and to offer products and services to the Indian corporate clients apart from single straight forward term loans.”

1.8 On the future prospects of the Financial Institutions, MD & CEO, ICICI Ltd. inter-alia stated as under:

“the role of financial institutions needs to be modified to reflect the changes in the operating environment. These are consequences of globalisation. The country has globalised and we are moving with the tide. We need to adapt our own practices and our own strategies to that of the globalisation process which the country has put in effect, so that we are not left behind and isolated in terms of what we do. In line with global trends of convergence and consolidation of financial markets, the financial institutions of India need also to be permitted to expand the scope of their activities and functions as the universal banks. What we are trying to say is that for our survival, we will have to relook at wider role while not forgetting the key role that we have played in capital formation, and in project finance. We will have to try and go beyond that. Only then can we do the dual function of providing a fillip to Indian industry and at the same time charting our own growth in a healthy manner. Without being healthy, I do not think that we would be able to survive and continue to provide the sort of support to Indian Industry that we provided in the past. For this the Government needs to play the role of a facilitator to allow the transformation of Indian financial institutions into a broad based universal banks which continue to do the old paradigm of being in project finance business, albeit in newer areas, infrastructure, oil & gas, pipelines etc. as well as in typical banking business. Universal

banking leads to enhanced efficiencies, economies of scale and scope, larger volumes of operations, avoids duplication of information gathering efforts and decreased cost for offering multiple services. It facilitates adoption of Information Technology and it makes possible a more sophisticated and discriminating financial service.”

1.9 In a note on IDBI Problems and Suggestions submitted to the Committee, IDBI inter-alia stated as under :-

“The IDBI Board has discussed the issue and approved the transformation of IDBI into a Universal Bank, if necessary by acquiring a public sector commercial bank.”

1.10 Explaining its view on the Universal banking, Industrial Investment Bank of India Ltd. (IIBI Ltd.) in a written reply submitted to the Committee stated as under :-

“Since compartmentalization of activities lead to greater transactions cost and inefficiency, no financial intermediary can survive competition if it does not allow itself flexibility to change. In the financial environment, IIBI is of the opinion that a financial player may be either placed naturally for resources like a commercial bank, or may be a pure financial service provider and retailer like the NBFCs. Still another option is to build a financial supermarket where all the services are available under a single umbrella. The advantages are that they would be free to choose the product mix of their operations and configure activities for optimum utilization of their resources.”

1.11 In a brief on All India Financial Institutions RBI has furnished the following policy/approach proposed to be adopted for considering proposals for setting up universal banks :-

- (a) The principle of “Universal Banking” is a desirable goal and some progress has already been made by permitting banks to diversify into investments and long-term financing and the DFIs to lend for working capital, etc. However, banks have certain special characteristics and as such, any dilution of RBI’s prudential and supervisory norms for conduct of banking business would be inadvisable. Further, any conglomerate, in which a bank is present, should be subject to a consolidated approach to supervision and regulation.

- (b) Though the DFIs would continue to have a special role in the Indian financial system until the debt market demonstrates substantial improvements in terms of liquidity and depth, any DFI, which wishes to do so, should have the option to transform into bank (which it can exercise), provided the prudential norms as applicable to banks are fully-satisfied. To this end, a DFI would need to prepare a transition path in order to fully comply with the regulatory requirement of a bank. The DFI concerned may consult RBI for such transitional arrangements. Reserve Bank will consider such requests on a case by case basis.
- (c) The regulatory framework of RBI in respect of DFIs would need to be strengthened if they are given greater access to short-term resources for meeting their financing requirements, which is necessary.
- (d) In due course, and in the light of evolution of the financial system, Narasimham Committee's recommendation that ultimately there should be only banks and restructured NBFCs, can be operationalised.

1.12 In the light of reforms in the financial sector especially the prudential norms prescribed by RBI, the Committee recognise the need for diversification of the financial institutions into new areas like working capital finance, retail finance and insurance etc. However, the Committee are of the view that there are number of private players infusing sufficient competition in the retail finance compared to a few institutions engaged in long-term finance where the risks associated with it and the repayment period is on the higher side. Moreover, the Committee apprehend that though unbridled entry of DFIs into retail business may result in improved bottomlines of these institutions since such retail financing is considered more profitable and less risky but in the long run it might result in causing shortage of long term funds for projects especially in infrastructure. The Committee, therefore, recommend that Govt./RBI should ensure that these institutions are not allowed to enter into retail financing to such an extent that there is shortage of availability of funds and these FIs are unable to discharge their primary role of meeting the long term resource requirements of the Industry for which these were originally set up.

The Committee further recommend that the approach to universal banking should be gradual and sufficient precautions especially in the realm of devising regulatory mechanisms for consolidated supervision should be taken diligently.

Contribution to Economic Development

1.13 On its contribution to different sectors of the economy in a written note furnished, IDBI inter-alia stated as under :-

“over the years, the level of IDBI’s assistance has grown at a steady pace. Financial assistance from IDBI has contributed to building up of substantial capacities in a wide range of industries such as textiles, food processing, chemicals, cement, fertilisers, steel, power generation, industrial machinery, commercial vehicles, rubber, paper and metal products. Development of core sectors of the economy was accorded top priority since the beginning of the planning process in India. IDBI has taken a lead role in financing such sectors. With the opening up of infrastructure sectors for private investment, demand for funds is expected to go up. IDBI, with its long experience in handling industrial projects, is well suited to finance infrastructure projects.”

1.14 With regard to its contribution to economic development by creation of additional capacities in different industries IFCI Ltd. furnished the following information/data :-

“Some of the major industries assisted are textiles, sugar, paper and paper products, fertilisers, cement, hotels, hospitals, iron and steel petroleum refinery and infrastructure viz. power, ports, telecom and roads and capacities created in these industries out of assistance from IFCI during 1975-76 to 1999-2000 are given below :

Textiles	
-Spindles	65.45 lakhs
-Looms	2080 Nos.
-Rotors	18164 Nos.
-Terry towels	16931 tpa
Sugar	71.74 lakh tpa
Paper & paper products	17.02 lakh
Fertilisers	185 lakh tpa
Cement	593 lakh tpa
Hotels	22106 rooms
Hospitals	5544 beds
Iron & Steel	302 lakh tpa
Petroleum refinery	328 lakh tpa
Infrastructure -	
-Power	14953 MW
-Ports	3 Projects

-Telecom	11 Projects
-Roads	2 Projects

1.15 Further, on the cumulative financial assistance and the consequent employment generation, IFCI Ltd. furnished the following data :-

- Sanctions since inception upto 31.3.2000) - Rs. 430142 million
- Disbursement (since inception upto 31.3.2000) - Rs. 390042 million
- Outstanding assistance as on 31.3.2000 - Rs. 226042 million
- Total number of projects assisted upto 31.3.2000 - 4853 Nos.
- Investment catalysed in the aforesaid projects - Rs. 2561729 million
- Employment generated - 9.67 lakh persons

1.16 With regard to contribution to capital formation by FIs, Managing Director and CEO, ICICI Ltd. deposing before the Committee on 18 September, 2000 stated as under :-

“... disbursement by FIs constituted around fifty percent of gross fixed capital formation by the private corporate sector in the pre liberalised era. Contribution to Capital formation, in the last three decades, hovered around fifteen percent. If you see the financial institutions disbursements towards bank credit to industry right from 1991 to the last year, we see that financial institutions have significantly provided more credit for creation of capital in the industry in India. It was grown year after year..... thus, the FIs have played a pivotal role in the development of indian industry and have fulfilled their initial objective i.e. to spur industrialisation in the country over the last three to four decades”

Transformation in the Structure of DFIs – From Statutory Corporations to Public Ltd. Companies

1.17 One of the most important recommendations of the Committee on Financial System popularly known as Narasimham Committee is conversion of Statutory corporations into Public Limited Companies under the Companies Act, 1956 due to the following advantages of the latter: -

1.18 There are certain advantages of converting the statutory Corporations into companies under the Companies Act, 1956, which can be summarised as under :-

- (i) facilitates expansion in equity base without any approvals under the governing statutes
- (ii) enables induction of professionals on their Boards from diverse fields relevant to its business.
- (iii) provides more operational flexibility in formulating its own policy and functioning based on business needs.

- (iv) gives ability and agility to respond to the fast changing needs of financial system and also increases the efficiency levels.
- (v) encourages market discipline and greater transparency through mandated disclosures if listed on the stock exchange.

1.19 Accordingly IFCI, a statutory corporation was converted into a public limited company under the Companies Act, 1956 with Govt. owned /controlled Banks and FIs holding more than 51% of the equity. The process gained momentum with the conversion of Industrial Reconstruction Bank of India (IRBI) hitherto a statutory corporation into public limited company w.e.f 17 March, 1997 with 100% equity owned by Govt. of India.

1.20 Pursuant to amendment to the IDBI Act in 1994, (with the proviso that Government holding in IDBI equity shall not be below 51%), IDBI made an initial public issue in July, 1995 of equity shares. Simultaneously, the Government also offered for sale a part of its equity holding in IDBI thus reducing the Government shareholding to 72%. Under a capital restructuring plan, with the objectives to enhance shareholder value as also to raise additional capital from international markets, a part of the remaining portion of Government of India's equity holding was converted into preference shares in June, 2000. Consequently, Govt. of India's holding in IDBI came down further to 56%.

1.21 In a brief note on problems and suggestions furnished to the Committee, IDBI, requesting reduction of Govt's stake below 51% inter-alia stated as under –

“ IDBI is perceived as a Government controlled, rigid organisation. In view of this, Government could consider reducing its holding. In terms of current provisions of IDBI Act, Government holding cannot come below 51%. Reduction in Government holding would help in improving market perception which in turn would enable IDBI to raise funds from domestic/international markets on more favourable terms. This would, however, require amendment to IDBI Act.”

Changes in Operations – Drying up of concessional finance for projects in Backward Areas

1.22 With the gradual decline in access to low cost and long term funds in the form of borrowings from National Industrial Credit - Long Term Operations (NIC-LTO) Fund of RBI, the phasing out of tax-free status given to various financial instruments offered by DFIs, and Govt. guaranteed bonds which qualified for SLR investments by banks, since the introduction of reforms in the financial sector DFIs were forced to resort to market borrowings to meet their funds requirements at market determined rates of interest. As a result, the cost of funds varied in tune with the market related rates thereby, squeezing their spread in the process. The

Financial Institutions are therefore finding it difficult to extend concessional loans at subsidised rates to projects in backward areas.

1.23 In response to a query whether ICICI Ltd. would **finance projects in backward areas and there by act in the public interest**, Managing Director, ICICI Ltd. deposing before the Committee on 18 September, 2000 inter-alia stated as under :-

“ most certainly we will act in the public interest. But the point is, if there is a consequential loss and there is an impact on all the share holders, how is that loss going to be covered? In the past.... We had a subsidy built in which allowed us to raise money at cheaper cost. So, we could fund that project in that particular area. Today, we are forced to the market. Then, we have come into a peculiar situation where if we do not have the ability to defray this risk, we are impacting the health of a particular institution and in larger context the entire financial system.”

“We, most certainly, act in the public interest. But we would also like to point out that there is a cost involved in it. In the past there was a system. In the mid-nineties, that system has been removed. Subsidised access to money has been removed. So, we are now expected to work and act on commercial interest. If that is so, we need to look at the risks and how that risk is going to be hedged. There is no mental block amongst any of us that we will not act in the public interest. We will act in the public interest. It is ultimately the question of reducing or nullifying the financial risk.”

1.24 On the reasons for phasing out of concessional funding inter-alia for setting up of projects in backward areas, in a note submitted to the Committee, IDBI expressed similar views which are given as under:-

“the sheltered market enjoyed by Indian industries meant that industrial projects had a low risk profile. IDBI was able to provide funds for technical upgradation, modernisation and units located in backward areas at concessional rates. During 1980s, about 40% of IDBI’s assistance sanctioned and disbursed was given to backward areas. In the 1990s, this ratio has come down and ranges around 35%. **Currently, assistance for backward area does not get any assistance at concessional rate.**”

“With the onset of economic reforms programme not only the special privileges extended to IDBI were phased out but also the business environment faced by Indian industries as also financial institutions became more competitive and, therefore, risky. IDBI is now raising funds from the market at market related rate.

Moreover, it is unable to raise long-term funds. In such situation, IDBI is unable to provide any special treatment to (say) units in backward areas, or infrastructure projects, which need long-term funds.

In the present context, IDBI can provide finance to industrial projects on commercial terms. It is unable to provide concessional

funding or assume risks, which are beyond its risk bearing capacity and prudential limits. This also limits its ability to fund industrial projects in backward areas.”

1.25 On being asked whether the classification of districts into A, B and C categories depending upon the industrial development of a particular district still exists, Special Secretary (Banking) deposing before the Committee 20 September, 2000 stated as below:

“That classification has been done away with. Earlier there used to be different classes of concessions for backward areas and there used to be different levels of subsidies also like 25 per cent for category A Districts; 15 per cent for B; and 10 per cent for C. That classification has been done away with now. Now there is no such subsidy scheme run by the Government of India. I think the only concession which is being made available is for the development of the growth centres.”

1.26 The Committee recognise the constraints being faced by the DFIs in extending finance at subsidised interest rates for setting up of projects in backward areas in the light of drying up of cheap sources of long term funds from Govt. of India and RBI. However, the Committee are also aware of the fact that due to industrial backwardness in various parts of the country resulting consequently in deprivation of employment opportunities even for educated and skilled, lakhs of people are forced to migrate to metropolitan cities thereby creating enormous pressure on the urban infrastructure. The Committee are of the view that the main stumbling block for industrial backwardness of a particular region is lack of dependable and affordable infrastructure. The Committee, therefore, recommend that the Financial Institutions should devise innovative financial instrument to finance development of dependable and affordable infrastructure which in turn would result in inducing the entrepreneurs to set up industrial units in these areas

Financing takeover of Indian companies by MNCs

1.27 Replying to a query as to the policy of RBI in extending Finance to MNC's by DFIs for acquiring / taking over Indian Companies, Governor, RBI during the oral evidence held on 18 September, 2000 inter-alia stated as follows :-

“Sir, the issue that you have raised is a tricky one. It is tricky in the sense that we are also moving towards a system where our Indian firms are raising money abroad, in foreign market and buying companies abroad, like, the whole range of our IT sector. I would like to draw your attention here about the major success of the Indian IT

Sector. Now, they are not only raising huge amount of money as compared to what their capital is, they are acquiring some of the best companies in the USA. This process is only the beginning. Some of our companies are also now operating in Europe and so on because we do not have the money to export capital.

We have to bear in mind that it is not a one way traffic anymore like the Eighties or the Nineties when we were only the recipients of the multinationals. Sir, we hope, many of our companies in ten years time, would become dominant internationally, particularly in the IT Sector.”

1.28 Allaying the apprehension in certain quarters on the likely shortage of funds for Indian Industries / Companies due to FIs funding of MNC's for acquiring indian companies. Governor, RBI during oral evidence held on 18 September, 2000 stated as below :-

“.....I do not think that the issue in terms of the aggregate availability of money is a problem for the Indian sector. If that problem ever arises, we can tackle it and we should tackle it. If we find that the multinational is coming which is inhibiting the Indian enterprise or the Indian industry from the market, I think, we should take some steps. But I do not think that it will happen or it can happen or it is likely to happen because I believe, Sir, that given a comparative environment, our Indian industry is more competitive than many of our international brands.”

1.29 Supplementing further on the issue, Governor, RBI stated as under :-

“But in the present stage of development, there is no problem. But the Government should think about it. It is because the Reserve Bank does not direct to the Government so far as the lending policy of the public financial institutions is concerned. But I personally have sympathy with what you have said in regard to the old Indian economy being taken over with Indian funds by companies with very small amount of capital.”

1.30 IDBI and IIBI Ltd. in their written replies furnished to the Committee expressed the view that funding acquisitions of Indian companies by DFIs would need to be within the national policy and commercial considerations.

1.31 Ministry of Finance (Deptt. of Economic Affairs) in their written reply on the issue inter-alia stated as below :-

“Funding acquisition of Indian companies by institutions would need to be within the framework of national policy and on commercial considerations. In the wake of liberalisation and globalisation, given the national policy on foreign investment, such acquisition of Indian company is likely to occur in the years to come.”

1.32 Replying to a query on IDBI's policy towards financing acquisitions by MNCs, Chairman, IDBI deposing before the Committee on 20 September, 2000 inter-alia informed as under :-

“So far as acquisitions, our policy is that if any acquisition is to be done by a foreign party, no money would be given by IDBI for the purpose of acquiring an Indian asset. But if that party wants to set up any green field project, or wants to take up expansion of any project, money would be provided for creation of that new asset.”

1.33 Supplementing further on the issue Chairman, IDBI stated as follows :-

“if there is a need for creation of additional capacity and if it has received the necessary FIPB approval, and if it is within the Government policy, then we would be considering sanction of assistance to that.”

1.34 Industrial Investment Bank of India Ltd. (IIBI Ltd.) in their written reply on the issue stated as under :-

“ Once foreign investors are allowed to come and set up industry, it may not be advisable to restrict them from taking over Indian companies if such take-over results in economies of scale and adds to competitive strength. Indian companies are raising foreign currency abroad and even using such funds to acquire companies abroad. Reciprocity may demand similar facility to foreign companies. However, whether a DFI will finance a particular acquisition or not will depend on the relative profitability and risks of such financing as well as the prospects of the Indian companies, if it is in its portfolio.”

1.35 The Committee are of the opinion that one of the objectives of inviting foreign capital in the form of Foreign Direct Investment is to supplement the scarce domestic capital. Though the Committee are not at variance with Financial Institutions regarding extension of financial assistance by DFIs to MNCs for acquiring indian companies in view of the ongoing reforms in the financial sector, due to scarce domestic capital, they are of the view that some kind of restraint/caution has to be exercised by the DFIs in extending finance to MNCs for acquiring indian companies, lest such requirement of financing by the foreign companies should deprive the domestic industry and commerce of much needed capital. The Committee therefore recommend that Govt. should ensure that there is no unbridled financial assistance to MNCs by DFIs for the above mentioned purpose.

Loans to Medium Scale Industries

1.36 Dwelling on the weaknesses of DFIs, the Governor, RBI during the discussion held on 18 September, 2000 stated that all India Institutions have not been as responsive to medium industry in regard to their demands. However, the Ministry of Finance in a written reply has informed that there is no formal definition for medium scale units.

1.37 In response to a query as to why the Financial Institutions have not been responsive to the needs of the medium scale industry as they should have been and the measures initiated to make FIs responsive to the financial needs of medium scale industries, Ministry of Finance, in a written reply furnished to the Committee stated as under :-

“There is general feeling that all India FIs are financing mostly larger units among non-SSI units. Most of the medium sector units are meeting their requirements through SFCs, SIDCs and commercial banks. To help SFCs, SIDCs and commercial banks to finance such units, IDBI has been operating Refinance Scheme. The primary objective of the Refinance Scheme is to induce flow of funds in an increasing measure to industrial units in the small and medium sectors by suitably augmenting the resources of the lending agencies.”

1.38 On the break up of financial assistance sanctioned to large and medium scale industries (separately) for the last 5 years by DFIs, the Ministry of Finance furnished the following data :-

	(Rs. In crore)				
	IDBI				
	1995-96	1996-97	1997-98	1998-99	1999-00
Loans less than Rs.10 crore	4180.53	3382.12	4249.86	3471.88	3380.83
Loans more than Rs.10 crore	9947.42	8455.49	17600.58	19411.57	22969.27
Total	14127.95	11837.61	21850.44	22883.45	26350.1
	IFCI				
	1995-96	1996-97	1997-98	1998-99	1999-00
Loans less than Rs.10 crore	713.5	486.6	523.8	382.9	270
Loans more than Rs.10 crore	5866.2	3498.2	5663.9	4062.3	2106.2
Total	6579.7	3984.8	6187.7	4445.2	2376.2

	ICICI				
	1995-96	1996-97	1997-98	1998-99	1999-00
Loans less than Rs.10 crore			1324.88	1128.72	1258.68
Loans more than Rs.10 crore			23392.59	31241.86	43220.08
Total	0	0	24717.47	32370.58	44478.76

	IIBI				
	1995-96	1996-97	1997-98	1998-99	1999-00
Loans less than Rs.10 crore	515.55	559	572.91	359.54	210.74
Loans more than Rs.10 crore	381.75	257	1488.09	1815.66	2127.34
Total	897.3	816	2061	2175.2	2338.08

1.39 The data furnished by the Ministry of Finance reveals that not only the proportion of advances to medium scale units vis-à-vis large scale is very low but even the absolute amounts advanced to these units has witnessed continuous decline in the case of IFCI Ltd, IIBI Ltd. and IDBI for the last two years. The Committee would like to be apprised of the specific reasons as to why there has been progressive decline in the financial assistance to medium scale units.

The Committee are of the opinion that there are large number of medium scale industries providing employment to lakhs of people. Lack of adequate institutional finance for their working capital and capital expenditure might ultimately result in their sickness. The Committee therefore recommend that the term 'medium scale industrial units' should be defined and their fund requirements for projects related capital expenditure should be catered to fully by the DFIs.

Chapter II
Categorisation and Notification of Financial Institutions
Uniformity in the Definition of Public Financial Institutions (PFIs)

2.1 The term “ Financial Institution” has been variously defined under different statutes. Section 4 (A) of the Companies Act, 1956 which defines some Financial Institutions as Public Financial Institutions (PFIs) is as under :-

- (1) Each of the Financial Institutions specified in this sub-section shall be regarded, for the purposes of this Act, as a public financial institution, namely :-
- i) the Industrial Credit and Investment Corporation of India Limited, a company formed and registered under the Indian Companies Act, 1913;
 - ii) the Industrial Finance Corporation of India, established under section 3 of the Industrial Finance Corporation Act, 1948 (15 of 1948);
 - iii) the Industrial Development Bank of India, established under section 3 of the Industrial development Bank of India Act, 1964 (18 of 1964);
 - iv) the Life Insurance Corporation, established under section 3 of the Life Insurance Corporation Act, 1956 (31 of 1956);
 - v) the Unit Trust of India, established under section 3 of the Unit Trust of India Act, 1963 (52 of 1963).
- (2) Subject to the provisions of sub-section (1), the Central Government may, by notification in the Official Gazette, specify such other institution as it may think fit to be a public financial institution:
- Provided that no institution shall be so specified unless –
- i) it has been established or constituted by or under any Central Act; or
 - ii) not less than fifty-one percent of the paid-up share capital of such institution is held or controlled by the Central Government.

2.2 However, Section 2 of Public Financial Institutions (Obligation as to Fidelity and Secrecy) Act, 1983 defines public Financial Institutions as given below :-

Public Financial Institution means –

- (a) the Industrial Credit and Investment Corporation of India Limited, a company formed and registered under the Indian Companies Act, 1913 (7 of 1913);
- (b) the Industrial Reconstruction Corporation of India Limited, a company formed and registered under the Companies Act, 1956 (1 of 1956); or
- (c) any other institution, being a company as defined in Section 617 of the Companies Act, 1956 (1 of 1956) or a company to which the provisions of Section 619 of that Act apply, which the Central Government may, having regard to the nature of the business carried on by such institution, by notification in the official Gazette, specify to be a public financial institution for the purposes of this Act.

2.3 Accordingly, Government of India have notified 42 Financial Institutions as Public Financial Institutions (PFIs) as on 31 March 1999 (**Annexure II**).

2.4 In written reply to a query as to why two different definitions for PFIs under the Companies Act, 1956 and the Public Financial Institutions (Obligation as to Fidelity and Secrecy) Act, 1983 were given, RBI in a written note submitted to the Committee inter-alia stated as under :

“The two different definitions of the term ‘PFI’ under the Companies Act, 1956 and under the Public Financial Institutions (Obligation as to Fidelity and Secrecy) Act, 1983, are statutory definitions approved by the legislature. We are of the view that it would be desirable to have a uniform definition of the term ‘PFI’ for greater clarity and uniform application of the provisions of the two statutes.”

2.5 The Ministry of Finance (Deptt. of Economic Affairs) on the issue of need for uniformity and clarity in the definition of PFIs in a written reply stated that the matter is under consideration.

2.6 The Committee find that there are two different definitions of Public Financial Institutions (PFIs) – one under the Companies Act, 1956 and the other under the Public Financial Institutions (Obligation as to Fidelity and Secrecy) Act, 1983. They are given to understand that the need for having a uniformity in the definition of PFI was under consideration of the Government.

In consonance with the views of the Government the Committee also feel that it is desirable to have a uniformity in the definition of the PFIs for the purpose of greater clarity. They, therefore, recommend that immediate steps be taken to amend the

Companies Act, 1956 and PFIs (Obligation a to Fidelity and Secrecy) Act, 1983 insofar as definition of PFIs is concerned.

Need for enlarging notified Financial Institutions

2.7 To start with Govt. of India have notified three Development Financial Institutions viz. ICICI Ltd., IFCI Ltd. and IDBI for the purpose of collection and dissemination of credit information – such as data on defaulters of Rs 1 crore and above, wilful defaulters of Rs. 25 lakh and above, under section 45 of RBI Act, 1934. However, the Govt. of India at the instance of RBI on 4 August, 2000 have notified the following 8 Financial Institutions bringing the total number of notified all India Financial Institution to 11 :-

1. Industrial Investment Bank of India Ltd.
2. National Bank for Agriculture and Rural Development
3. Export-Import Bank of India
4. National Housing Bank
5. Unit Trust of India
6. General Insurance Corporation of India
7. Life Insurance Corporation of India
8. Small Industries Development Bank of India

2.8 On the query as to whether the Govt. of India are in favour of notifying also other institutions which are categorised as PFIs for the purpose, Ministry of Finance (Deptt. of Economic Affairs) in a written reply furnished to the Committee inter-alia stated as follows –

“Section 45A of the Reserve Bank of India Act, 1934 defines “banking companies” which include inter alia banking companies defined under Section 5 of B R Act, 1949, public sector banks and other financial institutions as notified by the Government.”

“.....the purposes of notifying ‘public financial institution’ under the Companies Act, 1956 and the RBI Act are different and each of the enactments operates in different fields and it is not necessary that all the PFIs notified under the Cos. Act should also be notified under the RBI Act. The notification as PFI under Companies Act entitled it for benefit of capital restructuring of borrower company on conversion of debt into equity and other provisions of borrower company whereas notification under RBI Act entitles to share information collected and circulated by RBI. However, Government will further examine the case of notifying other PFIs in consultation with RBI and IDBI.”

2.9 The Committee observe that all the Financial Institutions – Development Financial Institutions, Investment Institutions, Refinance Institutions, SFC's , State Industrial Corporations etc. are financial intermediaries engaged in mobilising resources from the public and investing in/ lending to different industries for a variety of purposes. The Committee are of the view that all the aforesaid financial institutions played a predominant role through their respective spheres of operations in contributing to economic development.

The Committee are further of the view that the credit information about the defaulters especially wilful defaulters, defaulters of Group Companies and the promoters who have diverted the funds taken from any of the said financial Institutions should be made available to the remaining financial institutions. Such an elaborate credit sharing of information mechanism is sin-qua-non to prevent unscrupulous promoters from availing financial assistance from other institutions despite their deplorable past. The Committee, therefore, recommend the RBI/Govt. of India to notify the remaining institutions also for the purpose of sharing of credit information under the RBI Act, 1934.

Chapter III

Non performing Assets (NPAs)

3.1 In terms of the RBI guidelines, assets have been classified as Performing and Non-Performing, for the purpose of income recognition; and into four categories (viz. standard, sub-standard, doubtful and loss), for the purpose of provisioning against principal.

Income Recognition – For the purpose of Income Recognition, an asset becomes non-performing when it ceases to generate income for a FI. An NPA is defined as an advance where, as on the date of the Balance Sheet of the FI, -

- (a) in respect of term loan, interest remains “past due” for a period more than 180 days and/ or principal ‘past due’ for more than 365 days,
- (b) in respect of bills purchased/discarded, the bills remain overdue and unpaid for a period more than 180 days and
- (c) in respect of any other credit facility, any amount to be received remains past due” for a period more than 180 days. Further, an amount is considered ‘past due’* when it remains outstanding for 30 days beyond the due date.

With respect to NPAs, no interest income is to be charged and taken to income account ; and interest accrued and other charges like fees and commission credited to income account previously, but which have not actually been realised should be reversed or provided for in the current accounting period . Income on NPAs is to be recognised only on cash basis.

Loans or other credit facilities backed by Central Govt. guarantees are treated on par with other assets as far as income recognition is concerned. However, they need not be treated as NPA for the purpose of provisioning requirements and capital adequacy norms. In the case of loans or other credit facilities backed by State Govt. guarantees, the provisioning norms and risk weights are to be applied in respect of advances where the guarantee has been invoked and has remained in default for more than two quarters.

Asset Classification – All FIs should classify their loans/advances into four broad groups –

- (i) **Standard Assets** – A standard asset is one which does not disclose any problem and which does not carry more than normal risk attached to the business. Such an asset is not an NPA, as defined above.

* (The concept of past due is being dispensed with effect from 31 March, 2001)

- (ii) **Sub-standard Assets** – A sub-standard asset is one, which has been classified as a NPA for a period not exceeding 18 months.
- (iii) **Doubtful Assets** – A doubtful asset is one, which has remained a NPA for a period exceeding 18 months.
- (iv) **Loss Assets** – A loss asset is one, where loss has been identified by the FI or its internal or external auditors or by the RBI, but the amount has not been written off, wholly or partly.

3.2 On the amount of Net NPAs of four DFIs, RBI in a brief note on All India Financial Institutions furnished the following data –

Net NPAs of the FIs

Name of the FI	Net NPAs* (Rs. in crores)			
	1996-97	1997-98	1998-99	1999-2000
IDBI	4365 (10.3%)	5101 (10.1%)	6490 (12.1%)	7675 (13.4%)
ICICI Ltd.	2243 (7.84%)	2835 (7.7%)	3623 (7.8%)	3959 (7.6%)
IFCI Ltd.	2213 (14.0%)	2663 (13.6%)	4231 (20.8%)	4084 (21.1%)
IIBI Ltd.	260 (17.8%)	302 (12.7%)	480 (14.0%)	641# (17.0%)
Total	9081	10886	14824	16359

Provisional

* indicates outstanding net of cumulative provisions and write offs

3.3 The Main reasons for borrowal accounts for turning into NPAs can be summarised as under :-

1. Unit Specific

- (i) Promoters' inability to mobilise equity
- (ii) Inefficient Management
- (iii) Dissensions amongst the promoters
- (iv) Inability to mobilise Working Capital

2. Industry related problems

- (i) Technical obsolescence (for example)
- (ii) Changes in Fiscal Policies

- (iii) Globalisation – Impact of International prices and changes in Demand Preferences
- (iv) Slow down in projected demand

3. Management related problem

- (i) Wilful default
- (ii) Diversion of the funds
- (iii) Inability to bring the promoters' own funds
- (iv) Dissension among the promoters

Wilful Default

3.4 The Reserve Bank of India (RBI) has issued a Circular in October, 1999 stating that wilful default will broadly cover the following :-

(i) Deliberate non-payment of dues despite adequate cash flows and good net worth, (ii) siphoning of funds to the detriment of the defaulting units (iii) Assets financed not purchased or sold and proceeds misutilised (iv) misrepresentation and falsification of records (v) Disposal/removal of securities without bank's knowledge and (vi) Fraudulent transactions by the borrower.

3.5 In written reply to a query on the amount of default to DFIs in each of the above said categories RBI has furnished the following information :-

“the circular defining the wilful default was sent to banks and only three FI viz. IDBI, ICICI and IFCI. The credit information under Section 45 of RBI Act, 1934 can be collected from Banks and only those FIs which have been notified by the Central Government in this behalf. Government of India has so far notified only three above mentioned FIs”

3.6 However, IFCI Ltd. in its written replies to a query on the issue has informed the Committee as follows -

“The identification of the wilful default is being made keeping in view the track record of the borrower and not **on the basis of isolated transactions/incidents or according to any category/single criterion.** Accordingly, each Regional Office of IFCI constituted a Committee consisting of Head of the Regional Office and Project Leaders who identify the cases of wilful default based on the overall criteria.”

3.7 On the issue of category-wise collection of data on wilful default, RBI in a written reply stated that the data in respect of defaults in respect of the above said FIs is not presently

being collected category-wise. However, IDBI has furnished the following data on the amount of wilful default (category-wise):-

Category	No.	Amount
1. Deliberate non-payment of dues despite adequate cash flows	4	8.49
2. Siphoning of funds to the detriment of the defaulting units	1	9.39
3. Assets financed not purchased or sold and proceeds mis-utilised	3	21.07
4. Mis-representation and falsification of records	3	48.65
5. Disposal/removal of securities without bank's knowledge	-	-
6. Fraudulent transactions by the borrower	-	-
TOTAL	11	87.60

3.8 On the amount of wilful default both in absolute amount as well as in percentage terms of total NPAs of DFIs which could be attributed to wilful default, the specific steps taken to recover the dues and the actual amount recovered from such defaulters as on **31 March, 2000**, RBI has inter-alia furnished the following information/data :-

“The defaulters are called for discussions and asked for clearance of dues. Thereafter, a legal notice is issued to defaulters. Still, if the dues are not cleared, suit is filed for recovery of dues”

Name of the FI	Amount	Total NPAs	% of total NPA	Amount recovered
IDBI	87.60	7675	1.14	2.92
ICICI	4.63	3959	0.12	NIL
IFCI	512.30	4084	12.54	6.64

3.9 On why wilful default in respect of loans extended by IFCI Ltd. is quite high vis-à-vis ICICI Ltd. and IDBI, Ministry of Finance stated as follows :_

“The Govt. is not interfering in their day to day functioning. The Financial Institutions are expected to take necessary action in this regard.”

3.10 However, IFCI Ltd. in a written reply to the above mentioned query has furnished the list of wilful defaulters only without offering any explanation for higher amount of wilful default in their case vis-à-vis IDBI and ICICI Ltd.

3.11 Industrial Investment Bank of India Ltd. (IIBI Ltd.) in a written reply submitted to the Committee furnished the following information on wilful default :-

“Companies who are earning profits and having adequate liquidity/cash flows but not paying institutional dues are classified as wilful defaulters. Misutilisation of funds, fabrication of records, misrepresentation of facts, fraudulent transaction are construed as violation of loan covenants and consequently resulting in defaults.

Cases where wilful default has occurred, suits are filed :

Category	Amount of default (Rs. crore)	Action taken	Amount recovered (Rs. crore)
Category I	14.15	Suit filed/follow-up for recovery/OTS	0.69 (in 1997-98)
Category II	1.27	Recovery petitions filed with DRT	
Total	15.42		0.69

3.12 On whether the Govt. are in favour of prescribing stringent punishment to wilful defaulters vis-à-vis the customers who may default due to recession, business cycles changes in external environment etc. Ministry of Finance (Deptt. of Economic Affairs) in a written reply stated as under :-

“It is difficult to distinguish between genuine and wilful defaulters. The banks/FIs are as a matter of policy and practice, more interested in recovery of amount due. Since the civil and criminal proceedings take long time, and assets depreciate in value in the meanwhile, the banks/FIs are reluctant for criminal prosecution. But where fraudulent deals are noticed by RBI, the banks and FIs are called upon to initiate criminal proceedings against such defaulting borrowers. Whenever cases of fraudulent borrowers are brought to the notice of RBI, a caution advise is

sent to all banks/FIs to put them on guard against such fraudulent borrowers.”

3.13 On the specific steps taken to recover dues from wilful defaulters RBI have stated that the defaulters are called for discussions and asked for clearance of the dues. Thereafter, a legal notice is issued to the wilful defaulters. Still, if dues are not cleared, suit is filed for recovery of dues.

Disclosure of Names of wilful Defaulters

3.14 Section 45 of the Reserve Bank of India Act, 1934 empowers RBI to collect the credit information from banks and notified institutions. Accordingly RBI collects the information about wilful defaulters involving an amount of Rs. 25 lakh and circulates amongst banks and FIs.

3.15 RBI in October, 1999 issued a directive to all banks and notified DFIs – IDBI, ICICI and IFCI Ltd. asking them to include a clause in the loan agreement at the time of fresh sanction/enhancement/renewal of loans to the effect that their names can be disclosed in the event of their becoming default. However, as stated elsewhere in the Report, Govt. of India at the instance of RBI has notified the following 8 Financial Institutions w.e.f. 4 August, 2000 for the purpose of collection and dissemination of information on defaulters:-

1. Industrial Investment Bank of India Ltd.
2. National Bank for Agriculture and Rural Development
3. Export-Import Bank of India
4. National Housing Bank
5. Unit Trust of India
6. General Insurance Corporation of India
7. Life Insurance Corporation of India
8. Small Industries Development Bank of India

3.16 Almost all the DFIs have informed the Committee that they are in favour of change in legislation enabling the disclosure of names of wilful defaulters as they help in speedy recovery of over dues and timely repayment as the defaulters would be concerned about their image and credibility in the market . In this regard IFCI Ltd. has specifically suggested that the term ‘wilful defaulter’ may be defined under chapter III B of the Reserve Bank of India Act, 1934 or under the Public Financial Institutions (obligation as to Fidelity and Secrecy) Act 1983 and a statutory discretion may be given to DFI(s) to make the names of such “ wilful defaulters” public.

3.17 In a written reply to a query on whether the Govt. are in favour of defining wilful default under Chapter III B of the RBI Act, 1934 or under Public Financial Institutions (Obligations as to fidelity and Secrecy) Act, 1983 for giving statutory discretion to DFIs to make the names of the wilful defaulters public, Ministry of Finance (Deptt. of Economic Affairs) inter-alia stated as follows :-

“ At present, there is no proposal to define wilful default in the RBI Act. In view of the practical difficulties in defining exhaustively the term wilful default, RBI has provided through a circular, an illustrative list to the banks and FIs to come to judgement in this regard.”

3.18 The Committee observe from the replies furnished by IDBI and IFCI Ltd. that though the regulator – RBI issued a circular as far back as in Oct, 1999, classifying six categories of defaulters as wilful defaulters, IFCI Ltd. seems to have not adhered to the stipulation by adopting their own way of classification/categorisation of wilful defaulters, whereas IDBI furnished the category wise classification as per RBI circular. The divergence in categorisation and classification of wilful default amply clarifies the fact that the Financial Institutions have not followed the RBI’s circular/directive in this regard. The Committee, would therefore like RBI to ensure that all the notified Financial Institutions follow RBI directives in respect of classification/categorisation of wilful default to have uniformity in the interpretation and compilation of data on the issue.

3.19 It is noticed that the process of recovery of dues from the wilful defaulters and the action taken on account of non recovery from such defaulters, such as - holding discussions, issuing recall notices, entering into One Time Settlement (OTS) and filing suits, etc. is similar to that of genuine defaulters. The data on the recovery from wilful defaulters shows that the institutions could recover only a small percentage of wilful defaults implying thereby that the procedure of holding discussions, issuing recall notices etc. has not had desired impact. It further indicates that a lenient view is taken in respect of even those entrepreneurs who abuse the public funds with impunity thereby jeopardising the health of both the industrial concern and the DFI.

3.20 The Committee are not inclined to accept the Ministry’s reply stating that it is difficult to distinguish between wilful and genuine defaulters, particularly

when six categories of default as wilful default have clearly been specified by RBI. The Committee, are however of the considered view that there is need for distinguishing wilful defaulters from those who default otherwise, in respect of action taken to recover the dues and the punishment meted out. Stringent action such as filing criminal cases at least against those who take recourse to such tactics as siphoning the funds, misrepresentation, falsification of accounts and fraudulent transactions must be resorted to invariably. The Committee also recommend that the promoters of such companies should not be allowed to avail themselves of institutional finance from public sector commercial banks, DFIs, Govt. owned NBFCs, Investment Institutions etc. for floating new ventures etc. for a period of at least 15 years. Moreover, wilful defaulters should be debarred from becoming directors on the Boards of Directors of Govt. controlled/owned companies/corporations, and in case any of the wilful defaulters happens to be on the Boards of these companies, steps should be taken for his/her immediate removal.

3.21 They further recommend that the companies, on the Board of which wilful defaulters are present, access the primary market for raising resources through equity and debt issues, it should be made mandatory to mention the fact to this effect in the prospectus and offer documents enabling the investors to take an informed decision about investing in the company's issue. The Committee believe that this step will go a long way in having deterring effect on the wilful defaulters. The Committee further recommend that SEBI should ensure incorporation of this provision in their "disclosure requirements". Relevant Acts may be amended, if necessary, for the purpose.

3.22 As already stated above, the Committee do not accept the reply furnished by the Ministry stating that it is difficult to define wilful default exhaustively in view of the practical difficulties. They therefore, recommend that the Government should define wilful default for incorporating the same either under Chapter III B of the RBI Act, 1934 or under Public Financial Institutions (Obligation as to Fidelity and Secrecy) Act, 1983 and the statutory discretion may be given to the Financial Institutions to disclose their names to the public to have deterrent effect.

3.23 The Committee would like to be apprised of the specific reasons for such a high amount of NPAs in respect of DFIs and the specific/concrete steps taken to recover the same.

Diversion of the Funds

3.24 On the data on the amount of funds (both in absolute as well as in percentage terms of Net NPAs) lent by FIs (FI wise) to various industrial groups which were diverted for the purposes other than those mentioned in the loan agreement there by causing the account to become NPAs for the last 5 years, the Ministry of Finance **inter-alia** furnished the following data :-

(in Rs. crore)					
Name of FI	1995-96	1996-97	1997-98	1998-99	1999-00
IDBI	-----NIL-----				
IIBI Ltd.	6.75 (2)	NIL	5.92 (2)	NIL	NIL
IFCI Ltd.	3.32 (1)	56.82 (2)	20.91 (2)	NIL	NIL
ICICI Ltd.	NIL				
Exim Bank	NIL	NIL	23 (1)	NIL	NIL
TFCI					8 (2)

3.25 Ministry of Finance on the number of companies which diverted the funds and the companies which brought back the diverted funds have inter-alia furnished the following data, :-

Name of FI	No. Cos. Asked to bring back diverted funds	No. of Cos. Who complied	Amount brought back (Rs. In crore)
IDBI	-----NIL-----		
ICICI	NIL		
IIBI Ltd.	5	1	2.77
IFCI Ltd.	5	NIL*	
EXIM BANK	1	-----NIL-----	
TFCI	2	1	4

Note: * Two companies have come for settlement. In three cases, the litigation process is on.

3.26 On the reasons for occurrence of NPAs, Governor, RBI, during oral evidence of representatives of RBI held on **18 September, 2000** inter-alia stated as under:-

“..... accountability of the borrowing sector for use of money has been much less strong of whatever the word is. I am trying to find a more polite

word than should have been the case. There have been diversion of funds. The amounts of NPAs are very large. There has been much less accountability and much less speed in taking corrective actions in some of the project areas which have been so either because of the market pressure or whatever other reasons. Sir, the level of efficiency in using these resources has been lower.”

“... what has happened is that some of the borrowers have really taken advantage and they have diverted funds and they have got into problems. Now, the institutions are shy to give them further funding with the result they get problems in their projects which might have come half way through or 75 per cent through.”

3.27 Chairman, IFCI Ltd., on the issue of diversion of funds by the corporates, during the oral evidence held on 18 September, 2000 inter-alia informed as follows :-

“ But, these are cases, where certain companies, after detailed investigation we have found that what they did was not proper. They diverted the funds to the capital market and they had gone to the real estate business. We are trying to recover them. We are putting pressure on them and we would also be filing suits against them. I am sure, these are matters of governance and we are seized of the matter. Depending upon the individual companies, we would take appropriate actions”

3.28 Supplementing further on the issue, Chairman, IFCI Ltd. informed as under:-

“ As a percentage of IFCI’s capital funds it (the diversion) varied from 56 percent to 28 percent and for the group it varied from 120 to 68 percent and the amount involved is less than Rs. 2500 crores.”

3.29 On the issue of amount involved in diversion of funds and the action taken or proposed to be taken against the corporates for diverting the funds, IDBI in a written reply furnished at the sitting of the Committee held on 20 September, 2000 inter-alia stated as below :-

“ A recent RBI report on NPAs in the Indian Banking sector have pointed out that the diversion of the funds from the projects for which loan was sanctioned is an important factor for incidence of NPAs in Indian corporate sector. IDBI, through its various systems of project follow-up / monitors the end use of funds disbursed for a particular project.”

“ In general there are multiple reasons for loans to become NPA. As such it would be difficult to quantify on an aggregate basis the proportion of NPAs due to diversion of funds.

There are four loans cases, where diversion of funds has been reported. In one case, diversion of funds led to poor performance of the company rendering the account as NPA. The loan concerned is being recalled. In

another case, as required by IDBI, the company has brought back the funds deployed elsewhere. In respect of the balance two cases, the funds of the concerned company has been deployed for purposes other than the project either for setting-up of a joint venture or loans/advances to group companies, investments in captive power project, etc. These companies have been advised to retrieve such funds in a time bound manner.”

3.30 However, in a subsequent reply on the amount of NPAs due to diversion of funds furnished by the Ministry of Finance it is stated (as shown in the aforesaid data) that there is no NPAs due to diversion of the funds in the books of IDBI since 1995-96.

3.31 In response to a query as to the action taken by RBI/FIs against those corporates who have diverted funds for the purposes other than those mentioned in the loan agreement, RBI, Governor during the oral evidence held on 18 September, 2000 inter-alia informed as mentioned below :-

“What should be done about persons who have abused the public trust or who have diverted money from the financial institutions. Our simple answer is that they should be black-listed and no more money should be given to them. But the problem arises in practice. In theory, I think, the financial institutions also accept it. But what has been the experience? I would not name the particular industry. But in one or two industries what was witnessed was that ‘yes’, there was diversion. But the units were employing a very large number of people. So, while the financial institutions could insert a clause for bringing diverted money back, they had to give some more money and they had to provide time. But in future, I think, the message is going from everywhere, including the financial institutions, for a much greater accountability and control in regard to use of funds. The diversion has to be stopped.”

3.32 The Committee observe that the information given by the representatives of RBI and IFCI Ltd. during the oral evidence held on 18 September, 2000 and the written replies furnished by the Ministry of Finance and IDBI are not in conformity with each other as explained below :-

- (i) RBI Governor during the evidence informed that the amount of NPAs due to diversion are very large. However, the aforementioned data reveal that the total NPAs of three DFIs IIBI Ltd., IFCI Ltd. and IDBI – due to diversion for the last 5 years stood at about Rs 94 crore constituting a mere 0.80% of their combined Net NPAs as on 31 March, 2000, implying that extent of NPAs due to diversion in the total NPAs is not as large as is made out to be.**

- (ii) IDBI, in their written replies furnished to the Committee at their sitting held on 20 September, 2000 informed that in one case diversion of the funds led to poor performance of the company rendering the account to become NPAs. However, the subsequent data furnished by the Ministry shows that there is no NPAs in IDBI's books due to diversion of the funds since 1995-96. Further in the data provided by the Ministry, there is no mention of the remaining three cases. Out of these three cases in one case the diverted funds were brought back. In the remaining two cases the companies have been advised to retrieve the funds in time bound manner.
- (iii) The Chairman, IFCI Ltd. as mentioned above during the evidence held on 18 September, 2000 informed that the amount involved in diversion in respect of IFCI Ltd. is about Rs. 2500 crore, whereas the subsequent data furnished by the Ministry shows that the amount of NPAs of IFCI Ltd. due to diversion since 1995-96 stood at about 81 crore. Further, the Ministry informed that no amount could be recovered by IFCI Ltd. from those corporates, which have diverted the funds. This, the Committee are of the opinion, implies that out of about Rs. 2500 crore diverted money nothing could be recovered thereby entire amount becoming NPAs.

3.33 The Committee are displeased to note that there is large scale variance in the data provided by the respective Institutions and Ministry of Finance. Hence, the Committee feel that it is not possible to have an objective assessment on their financial health. The Committee therefore, recommend that RBI should look into the matter and furnish the Committee the correct data in this regard.

3.34 The Committee are distressed to note that diversion of funds lent by the DFIs to corporates for purposes other than those mentioned in the loan agreement, especially to capital markets and real estate business, is the foremost reason for occurrence of NPAs in the financial sector. What further dismays the Committee is the fact that such companies are seldom held accountable and it is this lack of accountability on the part of the Indian corporates which has caused enormous damage not only to the projects for which loans have been sanctioned but also to the health of the DFIs who in turn had to earmark huge amounts as provisions for such advances having turned into non-performing assets (NPAs) as per the Regulations laid down by RBI.

3.35 The Committee are of the view that the corporates who availed the loans and subsequently diverted these, did so knowingly with the intention of getting more funds towards completion of projects so that DFIs also do not classify their account as non-performing one by making provisions as per prudential norms specified by RBI. The Committee therefore, apprehend that some DFIs due to practical constraints could not take drastic action and might have extended further loans to help companies complete the stalled projects and thereby making the account performing asset.

3.36 In view of all this, the Committee recommend the following :-

- (i) No institutional finance should be made available to the same promoters who have diverted the funds for a minimum period of 10 years for starting any new venture.**
- (ii) In case any promoters who diverted the funds happen to be on the Board of Directors of other company(ies) which access the capital markets for raising equity & debt, such a fact should be mentioned in the prospectus and offer documents. Accordingly, SEBI should be asked to make amendments to disclosure requirements. Relevant Acts may be amended if necessary for purpose.**
- (iii) If any of the directors of companies which have diverted funds happens to be on the Board of other Companies, wherein DFIs have substantial equity exposure, DFI should ensure his exit from the Board.**
- (iv) The DFIs should take a proactive approach in changing the managements of the companies who diverted the funds.**

Debt Recovery Tribunals (DRTs)

3.37 In order to effect speedy recovery of loans, Recovery of debts due to Banks and Financial Institutions Act, 1993 for creation of Special Recovery Tribunals was passed by the Parliament in 1993. Under the provisions of the Recovery of Debts Due to banks and Financial Institutions Act, 1993 which provides for establishment of Recovery Tribunals and Appellate Tribunals for expeditious adjudication and recovery of debts due to banks and Financial Institutions and matters connected therewith or incidental thereto, the Central Government have established 15 DRTs in major cities under the 'Act' at Ahmedabad, Bangalore, Calcutta, Delhi, Jaipur, Chennai, Guwahati, Patna, Jabalpur, Mumbai, Hyderabad,

Ernakulam, Chandigarh, Allahabad and Aurangabad. Four more DRTs at Mumbai and one additional each at Calcutta, Chennai and Delhi are also proposed to be set up to speed up recovery of banks dues.

3.38 Statement showing total number of cases filed by banks and FIs, the number of cases disposed off, amount involved and the amount recovered as on 30.6.2000 is given in **Annexure – III**.

3.39 On the number of cases transferred to DRTs, the number of cases settled and the amount involved therein in respect of each of the DFIs, Ministry of Finance (Deptt. of Economic Affairs) furnished the following data :-

IDBI

Sl. No	Item	1995	1996	1997	1998	1999	2000 (up to March)	Total
i)	No. of recalled cases in which suits were filed.	20	28	68	98	174	67	455 *
ii)	Amount involved Rs. Crore	98.0 5	94.0 6	221.1 9	353.1 1	1679.7 7	442.4 3	2888.6 1

* including cases below Rs. 1 crore

IIBI

(Rs. Crore)

Year	No. of cases filed/transferred	Claim amount	Principal
1995-96	9	12.25	3.97
1996-97	3	12.00	4.21
1997-98	18	46.54	17.65
1998-99	31	81.57	31.52
1999-00	91	333.55	199.19
Total	152	485.91	256.55

ICICI

	Cases filed / transferred to DRT	Claim amount	Cases disposed off	Amount recovered
1994-95	5	3.58	Nil	Nil
1995-96	15	20.04	2	2.0

1996-97	40	253.52	2	2.0
1997-98	44	172.85	4	4.0
1998-99	72	400.26	8	8.0
1999-2000	263*	1253.12	5	5.0

* include cases transferred from Bombay High court to respective DRTs

IFCI

	Cases filed / transferred to DRT	Amount involved	No. of cases resolved	Amount realised
1994-95	18	74.11	1*	0.90*
1995-96	17	48.00	0	0
1996-97	23	180.78	3*	11.99*
1997-98	17	38.92	0	0
1998-9916	18	84.94	4*	12.37*
1999-2000	109	173.19	0	0
Total			8*	25.26*

* These cases have been resolved through compromise /OTS and not through adjudication by DRTs

3.40 On the need for permitting the Civil Courts to continue to hear the cases already filed before them without transferring them to DRT's in a written reply submitted to the Committee IDBI inter-alia stated as under :-

“Workload of DRTs is expected to grow more in view of the recent RBI instructions under which the Banks and FIs have been given a time bound programme for possible one time settlements (OTS). If no OTS proposals or revival / restructuring proposals materialise, the Banks and FIs have been advised to initiate legal proceedings. Hence quite a large number of additional legal proceedings are expected to be filed before DRTs in the coming months. On this basis, as per rough estimates, total number of cases before DRTs by March, 2000 are estimated to be around 1,00,000. The present number of 14 DRTs in the country and a few additional DRTs contemplated to be established would hardly be adequate to deal with the said magnitude implying that not less than 4000 to 5000 cases, on an average, would be before one DRT.”

3.41 Expressing similar views, IIBI Ltd. in a written reply submitted to the Committee inter-alia felt as mentioned below :-

“ all the banks and financial institutions (except, SIDBI, UTI and SFCs) have to necessarily file recovery petitions before the DRTs. Earlier, these

institutions and banks could file recovery matters before various courts (usually depending upon pecuniary jurisdiction). Now, when so many organisations are suddenly required to file all their claims before DRTs, the number of cases pending before DRTs including those transferred from civil courts is very high and seem to be difficult to manage. In order to overcome this problem it will be necessary to increase the number of Presiding Officers and Recovery Officers of DRTs. Further banks and financial institutions may be enabled (by suitable legislation to enforce mortgages created in their favour by taking possession of the asset forming part of security and disposing them of (on the lines of Section 29 of State Financial Corporation Act, 1951). If this alternative is available, some of the cases may be resolved by the Banks by availing of this avenue consequent to which, the pressure on the DRTs may ease to some extent.”

3.42 However, the views of the Ministry of Finance (Deptt. of Economic Affairs) as reflected in the following written reply furnished to the Committee ran contrary to those of Financial Institutions on the issue :-

“DRTs were set up specifically under an act of Parliament with a view to help banks/Financial Institutions to recover their dues. The Act was amended in January, 2000 to tackle some problems with the old Act which, inter-alia, provided for transfer of cases from civil courts to Tribunals. Pursuant to the amendment in 2000, in terms of Section 31A of the Recovery of Debts due to Banks and Financial Institutions Act, 1993 where decree or order was passed by any court before the commencement of Debt due to Banks/Financial Institutions (Amendments) Act, 2000 and has not yet been executed, then, decree holder may apply to the tribunal to pass order for recovery of the amount. On receipt of an application, the DRT may issue certificate for recovery to a recovery officer who shall proceed to recover the amount as if it was a certificate in respect of debt recoverable under this act. The Section 31A was inserted in the Act, 1993 mainly with the intention of expediting the recovery of dues in respect of cases which were heard and completed by Civil Courts. This apart, the Act, 1993 has been amended to ensure speedy disposal of cases pending before DRTs. Some important provisions in this regard relate to the following:

1. Provision for placement for more than one Recovery Officer – Section (7)
2. Power to attach defendant’s property assets/before judgement – Section 19 (13)
3. Penal provisions for disobedience of Tribunal’s order or for breach of any terms of the order – Section 19(17)
4. Appointment of receiver with power of realisation, management, protection and preservation of property – Section 19 (18) (a) to (e)

In view of the above amendments vesting more powers to DRTs, it is expected that DRTs would be more effective in recovery of Institutions’ dues. As the cases in civil courts are dragging on for years in view of the cumbersome legal system, the setting of a separate machinery for recovery fo dues was

envisaged and DRTs came into being for the purpose of transfer of cases from civil courts to DRTs has been provided for in the Act. And as such, it is felt that civil courts need not be permitted to continue to hear the cases filed before them.”

3.43 Supplementing further on the issue, Ministry of Finance (Deptt. of Economic Affairs) stated as under :-

“Under the “Act, 14 DRTs have been established in the following major cities. They are Ahmedabad, Bangalore, Calcutta, Delhi, Jaipur, Chennai, Guwahati, Patna, Jabalpur, Mumbai, Hyderabad, Eranakulam, Chandigarh and Allahabad. Four more DRTs at Mumbai and one additional each at Calcutta, Chennai and Delhi are also proposed to be set up to speed up recovery of banks dues. It is expected that more and more DRTs would be set up in other centres in the coming years.”

3.44 In respect of sanctioned and actual staff strength of DRT's, Ministry of Financ furnished the following data :-

DRTs Set up, Sanctioned/ Actual Staff Position as on 7.12.2000 in DRTs

S.No.	Name of DRT	Sanctioned Strength	Actual Strength
1	Delhi	30	24
2	Mumbai	30	25
3	Calcutta	30	25
4	Chennai	30	25
5	Ahmedabad	30	22
6	Hyderabad	30	24
7	Chandigarh	30	11
8	Allahabad	30	15
9	Patna	30	27
10	Ernakulam	30	20
11	Guwahati	30	24
12	Jaipur	30	20
13	Jabalpur	30	22
14	Bangalore	30	19
15	Aurangabad	30	3(recently started)

3.45 The data furnished by Ministry of Finance shows dismal performance of DRTs in disposal of the cases filed before them inspite of their existence for the last 7 years thereby defeating the very purpose of having an expeditious adjudication machinery for disposal of the recovery cases. The Committee are inclined to concur with the views expressed by the representatives of IDBI that there would be large number of additional cases before DRTs in view of the recent policy measures taken by RBI/Govt. such as initiation of legal proceedings in case One Time Settlement (OTS) proposals do not materialise within the stipulated period. The Committee are anguished to notice that despite the fact that some of the DRTs such as DRT at Delhi, Jaipur and Bangalore were established as far back as in 1994, a large number of vacancies in these still continue to exist. Besides, since the total number of DRTs still continues to be small and these happen to suffer from lack of infrastructure and manpower constraints, the Committee are of the opinion that impending addition of cases, will definitely result in causing further inordinate delays in disposal of the cases even if the recent amendments to DRTs Act are taken into account. The Committee therefore, recommend that the cases already filed before civil courts should be allowed to continue to be heard by them only.

3.46 The Committee further recommend that the recovery cases involving minimum amount of Rs. 10 lakh for referring to DRTs may suitably be enhanced, in order to reduce the number of cases pending before DRTs. Besides, as large number of cases involving huge amount of money are pending before DRTs lack of infrastructural facilities and manpower should not be allowed to constrain their functioning. The Committee, therefore recommend that necessary steps should be taken immediately to provide DRTs with necessary physical infrastructure and manpower. Moreover, Govt. should increase the number of DRTs to reduce the number of pending cases. The Committee also recommend that DRTs Act may be amended suitably.

Involvement of Lok Adalat's and Ombudsman in recovery cases

3.47 Under the provisions of Recovery of debts due to Banks and Financial Institutions Act, 1993, (DRTs Act), banks and DFIs are required to refer recovery cases involving an amount of Rs. 10 lakh and above only to DRTs for settlement purposes. On the issue of Settlement of non-performing loan cases involving an amount of less than Rs. 10 lakh, Governor, RBI during oral evidence held on **18 September, 2000** inter-alia stated as below :-

“... in consultation with the Government of India, which was in consultation with the Supreme Court, we have taken a view that the Lok Adalats can be used for upto Rs. 10 lakh NPAs to settle those accounts, consumer complaints.”

“... the third thing which we have tried to do is that the Institution of ombudsman has also been involved in trying to settle these accounts below a certain amount which is not handled by the Debt Recovery Tribunal.”

3.48 In a comprehensive note furnished to the Committee on the involvement of Lok Adalats for settlement of recovery of cases, Ministry of Finance (Deptt. of Economic Affairs) stated as follows :-

“The role of Lok Adalats was examined by RBI in consultation with the India Banks' Association (IBA) and a few representatives of commercial banks. There are certain advantages in using the forum of Lok Adalats by banks in compromise settlement of their NPAs. It can take cognition of any existing suits in the Court as well as look into and adjudicate fresh disputes. There are no court fees involved where fresh disputes are referred to it. If no settlement is arrived at, parties can continue with court proceedings. Its decrees have legal status and are pointing. As against other compromise settlements the advantage of settlement through Lok Adalats is that there is a finality of settlement which gives comfort to the borrower. The bankers also get the comfort that the settlement has been subjected to the judicial scrutiny as a fair settlement.

With a view to persuading the banks to make effective use of Lok Adalats the Reserve bank of India has suggested certain action points including enhancement of ceiling to Rs.10 lakhs to Government of India : The above proposal is under Government consideration.”

3.49 With regard to involvement of Banking ombudsman, Ministry of Finance furnished as follows :-

“The RBI is in the process of enlarging the scope of Banking Ombudsman Scheme to provide for settlement of disputes between a bank

and its constituents and also inter-bank disputes involving an amount upto Rs.10 lakhs through arbitration proceedings. The new scheme, when introduced, will also facilitate resolution of issues relating to NPAs upto Rs.10 lakhs.”

3.50 The Committee are of the view that the cost of litigation as well as the time consumed in the adjudication of recovery cases involving small amounts up to Rs. 10 lakhs through formal channels of justice i.e. courts is on the higher side affecting adversely both the parties. Hence, the involvement of alternative channels of justice which are cost effective and less time consuming such as Lok Adalats and banking ombudsman for adjudication of recovery cases appears to be desirable, especially in the light of the fact that the decrees of the Lok Adalats have the legal status of formal courts with the option of resorting to filing of suits in the courts, in case of non settlements. The Committee appreciate the initiatives taken by the government and RBI in this regard and recommend that suitable steps be taken immediately to operationalise the involvement of these two institutions in the recovery of NPAs and the upper ceiling of amount in their cases should also be enhanced.

NPAs - Delay in decision making

3.51 Informing the Committee that the delay in decision making by FIs is one of the reasons for occurrence of NPAs in the financial sector Governor, RBI on **18 September, 2000** inter-alia stated as follows :-

“.... the institutions are not able to take any corrective action in time because the whole process is extremely lengthy; there are a large number of institutions involved; and nobody wants to take a decision. So, we have had that kind of a problem which means that the ability of the financial institutions to take early action in restoration of health etc., has been limited.”

3.52 Expressing the similar views on the reasons for occurrence for NPAs, Chairman, IFCI Ltd. informed the Committee on **18 September, 2000** as under :

“Also, there are cases (of NPAs) where institutions could not take decision in time”

Ministry of Finance (Deptt. of Economic Affairs), in a brief written reply to the query as to whether the legal system is preventing them from taking prompt corrective action, stated that it is proposed to repeal SICA and amend the Companies Act to set up National Company Law Tribunal to work into aspects of rehabilitation/revival of companies along with their winding up.

3.53 In written reply to a query as to why the Financial Institutions are unable to take timely corrective actions and the measures taken/intended to be taken to speed up the decision making. Ministry of Finance (Deptt. of Economic Affairs) informed as stated below :-

“The problem in taking timely action in restructuring and in responding to any problem arises mainly on account of lack of co-ordination among banks and Fis, financing a particular unit as a consortium. Some other the problems which arise include (i) delay in sanction of facilities by one or more of the consortium members (ii) levy of charge in problem accounts (iii) group approach for borrowers (iv) sharing of securities and cash flows (v) disciplining borrowers – change in management etc.

It is understood that the Governor, Reserve Bank of India has been holding informal meetings with select Banks and FIs to solve the above problems wherever possible.”

3.54 The Committee are concerned to note that the lack of co-ordination among banks and FIs financing projects as a consortium is not only causing NPAs but also hampering the recovery of NPAs. As the delay in taking decisions by one or more institutions in the consortium might result in derailment of completion schedules of projects of the corporates, causing NPAs in books of all the lenders of the consortium, the Committee recommend that a formal standing co-ordinating mechanism may be evolved with the Chairman / MDs of participating institutions in the consortium to resolve the contentious issues in project financing.

Personal Guarantees

3.55 In the case of defaulters, if they do not demonstrate the likelihood of entering into a satisfactory restructuring of the loan or bring NPAs to performing status, one of the measures adopted by DFIs to recover their dues is to resort to invocation of personal guarantees.

3.56 On the data/information on the number of guarantees invoked by respective DFIs but not honoured, the amount involved and the legal action taken during the last 5 years the Ministry of Finance (Deptt. of Economic Affairs) furnished the following data :-

IDBI

Year (Jan-Dec)	No of cases	Principal amount involved (Rs. Crore)
1995	10	16.80
1996	16	68.65
1997	30	115.54
1998	54	195.61
1999	84	1166.65
2000 (Jan-March)	29	231.52
Total	223	1844.77

ICICI Ltd.

Year	Personal guarantees invoked and suits filed	Amount involved	Cases disposed off	Amount recovered
1995-96	13	56.58	Nil	Nil
1996-97	39	99.14	1	Nil
1997-98	31	131.08	1	Nil
1998-99	99	955.37	4	5.0
1999-2000	134	935.82	1	6.62

IFCI Ltd.

Year	Personal guarantees invoked*	Amount involved
1995-96	55	527.11
1996-97	87	754.27
1997-98	73	455.04
1998-99	85	973.98
1999-2000	85	1460.6
Total	385	4171

* In all cases , other than BIFR cases suits have been filed. In some cases where guarantees have been invoked, process of filing cases is on.

IIBI Ltd.

Year (Jan-Dec)	No of cases	Principal amount involved (Rs. Crore)
1997-98	12	30.71
1998-99	30	94.22
1999-2000	23	83.32

Total	65	208.25
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3.57 The Committee note that Financial Institutions resort to invoking personal guarantees only when all other options of recovery and restructuring efforts get exhausted. The Committee therefore, are of the opinion that such entrepreneurs deserve punishment over and above filing suits against them to have deterring effect. Accordingly, the Committee recommend that the entrepreneurs who otherwise have the capacity to honour the invoked guarantees but deliberately did not do so should be debarred from becoming directors on the Board of Directors of public sector commercial banks, DFIs, Investment Institutions, Govt owned and controlled companies/corporations.

3.58 The Committee further recommend that such entrepreneurs should not be allowed to avail financial assistance from public sector/commercial banks, DFIs, Investment Institutions for a period of 15 years to have desirable impact.

Devolvement of State and Central Government Guarantees

3.59 With regard to the data on the number of cases where the Central and State Governments have given guarantees but were not honoured when invoked, IFCI Ltd. furnished the following –

Central/State Govt. Guarantees	No. of cases	Amount in Rs. Millions
Central Govt.	1	629.29
Govt. of Maharashtra	21	109.10
Govt. of Karnataka	2	74.27
Govt. of J&K	1	0.43
Govt. of Gujarat	1	175.71
Govt. of Madhya Pradesh	2	33.45
Govt. of Punjab	9	600.89
Govt. of A.P.	3	126.59
Govt. of U.P.	1	64.85
Govt. of Kerala	3	264.74
Govt. of Rajasthan	1	4.90
Govt. of Bihar	3	111.20
Govt. of Meghalaya	1	24.20
Govt. of Tripura	1	40.80
Govt. of Assam	2	235.10
Govt. of Sikkim	1	29.70
Govt. of Orissa	1	48.40
TOTAL	54	2573.62

3.60 IIBI Ltd. on the status guarantees – guarantees invoked but not honoured by the State Governments have furnished the following data :-

Sl. No.	Name of the Company	Guarantee invoked in the Year	Amount claimed (Rs./lakh s)	Name of Govt.
1	Yeotmal Zilla Soot Wa Kapad Girni Ltd.	1999-2000	49.40	Maharashtra
2	Ambajogai Sahakari Sakhar Karkhan Ltd.	1999-2000	164.52	Maharashtra
3	Godabari Mannar Sahakari Sakhar karkhana Ltd.	1999-2000	142.21	Maharashtra
4	Basant Dada Co-operative Spg. Mills	1999-2000	197.57	Maharashtra
5	The Binod Mills Co. Ltd.	1999-2000	58.18	Madhya Pradesh
6	The Mewar Textiles Ltd.	1999-2000	118.08	Rajasthan
7	Elgin Mills Co. Ltd.	1999-2000	824.15	Gol
8	UP Tyres & Tubes Ltd.	1997-98	166.62	Uttar pradesh
9	Keltron Crystals Ltd. (since settled through OTS)	1997-98	150.64	Kerala
10	APSSIDC	1997-98	60.83	Andhra Pradesh
11	Assam State Textile Corporation Ltd.		369.12	Assam
12	Shri Ukai Pradesh ssk		13.4	GR

3.61 IDBI has not invoked any guarantee given by the Central Govt. In the case of State govt. guarantees, guarantees were invoked in 47 cases involving an amount of Rs. 168.34 crore whereas the amount involved in guarantees given by state Governments which are invoked but are not honoured stood at Rs. 168.86 crore at the end of 31 March, 2000.

3.62 Informing the Committee of the status of guarantees given by State as well as Central Governments, Chairman, IFCI Ltd. during the oral evidence held on 18.9.2000 inter-alia stated as under :-

“Cooperative sector has been one of the strong financing sectors of IFCI. During 70s and 80s, 20 per cent of the total money had gone to the Cooperative sector. But today the position is that half of them are settled and the other half are fully in default. I think, there are only three or four cooperatives which are not in default to IFCI. The ratio for others is much smaller. It is because we have taken the lead role. The amounts of principal is Rs. 500 crore because after 8 to 9 years they give us only the principal. I am not talking about profit. I have borrowed these funds at 12 to 13 per cent from the market. All these loans were guaranteed by the Centre and the State Governments. But we have not got the money. We have not got the interest. And, even today, Rs. 700 crore is locked up. We are treating them as standard but from March 2001, we will have to treat them as sub-standard as per new RBI Regulations.”

3.63 On the issue of guarantees given by Central and State Governments, the Chairman, IDBI during the oral evidence held on 20 September, 2000 stated as under :-

“There are a large number of PSUs which are Government guaranteed cases and they have defaulted. There are 77 public sector units, both Central and State put together, which are defaulting and the amount involved is Rs. 500 crore. There are 125 Government guaranteed cases, both Central and State Government guarantee cases. The amount involved is Rs. 520 crore. The total amount involved in the PSUs and the Government guaranteed cases is Rs. 1,020 crore.”

3.64 The Chairman, LIC during the evidence held on 19 September, 2000 informed that there are certain loans advanced on the strength of the guarantees given by Central and State Governments. Some of the said loans become NPAs. Though LIC has not invoked State Government guarantees in these cases it has been writing to concerned State Governments to honour the invoked guarantees To ensure that invoked guarantees are honoured by the State Governments, on the action taken by LIC in case the invoked guarantee is not honoured by the State Governments and the corporates, Chairman, LIC during the evidence held on 19 September, 2000 stated as under :-

“We have not invoked the guarantee of any State Government or Central Government, but definitely we are in touch with them. I have written to all the Chief Secretaries. And the response is quite positive on this side. They may not be giving immediately, but certainly they have committed certain dates, that hopefully on these dates they shall be paying.

....that in case any corporate or any State Government is defaulting, till our loan is cleared, whether it is plan allocation, non-plan allocation, we will not sanction any further loan. Or till there is commitment on the part of the State Government, no further loans are sanctioned on this count.”

3.65 The Committee note that there are a large number of loan cases involving huge amount of money in respect of which the guarantees given by Central and State Governments have been invoked but not honoured so far. The Committee observe that huge amount of IDBI and IFCI Ltd. has been involved in Government guarantees already invoked but not honoured, in their books. The Committee express their displeasure at the Central and State Governments' failure to honour their guarantees especially in the light of the fact that they are supposed to set an example for others in maintaining financial discipline.

In view of the fact that w.e.f. March, 2000 the guarantees invoked but not honoured are to be treated as substandard, DFIs have to accordingly provide for the

same as per new RBI regulations which in turn will have adverse impact on the profitability of the DFIs. The Committee, therefore, recommend that expeditious and continuous steps should be taken with the concerned State Governments and Central Government for realising the amount involved in the invoked guarantees.

Chapter IV
Corporate Governance
Role of Nominee Directors

4.1 Financial Institutions by virtue of right retained in Loan/Underwriting agreements have been appointing nominee directors on the Boards of assisted companies with a view to, inter-alia, protecting their interest. The Guidelines originally issued by Government of India, in 1971, required the financial/investment institutions to nominate directors on the Boards of all assisted companies where substantial assistance had been sanctioned and where mandatory convertibility clause had been incorporated in the Loan Agreements. The guidelines were modified in 1984, in terms of which the institutions were required to appoint nominee directors on the Boards of all MRTP companies, assisted by institutions, irrespective of extent of assistance and in the case of Non-MRTP companies, if any one or more of the following conditions obtained:

- (a) Where the institutional stake by way of loans/investment exceeded Rs. 5 crore.
- (b) Institutional share holdings were more than 26%
- (c) The unit was facing problems and was likely to become sick;

4.2 Following abolition of mandatory loan-convertibility and amendment of MRTP provisions in 1991, the three alternative criteria alone remained operative. On a review, the guidelines have been further modified in August 1997, in terms of which the threshold limit of institutional assistance for mandatory exercise of nomination rights has been increased from Rs. 5 crore to Rs. 50 crore. The other two criteria for nomination viz. where the institutional shareholdings exceed 26% of the company's equity; or where the company is facing major problems, which may lead to sickness remain.

4.3 Detailed guidelines have been issued for the use of nominee directors appointed by the institutions on the Boards of assisted companies. These are comprehensive and cover various aspects of the directors' role, obligations, responsibilities, rights, protection available and the aspects of the company's working to be looked into. In terms of guidelines revised recently, it has been emphasized that the nominee directors must take an active part in the deliberations at the Board Meetings and should endeavour to promote good corporate governance in the company, though he is not expected to participate in the day-to-day management of the company. The responsibility of the nominee director will be, as in the case of any other non-executive directors, as laid down in the Company Law, except to the extent of protection, if any afforded in any Special Acts. While it is not expected of the nominee to take upon himself the

role of investigation into the unearthing violation of laws by executives/employees of the company, he is required to see that the required systems for ensuring compliance with laws and regulations are in place in the company. Wherever any violation of laws by the company comes to his knowledge, nominee director should take it up at the Board Meetings suitably for necessary follow-up action. He should also keep the concerned officials in the Bank informed.

4.4 Responding to a query as to whether the institutional nominees are there on the Boards of the Companies which have diverted the funds of DFIs, the Ministry of Finance furnished the following data:-

Name of FI having institutional nominee on the board of cos. Diverting funds	1995-96	1996-97	1997-98	1998-99	1999-00	Role of nominee director in detecting, enabling/ preventing fund diversion
IIBI	1	-----NIL-----				The funds diverted were brought back
TFCI	1					Institutional nominee was appointed on the Board but the promoters were not co-operative and didn't allow the institutional nominee to act in the best interest of the company. The promoters failed to deploy their envisaged contribution for the project and the account became NPA. The nomination on the Board of the company was withdrawn before filing suit for recovery of the dues with DRT.
IDBI	-----NIL-----					
IFCI	1	1	1	-	-	In one case, nominee director was withdrawn and suit filed. In other 2 cases, the matter was not reported/placed

						before the Board by the company.
ICICI	-----NIL-----					

4.5 On the role of nominee directors in protecting the interest of the company IDBI in a reply furnished to the Committee inter-alia stated as under :-

“Nominee directors however, confine themselves to the deliberations at the Board level with a view to providing policy direction to directors/executives, who conduct the affairs of the company on whole-time basis. They do not interfere in day-to-day functioning of the company and also take no stand of their own with regard to contentious and controversial issues.

The nominee directors can be expected to contribute only in respect of matters brought before the Board but are helpless if the information is either concealed or not furnished. However, in the context of Government of India along with FIs and corporates working in the direction of a new code of conduct, based on internationally accepted corporate practices, popularly known as ‘corporate governance’ it is expected that the institutional nominees would have a more pro-active role to intervene effectively in corporate matters.”

4.6 In a note furnished to the Committee during the Committee’s visit to Mumbai in August, 1998, IDBI suggested the following measures for enhancing the effectiveness of Nominee directors.

- (i) there should be proper balance between the strength of promoter directors vis-à-vis independent directors including institutional directors in the Board;
- (ii) the frequency of the Board meetings should be increased at least to 6 from the present 4;
- (iii) matters relating to acquisition/mergers/takeover, divestment, inter-corporate/group company transactions, waivers/write-offs, formation of new companies/subsidiaries as also de-subsidiarisation and compliance to statutory/regulatory requirements, etc. should be brought before the Board; with adequate details to take a decision;
- (iv) agenda papers should be circulated to all directors in advance of the meeting;
- (v) a certificate by the Chief Executive on compliance with statutory requirements, payment of statutory and institutional dues should be placed before the Board at each meeting;
- (vi) the companies shall constitute Board level Committees to monitor/determine important matters like a) project implementation b) remuneration to executives, c) internal audit d) share transfer, etc.

4.7 The Committee are surprised to find that despite the presence of nominee directors on their Boards companies conveniently diverted the funds thereby jeopardising the health of all the stakeholders – lenders, equity holders, employees etc. The Committee therefore recommend that these nominee directors

during whose tenure diversion took place should be disqualified from being appointed as nominee directors.

4.8 Instead of being passive onlookers of the ongoings in the company, the nominee directors should adopt pro-active approach in protecting interests of the institutions which they represent.

4.9 The Committee are in agreement with the suggestions given by IDBI and recommend that steps should be taken to enhance the effectiveness of the nominee directors by issuing suitable guidelines especially in the light of the fact that they are expected to fulfil the objectives laid down in the respective statutes.

Concentration of powers in the Executive Committee of the Board

4.10 Under Section 18(1) of UTI Act, 1963, there shall be an Executive Committee which shall consist of (a) Chairman of the Board (b) where an Executive Trustee has been appointed by IDBI such Executive Trustee, and (c) two other Trustees nominated in this behalf by IDBI. The Chairman of the Board shall be the Chairman of Executive Committee subject to such general or special direction as the Board may, from time to time, give the Executive Committee, shall be competent to deal with any matter within the competence of the Board.

4.11 The Board has empowered the Executive Committee to approve all investment proposals above Rs. 50 crore. The Board has also empowered the Chairman to approve investment proposals upto Rs. 50 crore provided the proposals meet with financial norms and rating requirement.

4.12 When asked whether the delegation of powers by the Board of Trustees to the Executive Committee consisting of three Members of Board of Trustees to approve all investment proposals above Rs. 50/- crore especially in the light of limited powers of the Cabinet Ministers with regard to approval of the financial proposals is justified, Chairman, UTI stated as below :-

“Sir, I would place it before the Corporate Positioning Committee.”

4.13 In written response to a query as to whether concentration of powers to approve all investment proposals involving huge amount of money in a single individual to executive committee of three Directors is desirable, UTI inter alia stated as under :-

“Keeping in view the legislative provisions, the Board of Trustee of UTI has delegated all powers relating to approval of investments without any limit, in terms of general corporate practice. The Board of Trustee essentially focus on policy and directional matters.

The Board of Trustees have delegated powers to Chairman for investment upto Rs. 50 crore as per decision taken at its meeting held on December 05, 1994.

The Board of Trustees has also laid out broad investment norms and criteria to be met by the borrowers before accepting the proposal for evaluation by UTI as under :

- (a) Minimum Credit Rating
- (b) Maximum Long Term Debt/Equity Ratio
- (c) Minimum DSCR (Projected Average)
- (d) Minimum Interest Cover (past)
- (e) Maximum Unsecured Borrowing/Networth% (including proposed investment)
- (f) Minimum Current Ratio
- (g) Minimum Profitability Record

Thus, in light of the above, delegation of powers to Executive Committee and Chairman is considered not too liberal.

The Board at its meeting held on 29th September, 1992 decided to delegate powers to Chairman for Primary Market Instruments upto Rs. 10 crore provided instrument satisfies all the criteria and risk quality standard as approved by Board. The delegation was mainly given to Chairman, keeping in view, the quicker decision required, in view of the economic liberalisation embarked upon by the Government mainly in financial sector. The power to Chairman was further enhanced to Rs. 25 crore at the Board meeting held on 23rd November, 1992.

Subsequently at the board meeting held on 5th December, 1994, the delegation of powers to Chairman was further reviewed, keeping in view the asset quality standard for primary market debt instruments, arising out of major development in the primary market such as floating rates notes, medium term secondary loan, PSU bonds and commencement of trading in National Stock Exchange (NSE), specially as UTI on its part had strengthened its risk assessment through the use of rating, by UTI's Credit Rating Cell as input in decision making.

Keeping the above development in consideration, it was decided on 5th December, 1994 to enhance the powers of Chairman in sanctioning primary market disbursement upto Rs. 50 crore. Any deviation of more than 10% of the norms would be referred to Executive Committee for consideration.

The Board has also decided to retain the powers to sanction to a single company if the exposure to the said company exceeds 5% of the total investible funds under all the schemes. Similarly, if the exposure in a single finance company exceed Rs. 100 crore, board will consider them.”

4.14 The Committee are of the view that concentration of financial powers for investing huge amounts of funds in securities of different kinds in single individual may lead to undesirable and unhealthy practices. The Committee, therefore recommend that the upper ceiling of the financial powers of the Chairman which are on the higher side need to be rationalised. The Committee note that though the Board of Trustees is competent enough to delegate the Executive Committee consisting of 3 Members of Board of Trustees the power to sanction/invest unlimited amount of money yet the entire Board should not have completely divested of its responsibility for sanctioning even huge amounts of money. The Committee, therefore recommend that entire Board of Trustees should invariably be involved in decisions pertaining to sanctioning/investing huge amounts of money.

The Committee are of the view that the functioning of UTI need to be more professional and transparent. Further, the Committee are in favour of bringing all the Schemes of UTI under the ambit of mutual fund regulations prescribed by SEBI. Accordingly, the Committee recommend that the UTI Act may suitably be amended

Chapter V

Supervisory and other issues

Power for regulating DFIs

5.1 The Banking Regulation Act gives vary wide powers to Reserve Bank vis-à-vis banks whereas in case of FIs. The limited powers of Reserve Bank of India to supervise financial institutions are derived from Section 45 K, 45 L and 45 N of Reserve Bank of India Act, 1934.

5.2 With regard to the powers that RBI would like to have to supervise effectively the Financial Institutions keeping in view of their predominant role in the country's financial system, RBI in a written reply stated as under :-

“..... the power of RBI to supervise FIs as derived from Section 45 K, 45 L and 45 N of Reserve Bank of India Act, 1934 are limited in nature. Since the functions of FIs are analogous to that of banks, it is felt necessary that powers of supervision of FIs should be widened at least in certain areas as stated below :-

- i) Enabling provisions to prescribe Cash Reserves and maintenance of Liquid Assets by FIs;
- ii) Powers to control advances granted by FIs;
- iii) Appointment/removal of auditors of the FIs;
- iv) Powers for inspection of FIs, follow-up and to issue directions based on Inspection Reports as available under various sub-sections of Section 35 of the Banking Regulation Act, 1949 in respect of banks;
- v) Powers to give general directions to FIs
- vi) Powers regarding appointment of MDs etc.; and
- vii) Powers to remove managerial and other personnel of the FIs, if considered necessary, in the interest of an FI or in the larger public interest.

5.3 When asked whether the Government are in favour of empowering RBI with the above mentioned powers, the Ministry stated that the matter is under the examination of the Central Government.

5.4 The Committee are of the view that in the light of relaxation of lending norms/pattern of DFIs and banks allowing them to enter into each other's domain – DFIs extending working capital loans and commercial banks giving long term advances – and the impending implementation of Universal Banking Concept where ultimately there would be banks and restructured NBFC's effective supervision seems to be essential. The Committee, therefore, recommend that RBI be bestowed with such powers.

Funds locked up in BIFR cases

5.5 On the amount of funds of DFIs locked up in BIFR cases as on 31 March, 2000, Ministry of Finance furnished the following data:

(Rs. In crore)

Name of the FI	No. of Cases	Amount
IIBI	267	392.69
IDBI	708	3650.74
TFCI		
NHB		-----NIL-----
IDFC		-----NIL-----
NABARD		-----NIL-----
IFCI	420	5345.40
ICICI	357	1909.63
EXIM Bank	15	73.20
SIDBI	31	78.04

5.6 In written reply to a query as to whether there is any proposal to repeal BIFR Act, 1985, Ministry of Finance informed as under :

“There is a proposal under the consideration of the Government to repeal the Sick Industrial Companies (Special Provisions) Act, 1985. There is also a proposal to amend the Companies Act to include the provisions for setting up of a National Tribunal which will have the jurisdiction and powers presently exercised by the Company Law Board under the Companies Act, 1956 and the power to consider rehabilitation and revival of companies – a mandate presently entrusted to BIFR/AAFIR under SICA, as well as the power for winding up of companies. The matter is under active consideration in the Government.”

5.7 The Committee note that huge amount of DFIs funds are locked up in BIFR cases because of inordinate delay in settlement of the cases. Hence, the Committee recommend that urgent steps should be taken to revamp BIFR enabling it to dispose off the cases expeditiously.

Compensation Packages

5.8 On the flight of talent due to low compensation packages, Chairman, IFCI Ltd. during oral evidence held on 18 September, 2000, submitted as under :-

“They are absolutely low for the last ten years, the market demand has gone up. We are losing some of our efficient and well trained manpower. The recent thinking is that it should not be across the Board. It should be linked to productivity and efficiency and ways should be found to measure that productivity”

5.9 Explaining the need for hike in compensation package for officers and staff of IIBI Ltd. CMD during the oral evidence held on 19 September, 2000 inter-alia stated as below :-

“We have our quality problems. Wherever it is not available, we take from whatever is existing, the best people for this particular task. But that does not satisfy our total requirement. So, we have already started talking to various institutions which generate these kind of people at a lower level who are experts in financial areas. We are trying to recruit them. We also are trying to recruit people from other institutions or from the market. There is one problem in getting such people and that is the compensation package. But the kind of compensation package that we have, we can get people on probably deputation from other financial institutions. But that will not satisfy our requirements. We have to take some more professional and experienced people from either the private sector or the market.”

5.10 In response to a query as to how IDBI intend to attract and retain talented people with its existing compensation package vis-à-vis ICICI Ltd. expressing similar views as those of Chairman, IFCI Ltd., CMD, IDBI during the oral evidence held on 20 September, 2000 inter-alia stated as under :-

“So far as salary packages are concerned we are an organisation which is Government-owned. Our pay packages have to have a relationship with the pay offered by RBI. The matter has been considered by IDBI. The Board has appointed a Committee. The recommendations of the Committee had been sent to the Government. We have not yet received the approval of the Government as to the higher pay packet which has been recommended by the Board. The matter is under the consideration of the Government.”

5.11 Expressing similar views about the flight of talent due to low compensation package, Unit Trust of India UTI in a note furnished to the Committee stated as follows:-

“Historically, the compensation to staff of UTI is linked to that of IDBI which is in turn linked to that of RBI. However, the UTI Act, UTI General Regulations and UTI Staff Rules do not require UTI to link its compensation package to staff with IDBI/RBI. For stopping experienced staff from going out of UTI through resignations and with a view to attracting and retaining talent to facilitate meeting competition successfully, UTI has to pay market related

compensation package and this issue is being addressed suitably by the Board of Trustees.”

5.12 In written reply to a query as to how the Govt. intend to stem the flight of talent due to lower salaries offered by some DFIs, Ministry of Finance (Deptt. of Economic Affairs) stated as follows:-

“The business environment has changed substantially following financial sector reforms, WTO agreement and globalisation of the Indian economy. The compensation package must therefore be attractive enough to retain and motivate employees to achieve the overall objectives of the organisation. The financial services industry has witnessed a gradual weaning away of personnel from public sector to private sector which offers highly attractive salaries and perquisites to its employees. It is difficult to attract qualified persons from premier management institutions, on account of low emoluments. There has been flight of talent from some of DFIs due to non-availability market driven compensation packages. The matter is under consideration of the Government.”

5.13 The Committee observe that there has been flight of efficient and well trained people from Govt. owned/controlled financial institutions and mutual funds due to lower compensation packages offered by them vis-à-vis their counterparts in the private sector. The Committee feel that human resources are an indispensable asset to any institution and unless there is some motivating factor, it would be difficult to make them contribute to the productivity and growth of the organisation/institution. The Committee are given to understand that the matter is already under the active consideration of the Government. They however, desire that concrete steps in this regard should be taken expeditiously by keeping the changed scenario in the financial sector in view.

**NEW DELHI;
20 December, 2000
29 Agrahayana, 1922(Saka)**

**(SHIVRAJ V. PATIL)
Chairman,
Standing Committee on Finance**

**STATEMENT OF CONCLUSIONS/RECOMMENDATIONS OF
THE STANDING COMMITTEE ON FINANCE IN THE EIGHTH REPORT (2000-2001)**

Sl. No.	Para No.	Conclusions / Recommendations
1.	1.12	<p>In the light of reforms in the financial sector especially the prudential norms prescribed by RBI, the Committee recognise the need for diversification of the financial institutions into new areas like working capital finance, retail finance and insurance etc. However, the Committee are of the view that there are number of private players infusing sufficient competition in the retail finance compared to a few institutions engaged in long-term finance where the risks associated with it and the repayment period is on the higher side. Moreover, the Committee apprehend that though unbridled entry of DFIs into retail business may result in improved bottomlines of these institutions since such retail financing is considered more profitable and less risky but in the long run it might result in causing shortage of long term funds for projects especially in infrastructure. The Committee, therefore, recommend that Govt./RBI should ensure that these institutions are not allowed to enter into retail financing to such an extent that there is shortage of availability of funds and these FIs are unable to discharge their primary role of meeting the long term resource requirements of the Industry for which these were originally set up.</p> <p>The Committee further recommend that the approach to universal banking should be gradual and sufficient precautions especially in the realm of devising regulatory mechanisms for consolidated supervision should be taken diligently.</p>
2.	1.26	<p>The Committee recognise the constraints being faced by the DFIs in extending finance at subsidised interest rates for setting up of projects in backward areas in the light of drying up of cheap sources of long term funds from Govt. of India and RBI. However, the Committee are also aware of the fact that due to industrial backwardness in various parts of the country resulting consequently in deprivation of employment opportunities even for educated and skilled, lakhs of people are forced to migrate to metropolitan cities thereby creating enormous pressure on the urban infrastructure. The Committee are of the view that the main stumbling block for industrial backwardness of a particular region is lack of dependable and affordable infrastructure. The Committee, therefore, recommend that the Financial</p>

Institutions should devise innovative financial instrument to finance development of dependable and affordable infrastructure which in turn would result in inducing the entrepreneurs to set up industrial units in these areas.

3. 1.35

The Committee are of the opinion that one of the objectives of inviting foreign capital in the form of Foreign Direct Investment is to supplement the scarce domestic capital. Though the Committee are not at variance with Financial Institutions regarding extension of financial assistance by DFIs to MNCs for acquiring indian companies in view of the ongoing reforms in the financial sector, due to scarce domestic capital, they are of the view that some kind of restraint/caution has to be exercised by the DFIs in extending finance to MNCs for acquiring indian companies, lest such requirement of financing by the foreign companies should deprive the domestic industry and commerce of much needed capital. The Committee therefore recommend that Govt. should ensure that there is no unbridled financial assistance to MNCs by DFIs for the above mentioned purpose.

4. 1.39

The data furnished by the Ministry of Finance reveals that not only the proportion of advances to medium scale units vis-à-vis large scale is very low but even the absolute amounts advanced to these units has witnessed continuous decline in the case of IFCI Ltd, IIBI Ltd. and IDBI for the last two years. The Committee would like to be apprised of the specific reasons as to why there has been progressive decline in the financial assistance to medium scale units.

The Committee are of the opinion that there are large number of medium scale industries providing employment to lakhs of people. Lack of adequate institutional finance for their working capital and capital expenditure might ultimately result in their sickness. The Committee therefore recommend that the term 'medium scale industrial units' should be defined and their fund requirements for projects related capital expenditure should be catered to fully by the DFIs.

5. 2.6

The Committee find that there are two different definitions of Public Financial Institutions (PFIs) – one under the Companies Act, 1956 and the other under the Public Financial Institutions (Obligation as to Fidelity and Secrecy) Act, 1983. They are given to understand that the need for having a uniformity in the definition of PFI was under consideration of the Government.

In consonance with the views of the Government the Committee also feel that it is desirable to have a uniformity in the definition of the PFIs for the purpose of

greater clarity. They, therefore, recommend that immediate steps be taken to amend the Companies Act, 1956 and PFIs (Obligation a to Fidelity and Secrecy) Act, 1983 insofar as definition of PFIs is concerned.

6. 2.9

The Committee observe that all the Financial Institutions – Development Financial Institutions, Investment Institutions, Refinance Institutions, SFC's, State Industrial Corporations etc. are financial intermediaries engaged in mobilising resources from the public and investing in/ lending to different industries for a variety of purposes. The Committee are of the view that all the aforesaid financial institutions played a predominant role through their respective spheres of operations in contributing to economic development.

The Committee are further of the view that the credit information about the defaulters especially wilful defaulters, defaulters of Group Companies and the promoters who have diverted the funds taken from any of the said financial Institutions should be made available to the remaining financial institutions. Such an elaborate credit sharing of information mechanism is *sin-qua-non* to prevent unscrupulous promoters from availing financial assistance from other institutions despite their deplorable past. The Committee, therefore, recommend the RBI/Govt. of India to notify the remaining institutions also for the purpose of sharing of credit information under the RBI Act, 1934.

7. 3.18 to 3.23

The Committee observe from the replies furnished by IDBI and IFCI Ltd. that though the regulator – RBI issued a circular as far back as in Oct, 1999, classifying six categories of defaulters as wilful defaulters, IFCI Ltd. seems to have not adhered to the stipulation by adopting their own way of classification/categorisation of wilful defaulters, whereas IDBI furnished the category wise classification as per RBI circular. The divergence in categorisation and classification of wilful defaulters amply clarifies the fact that the Financial Institutions have not followed the RBI's circular/directive in this regard. The Committee, would therefore like RBI to ensure that all the notified Financial Institutions follow RBI directives in respect of classification/categorisation of wilful defaulters to have uniformity in the interpretation and compilation of data on the issue.

It is noticed that the process of recovery of dues from the wilful defaulters and the action taken on account of non recovery from such defaulters, such as - holding discussions, issuing recall notices, entering into One Time Settlement (OTS) and filing suits, etc. is similar to that of

genuine defaulters. The data on the recovery from wilful defaulters shows that the institutions could recover only a small percentage of wilful defaults implying thereby that the procedure of holding discussions, issuing recall notices etc. has not had desired impact. It further indicates that a lenient view is taken in respect of even those entrepreneurs who abuse the public funds with impunity thereby jeopardising the health of both the industrial concern and the DFI.

The Committee are not inclined to accept the Ministry's reply stating that it is difficult to distinguish between wilful and genuine defaulters, particularly when six categories of default as wilful default have clearly been specified by RBI. The Committee, are however of the considered view that there is need for distinguishing wilful defaulters from those who default otherwise, in respect of action taken to recover the dues and the punishment meted out. Stringent action such as filing criminal cases at least against those who take recourse to such tactics as siphoning the funds, misrepresentation, falsification of accounts and fraudulent transactions must be resorted to invariably. The Committee also recommend that the promoters of such companies should not be allowed to avail themselves of institutional finance from public sector commercial banks, DFIs, Govt. owned NBFCs, Investment Institutions etc. for floating new ventures etc. for a period of at least 15 years. Moreover, wilful defaulters should be debarred from becoming directors on the Boards of Directors of Govt. controlled/owned companies/corporations, and in case any of the wilful defaulters happens to be on the Boards of these companies, steps should be taken for his/her immediate removal.

They further recommend that the companies, on the Board of which wilful defaulters are present, access the primary market for raising resources through equity and debt issues, it should be made mandatory to mention the fact to this effect in the prospectus and offer documents enabling the investors to take an informed decision about investing in the company's issue. The Committee believe that this step will go a long way in having deterring effect on the wilful defaulters. The Committee further recommend that SEBI should ensure incorporation of this provision in their "disclosure requirements". Relevant Acts may be amended, if necessary, for the purpose.

As already stated above, the Committee do not accept the reply furnished by the Ministry stating that it is difficult to define wilful default exhaustively in view of the practical difficulties. They therefore, recommend that the Government should define wilful default for incorporating the same either under Chapter III B of the RBI Act, 1934 or

under Public Financial Institutions (Obligation as to Fidelity and Secrecy) Act, 1983 and the statutory discretion may be given to the Financial Institutions to disclose their names to the public to have deterrent effect.

The Committee would like to be apprised of the specific reasons for such a high amount of NPAs in respect of DFIs and the specific/concrete steps taken to recover the same.

8. 3.32 to 3.36

The Committee observe that the information given by the representatives of RBI and IFCI Ltd. during the oral evidence held on 18 September, 2000 and the written replies furnished by the Ministry of Finance and IDBI are not in conformity with each other as explained below :-

- (j) RBI Governor during the evidence informed that the amount of NPAs due to diversion are very large. However, the aforementioned data reveal that the total NPAs of three DFIs IIBI Ltd., IFCI Ltd. and IDBI – due to diversion for the last 5 years stood at about Rs 94 crore constituting a mere 0.80% of their combined Net NPAs as on 31 March, 2000, implying that extent of NPAs due to diversion in the total NPAs is not as large as is made out to be.
- (ii) IDBI, in their written replies furnished to the Committee at their sitting held on 20 September, 2000 informed that in one case diversion of the funds led to poor performance of the company rendering the account to become NPAs. However, the subsequent data furnished by the Ministry shows that there is no NPAs in IDBI's books due to diversion of the funds since 1995-96. Further in the data provided by the Ministry, there is no mention of the remaining three cases. Out of these three cases in one case the diverted funds were brought back. In the remaining two cases the companies have been advised to retrieve the funds in time bound manner.
- (iii) The Chairman, IFCI Ltd. as mentioned above during the evidence held on 18 September, 2000 informed that the amount involved in diversion in respect of IFCI Ltd. is about Rs. 2500 crore, whereas the subsequent data furnished by the Ministry shows that the amount of NPAs of IFCI Ltd. due to diversion since 1995-96 stood at about 81 crore. Further, the Ministry informed that no amount could be recovered by IFCI Ltd. from

those corporates, which have diverted the funds. This, the Committee are of the opinion, implies that out of about Rs. 2500 crore diverted money nothing could be recovered thereby entire amount becoming NPAs.

The Committee are displeased to note that there is large scale variance in the data provided by the respective Institutions and Ministry of Finance. Hence, the Committee feel that it is not possible to have an objective assessment on their financial health. The Committee therefore, recommend that RBI should look into the matter and furnish the Committee the correct data in this regard.

The Committee are distressed to note that diversion of funds lent by the DFIs to corporates for purposes other than those mentioned in the loan agreement, especially to capital markets and real estate business, is the foremost reason for occurrence of NPAs in the financial sector. What further dismays the Committee is the fact that such companies are seldom held accountable and it is this lack of accountability on the part of the Indian corporates which has caused enormous damage not only to the projects for which loans have been sanctioned but also to the health of the DFIs who in turn had to earmark huge amounts as provisions for such advances having turned into non-performing assets (NPAs) as per the Regulations laid down by RBI.

The Committee are of the view that the corporates who availed the loans and subsequently diverted these, did so knowingly with the intention of getting more funds towards completion of projects so that DFIs also do not classify their account as non-performing one by making provisions as per prudential norms specified by RBI. The Committee therefore, apprehend that some DFIs due to practical constraints could not take drastic action and might have extended further loans to help companies complete the stalled projects and thereby making the account performing asset.

In view of all this, the Committee recommend the following :-

- (v) No institutional finance should be made available to the same promoters who have diverted the funds for a minimum period of 10 years for starting any new venture.
- (vi) In case any promoters who diverted the funds happen to be on the Board of

Directors of other company(ies) which access the capital markets for raising equity & debt, such a fact should be mentioned in the prospectus and offer documents. Accordingly, SEBI should be asked to make amendments to disclosure requirements. Relevant Acts may be amended if necessary for purpose.

- (vii) If any of the directors of companies which have diverted funds happens to be on the Board of other Companies, wherein DFIs have substantial equity exposure, DFI should ensure his exit from the Board.
- (viii) The DFIs should take a proactive approach in changing the managements of the companies who diverted the funds.

9. 3.45 & 3.46

The data furnished by Ministry of Finance shows dismal performance of DRTs in disposal of the cases filed before them inspite of their existence for the last 7 years thereby defeating the very purpose of having an expeditious adjudication machinery for disposal of the recovery cases. The Committee are inclined to concur with the views expressed by the representatives of IDBI that there would be large number of additional cases before DRTs in view of the recent policy measures taken by RBI/Govt. such as initiation of legal proceedings in case One Time Settlement (OTS) proposals do not materialise within the stipulated period. The Committee are anguished to notice that despite the fact that some of the DRTs such as DRT at Delhi, Jaipur and Bangalore were established as far back as in 1994, a large number of vacancies in these still continue to exist. Besides, since the total number of DRTs still continues to be small and these happen to suffer from lack of infrastructure and manpower constraints, the Committee are of the opinion that impending addition of cases, will definitely result in causing further inordinate delays in disposal of the cases even if the recent amendments to DRTs Act are taken into account. The Committee therefore, recommend that the cases already filed before civil courts should be allowed to continue to be heard by them only.

The Committee further recommend that the recovery cases involving minimum amount of Rs. 10 lakh for referring to DRTs may suitably be enhanced, in order to reduce the number of cases pending before DRTs. Besides, as large number of cases involving huge amount of money are pending before DRTs lack of

infrastructural facilities and manpower should not be allowed to constrain their functioning. The Committee, therefore recommend that necessary steps should be taken immediately to provide DRTs with necessary physical infrastructure and manpower. Moreover, Govt. should increase the number of DRTs to reduce the number of pending cases. The Committee also recommend that DRTs Act may be amended suitably.

10. 3.50

The Committee are of the view that the cost of litigation as well as the time consumed in the adjudication of recovery cases involving small amounts up to Rs. 10 lakhs through formal channels of justice i.e. courts is on the higher side affecting adversely both the parties. Hence, the involvement of alternative channels of justice which are cost effective and less time consuming such as Lok Adalats and banking ombudsman for adjudication of recovery cases appears to be desirable, especially in the light of the fact that the decrees of the Lok Adalats have the legal status of formal courts with the option of resorting to filing of suits in the courts, in case of non settlements. The Committee appreciate the initiatives taken by the government and RBI in this regard and recommend that suitable steps be taken immediately to operationalise the involvement of these two institutions in the recovery of NPAs and the upper ceiling of amount in their cases should also be enhanced.

11. 3.54

The Committee are concerned to note that the lack of co-ordination among banks and FIs financing projects as a consortium is not only causing NPAs but also hampering the recovery of NPAs. As the delay in taking decisions by one or more institutions in the consortium might result in derailment of completion schedules of projects of the corporates, causing NPAs in books of all the lenders of the consortium, the Committee recommend that a formal standing co-ordinating mechanism may be evolved with the Chairman / MDs of participating institutions in the consortium to resolve the contentious issues in project financing.

12. 3.57 & 3.58

The Committee note that Financial Institutions resort to invoking personal guarantees only when all other options of recovery and restructuring efforts get exhausted. The Committee therefore, are of the opinion that such entrepreneurs deserve punishment over and above filing suits against them to have deterring effect. Accordingly, the Committee recommend that the entrepreneurs who otherwise have the capacity to honour the invoked guarantees but deliberately did not do so

should be debarred from becoming directors on the Board of Directors of public sector commercial banks, DFIs, Investment Institutions, Govt owned and controlled companies/corporations.

The Committee further recommend that such entrepreneurs should not be allowed to avail financial assistance from public sector/commercial banks, DFIs, Investment Institutions for a period of 15 years to have desirable impact.

13. 3.65

The Committee note that there are a large number of loan cases involving huge amount of money in respect of which the guarantees given by Central and State Governments have been invoked but not honoured so far. The Committee observe that huge amount of IDBI and IFCI Ltd. has been involved in Government guarantees already invoked but not honoured, in their books. The Committee express their displeasure at the Central and State Governments' failure to honour their guarantees especially in the light of the fact that they are supposed to set an example for others in maintaining financial discipline.

In view of the fact that w.e.f. March, 2000 the guarantees invoked but not honoured are to be treated as substandard, DFIs have to accordingly provide for the same as per new RBI regulations which in turn will have adverse impact on the profitability of the DFIs. The Committee, therefore, recommend that expeditious and continuous steps should be taken with the concerned State Governments and Central Government for realising the amount involved in the invoked guarantees.

14. 4.7, 4.8 & 4.9

The Committee are surprised to find that despite the presence of nominee directors on their Boards companies conveniently diverted the funds thereby jeopardising the health of all the stakeholders – lenders, equity holders, employees etc. The Committee therefore recommend that these nominee directors during whose tenure diversion took place should be disqualified from being appointed as nominee directors.

Instead of being passive onlookers of the ongoings in the company, the nominee directors should adopt pro-active approach in protecting interests of the institutions which they represent.

The Committee are in agreement with the suggestions given by IDBI and recommend that steps should be taken to enhance the effectiveness of the nominee directors by issuing suitable guidelines especially in the light of the fact that they are expected to

fulfil the objectives laid down in the respective statutes.

15. 4.14

The Committee are of the view that concentration of financial powers for investing huge amounts of funds in securities of different kinds in single individual may lead to undesirable and unhealthy practices. The Committee, therefore recommend that the upper ceiling of the financial powers of the Chairman which are on the higher side need to be rationalised. The Committee note that though the Board of Trustees is competent enough to delegate the Executive Committee consisting of 3 Members of Board of Trustees the power to sanction/invest unlimited amount of money yet the entire Board should not have completely divested of its responsibility for sanctioning even huge amounts of money. The Committee, therefore recommend that entire Board of Trustees should invariably be involved in decisions pertaining to sanctioning/investing huge amounts of money.

The Committee are of the view that the functioning of UTI need to be more professional and transparent. Further, the Committee are in favour of bringing all the Schemes of UTI under the ambit of mutual fund regulations prescribed by SEBI. Accordingly, the Committee recommend that the UTI Act may suitably be amended.

16. 5.4

The Committee are of the view that in the light of relaxation of lending norms/pattern of DFIs and banks allowing them to enter into each other's domain – DFIs extending working capital loans and commercial banks giving long term advances – and the impending implementation of Universal Banking Concept where ultimately there would be banks and restructured NBFC's effective supervision seems to be essential. The Committee, therefore, recommend that RBI be bestowed with such powers.

17. 5.7

The Committee note that huge amount of DFIs funds are locked up in BIFR cases because of inordinate delay in settlement of the cases. Hence, the Committee recommend that urgent steps should be taken to revamp BIFR enabling it to dispose off the cases expeditiously.

18. 5.13

The Committee observe that there has been flight of efficient and well trained people from Govt. owned/controlled financial institutions and mutual funds due to lower compensation packages offered by them vis-à-vis their counterparts in the private sector. The

Committee feel that human resources are an indispensable asset to any institution and unless there is some motivating factor, it would be difficult to make them contribute to the productivity and growth of the organisation/institution. The Committee are given to understand that the matter is already under the active consideration of the Government. They however, desire that concrete steps in this regard should be taken expeditiously by keeping the changed scenario in the financial sector in view.

MINUTES OF THE SIXTEENTH SITTING OF STANDING COMMITTEE ON FINANCE (1999-2000)

The Committee sat on Tuesday, 13 June, 2000 from 1100 hrs. to 1210hrs.

PRESENT

Shri. Shivraj V. Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Raashid Alvi
3. Shri Ajoy Chakraborty
4. Shri Rattan Lal Kataria
5. Shri Krishnamraju
6. Shri M.V. Chandrashekhara Murthy
7. Shri Rupchand Pal
8. Shri Raj Narain Passi
9. Dr. Sanjay Paswan
10. Shri Annasaheb M.K. Patil
11. Shri Varkala Radhakrishnan
12. Shri Pravin Rashtrapal
13. Shri G. Ganga Reddy
14. Shri S. Jaipal Reddy
15. Mohammad Shahabuddin
16. Shri Ajit Singh
17. Shri Kirit Somaiya
18. Shri Kharebela Swain
19. Shri Narayan Dutt Tiwari
20. Smt. Renuka Chowdhury

RAJYA SABHA

21. Dr. Manmohan Singh
22. Shri Narendra Mohan
23. Prof. M. Sankaralingam
24. Shri Vijay Darda
25. Shri Suresh A. Keswani
26. Dr. Biplab Dasgupta
27. Shri K. Rahman Khan
28. Shri S.S. Ahluwalia

SECRETARIAT

1. Dr. A.K. Pandey - Additional Secretary
2. Dr. (Smt.) P.K. Sandhu - Director
3. Shri S.B. Arora - Under Secretary

2. At the outset, the Chairman welcomed the Members and requested them to stand and observe silence as a mark of respect to the departed soul – Shri Rajesh Pilot, MP who passed away in a recent road accident.

3. The Chairman then requested the Members to give their suggestions on the manner of detailed examination of the subject – Role of Financial Institutions - Objectives, Performance and Future Prospects.

4. In the light of the views expressed/suggestions made by the Members, the Committee decided to take oral evidence of representatives of (i) Ministry of Finance (Deptt. of Economic Affairs), (ii) Ministry of Planning (Planning Commission) ; Reserve Bank of India; and (iii) respective Financial Institutions (the names of which are to be decided later) on objectives, policies, performance, future prospects etc. of Financial Institutions. Accordingly the Committee decided to invite representatives of the Ministry of Finance for audio visual presentation on 23 June, 2000 on the said subject. It was further decided to invite representatives of the Ministry of Planning (Planning Commission) in the first week of July and the Reserve Bank of India in the third week of July, 2000 for their presentation.

5. The Chairman, directed the Secretariat to obtain and circulate (i) the latest information on the operations and performance of FIs; (ii) Latest Annual Reports of each of the FIs ; (iii) material received from various Financial Institutions during the earlier Committees' visits to Mumbai in 1997 and 1998 and (iv) Deepak Parekh Committee Report on Restructuring of Unit Scheme (US) – 64.

The Committee then adjourned.

MINUTES OF THE SEVENTEENTH SITTING OF STANDING COMMITTEE ON FINANCE
(1999-2000)

The Committee sat on Friday, 23 June, 2000 from 1100 hours to 1345 hours
and again from 1500 hours to 1700 hours.

PRESENT

Shri. Shivraj V. Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Raashid Alvi
3. Shri Ajoy Chakraborty
4. Shri Rattan Lal Kataria
5. Shri Krishnamraju
6. Shri Brahmanand Mandal
7. Shri M.V. Chandrashekhara Murthy
8. Shri Rupchand Pal
9. Dr. Sanjay Paswan
10. Shri Annasaheb M.K. Patil
11. Shri Varkala Radhakrishnan
12. Shri S. Jaipal Reddy
13. Mohammad Shahabuddin
14. Shri Ajit Singh
15. Shri Kirit Somaiya
16. Shri Kharebela Swain
17. Shri Narayan Dutt Tiwari

RAJYA SABHA

18. Dr. Manmohan Singh
19. Shri N.K.P. Salve
20. Shri Narendra Mohan
21. Shri M. Venkaiah Naidu
22. Shri P. Prabhakar Reddy
23. Shri Amar Singh
24. Shri Vijay Darda
24. Shri Suresh A. Keswani
25. Dr. Biplab Dasgupta
26. Shri K. Rahman Khan
27. Shri Praful Patel
28. Shri S.S. Ahluwalia

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu - Director
2. Shri S.B. Arora - Under Secretary

WITNESSES

1. Dr. E.A.S. Sarma, Secretary, EA
2. Sh. Devi Dayal, Special Secretary (Banking)
3. Sh. Anoop Mishra, Joint Secretary
4. Sh. Shekhar Agarwal, Joint Secretary
5. Sh. Ajit M. Saran, Joint Secretary

NABARD

6. Sh. Y.C. Nanda, Managing Director
7. Sh. M.V.S.C. Rao, Executive Director

National Housing Bank

8. Sh. P.P. Vora, CMD
9. Sh. R. Nanjappa, Executive Director

I.D.B.I.

10. Sh. G.P. Gupta, CMD
11. Sh. S.K. Chakrabarti, Deputy Managing Director
12. Sh. T.M. Nagarajan, Executive Director

I.D.F.C.

13. Sh. Nasser Munjee, Managing Director
14. Sh. A.K.T. Chari, Ch. Operating Officer

IIBI

15. Sh. S.R. Mukherjee, Executive Director

EXIM Bank

16. Sh. Y.B. Desai, MD
17. Sh. T.C. Venkat Subramanian, ED

IFCI

18. Sh. P.V. Narsimham, CMD
19. Sh. Tapan Ganguli, Director

ICICI

20. Sh. K.V. Kamath, CMD
21. Smt. Lalita D. Gupte, Deputy Managing Director

SIDBI

22. Dr. Sailendra Narain, CMD

23. G.K. Saxena, Executive Director
24. Sh. N. Venkatasubramaniam, GM
LIC

25. Sh. G. Krishnamurthy, Chairman
26. Sh. Y.P. Gupta, Executive Director
27. Sh. G.P. Kohli, Executive Director

GIC

28. Sh. D. Sen Gupta, Chairman
29. Sh. N.K. Tandon, Executive Director

UTI

30. Sh. P.S. Subramanyam, Chairman

TFCI

31. Sh. M. Narayanan, MD

2. At the outset, the Chairman welcomed the representatives of Ministry of Finance (Deptt. of Economic Affairs), Development Financial Institutions – IFCI Ltd., ICICI Ltd., IDBI, IIBI Ltd. and SIDBI, Specialised Financial Institutions – EXIM Bank, Tourism Finance Corporation of India Ltd. (TFCI Ltd.) and IDFC Ltd., Investment Institutions – LIC, GIC and UTI and Refinance Institutions – NABARD and National Housing Bank (NHB) and asked them to introduce themselves to the Committee.

3. The Ministry of Finance (Deptt. of Economic Affairs) made the audio-visual presentation on the organisational structure of Financial institutions, their objectives, performance policy related matters, etc. Thereafter, representatives of NABARD and National Housing Bank (NHB) explained to the Members of the Committee the objectives, performance, policy related matters pertaining to their respective institutions with the help of audio-visuals.

4. The Committee then adjourned for lunch to meet again at 1500 hours.

5. The representatives of GIC and LIC then explained their respective institutions' objectives, performance, policy related matters, etc., with the aid of audio-visuals.

6. Thereafter, the Chairman requested the representatives of those institutions which held audio-visual presentation to send requisite information/replies to certain points raised by the Members during the said presentation.

7. The evidence was not concluded.

8. A verbatim record of proceedings has been kept.

The witnesses then withdrew

The Committee then adjourned to meet again on 18 July, 2000.

MINUTES OF THE EIGHTEENTH SITTING OF STANDING COMMITTEE ON FINANCE (1999-2000)

The Committee sat on Tuesday, 18 July, 2000 from 1500 hours to 1800 hours.

PRESENT

Shri. Shivraj V. Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Rattan Lal Kataria
3. Shri Krishnamraju
4. Shri Brahmanand Mandal
5. Shri M.V. Chandrashekhara Murthy
6. Shri Kamal Nath
7. Shri Rupchand Pal
8. Shri Annasaheb M.K. Patil
9. Shri Varkala Radhakrishnan
10. Shri Pravin Rashtrapal
11. Shri Ram Singh Rathwa
12. Shri T.M. Selvaganpathi
13. Shri C.N. Singh
14. Shri Kirit Somaiya
15. Shri Kharebela Swain
16. Shri Narayan Dutt Tiwari

RAJYA SABHA

17. Dr. Manmohan Singh
18. Shri Narendra Mohan
19. Shri M. Venkaiah Naidu
20. Shri Vijay Darda
21. Shri Suresh A. Keswani
22. Dr. Biplab Dasgupta
23. Shri Praful Patel
24. Shri S.S. Ahluwalia

SECRETARIAT

1. Shri Harnam Singh - Joint Secretary
2. Dr. (Smt.) P.K. Sandhu - Director
3. Shri S.B. Arora - Under Secretary

WITNESSES

1. Dr. E.A.S. Sarma, Secretary, (Economic Affairs)
2. Dr. Shankar N. Acharya, Chief Economic Adviser

3. Shri Devi Dayal, Special Secretary (Banking)
4. Shri P.K. Banerji, Special Secretary (EF&I)
5. Shri Anoop Mishra, Joint Secretary
6. Shri M. Damodaran, Joint Secretary
7. Shri Shekhar Aggarwal, Joint Secretary
8. Dr. Jaimini Bhagwati, Joint Secretary (CM & ECB)
9. Shri Ajit M. Sharan, Joint Secretary (Insurance)

2. At the outset, the Chairman welcomed the Members and representatives of Ministry of Finance (Department of Economic Affairs) and requested them to observe silence as a mark of respect to those who lost their lives in the recent plane crash near Patna.

3. Thereafter, the representatives of Ministry of Finance (Deptt. of Economic Affairs) introduced themselves to the Committee.

4. The Committee then took oral evidence of representatives of Ministry of Finance on Financial Institutions – Objectives, Performance and Future Prospects.

5. Later, the Chairman requested the representatives of Ministry of Finance (Deptt. of Economic Affairs) to send requisite information/replies to certain points raised by the Members during the evidence.

6. The evidence was concluded.

7. A verbatim record of proceedings has been kept.

The witnesses then withdrew

The Committee then adjourned

MINUTES OF THE NINETEENTH SITTING OF STANDING COMMITTEE ON FINANCE (1999-2000)

The Committee sat on Tuesday, 22 August, 2000 from 1000 hours to 1030 hours.

PRESENT

Shri. Shivraj V. Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Rattan Lal Kataria
3. Shri Krishnamraju
4. Shri M.V.V.S. Murthy
5. Shri Kamal Nath
6. Shri Rupchand Pal
7. Shri Annasaheb M.K. Patil
8. Shri Varkala Radhakrishnan
9. Shri Ajit Singh
10. Shri Kirit Somaiya
11. Shri Narayan Dutt Tiwari
12. Shri Kodikunnil Suresh

RAJYA SABHA

13. Shri Vijay Darda
14. Shri Suresh A. Keswani
15. Shri K. Rahman Khan

SECRETARIAT

1. Dr. A.K. Pandey - Additional Secretary
2. Shri Harnam Singh - Joint Secretary
3. Shri S.B. Arora - Under Secretary

2. At the outset, the Chairman welcomed the Members. Thereafter, the Committee decided to have formal sittings at Mumbai on 18,19 and 20th of September, 2000 for taking oral evidence of representatives of RBI, IDBI, ICICI Ltd., IFCI Ltd., IIBI Ltd., SIDBI, LIC, GIC, UTI and NABARD on Financial Institutions – Objectives, Performance and Future prospects.

The Committee then adjourned.

MINUTES OF THE TWENTIETH SITTING OF STANDING COMMITTEE ON FINANCE (1999-2000)

The Committee sat on Monday, 18 September, 2000 from 1000 hours to 1400 hours and again from 1500 hours to 1830 hours.

PRESENT

Shri Shivraj V. Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Sudip Bandyopadhyay
3. Shri Ajoy Chakraborty
4. Shri Rattan Lal Kataria
5. Shri Krishnamraju
6. Shri Brahmanand Mandal
7. Shri M.V.V.S. Murthy
8. Shri Rupchand Pal
9. Shri Prakash Paranjpe
10. Shri Raj Narain Passi
11. Dr. Sanjay Paswan
12. Shri Annasaheb M.K. Patil
13. Shri Varkala Radhakrishnan
14. Shri S. Jaipal Reddy
15. Mohammad Shahabuddin
16. Shri C.N. Singh
17. Shri Kirit Somaiya
18. Shri Kharebela Swain
19. Shri Narayan Dutt Tiwari
20. Smt. Renuka Chowdhury

RAJYA SABHA

21. Shri N.K.P. Salve
22. Shri Narendra Mohan
23. Shri M. Venkaiah Naidu
24. Shri P. Prabhakar Reddy
25. Shri Ranjan Prasad Yadav
26. Prof. M. Sankaralingam
27. Shri Amar Singh
28. Shri Vijay Darda
29. Shri Suresh A. Keswani
30. Dr. Biplab Dasgupta
31. Shri K. Rahman Khan
32. Shri Praful Patel
33. Shri S.S. Ahluwalia

SECRETARIAT

1. Shri Harnam Singh - Joint Secretary
2. Dr. (Smt.) P.K. Sandhu - Director
3. Shri S.B. Arora - Under Secretary

WITNESSES

PART – I (1000 to 1400 hours)

Representative of Ministry of Finance

Shri Devi Dayal – Special Secretary - Banking

Representatives of Reserve Bank of India (RBI)

1. Dr. Bimal Jalan - Governor
2. Shri S.P. Talwar - Deputy Governor
3. Dr. Y.V. Reddy - Deputy Governor
4. Shri Jagdish Capoor - Deputy Governor
5. Shri I.D. Aggarwal - Executive Director
6. Shri A. Ghosh - Chief General Manager-in-Charge,
Department of Banking Operations & Development
7. Shri K. Kanagasabapathy - Adviser-in-Charge, Monetary Policy Department
8. Shri K.C. Bandyopadhyay - Chief General Manager, Financial Institutions Division
9. Shri G.K. Sharma - General Manager, Financial Institutions Division
10. Shri A.K. Misra - Deputy General Manager, Financial Institutions
Division

PART – II (1500 to 1700 hours)

Representative of Ministry of Finance

Shri Devi Dayal – Special Secretary - Banking

Representatives of Industrial Finance Corporation of India Limited (IFCI Ltd.)

1. Shri P.V. Narasimham - Chairman and Managing Director
2. Shri Tapan Ganguli - Wholetime Director
3. Shri B.M. Aggarwal - Wholetime Director
4. Shri A.C. Ahuja - Executive Director
5. Shri S.C. Kumar - Chief General Manager
6. Shri M.V. Muthu - Chief General Manager
7. Shri R.S. Rajput - Chief General Manager

PART – III (1700 to 1830 hours)

Representative of Ministry of Finance

Shri Devi Dayal – Special Secretary - Banking

Representatives of Industrial Credit and Investment Corporation of India Ltd. (ICICI)

1. Shri K.V. Kamath - MD & CEO
2. Shri S.H. Bhojani - Deputy Managing Director
3. Shri Kalpana Morparia - Senior General Manager
4. Shri S. Mukherji - Senior General Manager

PART – I

2. At the outset, the Chairman welcomed the Members and invited the representatives of Ministry of Finance (Deptt. of Economic Affairs) and Reserve Bank of India to the sitting of the Committee and asked them to introduce themselves to the Committee.

3. Thereafter, the representatives of Ministry of Finance (Deptt. of Economic Affairs) and RBI introduced themselves to the Committee.

4. The Committee then took oral evidence of representatives of Reserve Bank of India (RBI) on Financial Institutions – Objectives, Performance and Future Prospects.

5. The Chairman thereafter, requested the representatives of RBI to send requisite information/replies to certain points raised by the members during the evidence.

6. The evidence was concluded.

7. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned to meet again at 1500 hours.

PART II

2. The Chairman welcomed the Members and invited the representatives of Ministry of Finance (Deptt. of Economic Affairs), Industrial Finance Corporation of India Ltd. (IFCI Ltd.) to the sitting of the Committee and asked them to introduce themselves to the Committee.

3. Thereafter, the representatives of Ministry of Finance (Deptt. of Economic Affairs) and IFCI Ltd. introduced themselves to the Committee.

4. Later, the Chairman, IFCI Ltd. with the aid of audio-visuals briefed the members of the objectives, performance and future prospects of IFCI Ltd. and other related matters.

5. Thereafter, the Chairman requested the representative of IFCI Ltd. to furnish requisite information/replies to certain points raised by the Members during the presentation and the subsequent discussion on the subject.

6. The evidence was concluded.
7. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

PART – III

2. At the outset, the Chairman invited the representatives of Ministry of Finance (Deptt. of Economic Affairs), Industrial Credit and Investment Corporation of India Ltd. (ICICI Ltd.) to the sitting of the Committee and asked them to introduce themselves to the Committee.

3. Thereafter, the Chief Executive Officer (CEO), ICICI Ltd. with the aid of audio-visuals briefed the members of the status and functioning of ICICI Ltd. and other related matters.

4. The evidence was concluded.
5. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned to meet again on 19 September, 2000.

MINUTES OF THE TWENTY FIRST SITTING OF STANDING COMMITTEE ON FINANCE
(1999-2000)

The Committee sat on Tuesday, 19 September, 2000 from 0930 hours to 1400 hours and again from 1500 hours to 1830 hours.

PRESENT

Shri. Shivraj V. Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Sudip Bandyopadhyay
3. Shri Ajoy Chakraborty
4. Shri Rattan Lal Kataria
5. Shri Krishnamraju
6. Shri M.V.V.S. Murthy
7. Shri Rupchand Pal
8. Shri Raj Narain Passi
9. Dr. Sanjay Paswan
10. Shri Annasaheb M.K. Patil
11. Shri Varkala Radhakrishnan
12. Shri S. Jaipal Reddy
13. Mohammad Shahabuddin
14. Shri C.N. Singh
15. Shri Kirit Somaiya
16. Shri Kharebela Swain
17. Shri Narayan Dutt Tiwari
18. Smt. Renuka Chowdhury

RAJYA SABHA

19. Shri N.K.P. Salve
20. Shri Narendra Mohan
21. Shri M. Venkaiah Naidu
22. Shri P. Prabhakar Reddy
23. Shri Ranjan Prasad Yadav
24. Prof. M. Sankaralingam
25. Shri Amar Singh
26. Shri Vijay Darda
27. Shri Suresh A. Keswani
28. Dr. Biplab Dasgupta
29. Shri K. Rahman Khan
30. Shri S.S. Ahluwalia

SECRETARIAT

1. Shri Harnam Singh - Joint Secretary
2. Dr. (Smt.) P.K. Sandhu - Director
3. Shri S.B. Arora - Under Secretary

WITNESSES

PART – I (0930 to 1215 hours)

Representative of Ministry of Finance (Deptt. of Economic Affairs)

Dr. Jaimini Bhagawati - Joint Secretary

Representatives of Unit Trust of India (UTI)

1. Shri P.S. Subramanyan - Chairman
2. Shri K.G. Vassal - Executive Director
3. Shri A.K. Thakur - Executive Director
4. Shri M.M. Kapur - Executive Director
5. Shri A.N. Palwankar - Executive Director
6. Shri S.K. Basu - Executive Director
7. Shri B.G. Daga - Executive Director
8. Shri D.S.R. Murthy - Executive Director
9. Shri B.S. Pandit - Executive Director
10. Shri S.S. Nayak - Chief General Manager

PART – II (1215 to 1400 hours)

Representative of Ministry of Finance (Deptt. of Economic Affairs)

Shri Devi Dayal - Special Secretary - Banking

Representative of Industrial Investment Bank of India Ltd. (IIBI Ltd.)

1. Dr. Basudeb Sen - Chairman & Managing Director
2. Shri S.R. Mukherjee - Executive Director
3. Shri A.K. Ghosh - Chief General Manager
4. Shri G. Venkatakrishnan - Chief General Manager
5. Dr. Tamal Datta Chaudhuri - General Manager
6. Shri A. Sen - General Manager

PART – III (1500 to 1645 hours)

Representative of Ministry of Finance (Deptt. of Economic Affairs)

Shri Bhujbal - Director

Representatives of General Insurance Corporation of India (GIC)

1. Shri D. Sengupta - Chairman
2. Shri M.K. Tandon - Managing Director
3. Shri V. Mohan - Financial Advisor

4. Shri T. Lakshmanan - General Manager
5. Shri V.C. Joshi - General Manager
PART – IV (1645 to 1830 hours)

Representative of Ministry of Finance (Deptt. of Economic Affairs)

Shri G. Bhujpal - Director

Representatives of Life Insurance Corporation of India Ltd. (LIC Ltd.)

1. Shri G.N. Bajpai - Chairman
2. Shri Y.P. Gupta - Managing Director
3. Shri P.A. Balasubramanian - Executive Director (Investment)
4. Shri R.G. Sharma - Chief Executive,
Jeevan Bima Sahayog Asset

Management Company

5. Shri P.V. Subramanian - Executive Director (Marketing/ International Operations)
6. Shri A. Ramamurthy - Executive Director (Management Services)

PART – I

2. At the outset, the Chairman welcomed the Members and invited the representatives of Ministry of Finance (Deptt. of Economic Affairs) and Unit Trust of India (UTI) to the sitting of the Committee and asked them to introduce themselves to the Committee.

3. Thereafter, the representatives of Ministry of Finance (Deptt. of Economic Affairs) and UTI introduced themselves to the Committee.

4. Then the Chairman, UTI, made audio-visual presentation on the functioning of UTI and other related matters.

5. Thereafter, the Chairman asked the representatives of UTI to furnish requisite information/replies to the points raised by the Members during presentation and subsequent discussion.

6. The evidence was concluded.

7. A verbatim record of proceedings has been kept.

The witnesses then withdrew

PART – II

2. At the outset, the Chairman invited the representatives of Ministry of Finance (Deptt. of Economic Affairs) and Industrial Investment Bank of India Ltd. (IIBI

Ltd.) to the sitting of the Committee and asked them to introduce themselves to the Committee.

3. The representatives of Ministry of Finance (Deptt. of Economic Affairs) and IIBI Ltd., then introduced themselves to the Committee.

4. The Committee then took the oral evidence of representatives of IIBI Ltd. on the functioning of IIBI Ltd. and other related matters.

5. The evidence was concluded.

6. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned to meet again at 1500 hours.

PART – III

2. At the outset, the Chairman invited the representatives of Ministry of Finance (Deptt. of Economic Affairs) and General Insurance Corporation of India (GIC) to the sitting of the Committee and asked them to introduce themselves to the Committee.

3. Later, the representatives of Ministry of Finance (Deptt. of Economic Affairs) and GIC introduced themselves to the Committee.

4. The representatives of GIC made the audio-visual presentation on the functioning of GIC and other related matters.

5. The Chairman then requested to furnish requisite information/replies to some of the points raised by the Members during presentation and subsequent discussion.

6. The evidence was concluded.

7. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

PART – IV

2. At the outset, the Chairman invited the representatives of Ministry of Finance (Department of Economic Affairs-Insurance Division), Life Insurance Corporation of India (LIC) to the sitting of the Committee and asked them to introduce themselves to the Committee.

3. Thereafter, the representatives of Ministry of Finance (Deptt. of Economic Affairs) and LIC introduced themselves to the Committee.

4. The Committee then took the oral evidence of representatives of Ministry of Finance (Department of Economic Affairs-Insurance Division) and LIC on the functioning of LIC and other related matters.

5. The Chairman then requested the representatives to send requisite information/replies to some points raised by the members during the discussion.

6. The evidence was concluded.

A verbatim record of proceedings has been kept.

The Committee then adjourned to meet on 20 September, 2000 at 0930 hours.

MINUTES OF THE TWENTY SECOND SITTING OF STANDING COMMITTEE ON FINANCE
(1999-2000)

The Committee sat on Wednesday, 20 September, 2000 from 0930 hours to 1500 hours.

PRESENT

Shri. Shivraj V. Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Sudip Bandyopadhyay
3. Shri Ajoy Chakraborty
4. Shri Rattan Lal Kataria
5. Shri M.V.V.S. Murthy
6. Shri Rupchand Pal
7. Shri Prakash Paranjpe
8. Dr. Sanjay Paswan
9. Shri Annasaheb M.K. Patil
10. Shri Varkala Radhakrishnan
11. Mohammad Shahabuddin
12. Shri C.N. Singh
13. Shri Kirit Somaiya
14. Shri Kharebela Swain
15. Shri Narayan Dutt Tiwari

RAJYA SABHA

16. Shri Narendra Mohan
17. Shri M. Venkaiah Naidu
18. Shri P. Prabhakar Reddy
19. Shri Ranjan Prasad Yadav
20. Prof. M. Sankaralingam
21. Shri Amar Singh
22. Shri Vijay Darda
23. Shri Suresh A. Keswani
24. Dr. Biplab Dasgupta
25. Shri S.S. Ahluwalia

SECRETARIAT

1. Shri Harnam Singh - Joint Secretary
2. Shri S.B. Arora - Under Secretary

WITNESSES

PART – I (0930 to 1200 hours)

Representative of Ministry of Finance (Deptt. of Economic Affairs)

Shri Devi Dayal - Special Secretary - Banking

Representatives of National Bank for Agriculture and Rural Development (NABARD)

1. Shri Y.C. Nanda - Managing Director
2. Shri K. Basu - Executive Director
3. Shri M.V.S.C. Rao - Executive Director
4. Shri M.G. Marwaha - Executive Director
5. Shri N. Raghavan - Executive Director
6. Shri K.P. Agarwal - Chief General Manager
7. Shri G.K. Agarwal - Chief General Manager
8. Shri P.P. Srivastave - General Manager
9. Shri N. Srinivasan - General Manager

PART – II (1200 to 1400 hours)

Representative of Ministry of Finance (Deptt. of Economic Affairs)

Shri Devi Dayal - Special Secretary - Banking

Representatives of Industrial Development Bank of India Ltd. (IDBI)

1. Shri G.P. Gupta - Chairman & Managing Director
2. Shri S.K. Chakrabarti - Deputy Managing Director
3. Shri T.M. Nagarajan - Executive Director
4. Shri V.P. Singh - Executive Director
5. Shri V. Venkateswarlu - Adviser (Market Research)
6. Shri B.D. Ushir - Legal Adviser
7. Dr. K. Kameswara Rao - Chief General Manager
8. Shri M.G. Bakre - Chief General Manager

PART – III (1400 to 1500 hours)

Representative of Ministry of Finance (Deptt. of Economic Affairs)

Shri Devi Dayal - Special Secretary - Banking

Representatives of Small Industries Development Bank of India (SIDBI)

1. Shri S.S. Kohli - Chairman and Managing Director

2. Shri P.B. Nimbalkar - Executive Director
 3. Shri G.K. Saxena - Executive Director
- PART – I

2. At the outset. The Chairman welcomed the Members and invited the representatives of Ministry of Finance (Deptt. of Economic Affairs) and National Bank for Agriculture and Rural Development (NABARD) to the sitting of the Committee and asked them to introduce themselves to the Committee.

3. Thereafter, the representatives of Ministry of Finance and NABARD introduced themselves to the Committee.

4. The Committee then took the oral evidence of representatives of NABARD on the functioning of NABARD and other related matters.

5. Later, the Chairman asked the representatives of NABARD to furnish requisite information/replies to some points raised by the members during the discussion.

6. The evidence was concluded.

7. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

PART - II

2. At the outset, the Chairman invited the representatives of Ministry of Finance (Deptt. of Economic Affairs) and Industrial Development Bank of India (IDBI) and asked them to introduce themselves to the Committee.

3. Thereafter, the representatives of Ministry of Finance (Deptt. of Economic Affairs) and IDBI introduced themselves to the Committee.

4. The Committee then took oral evidence of representatives of IDBI on the functioning of IDBI and other related matters.

5. Later, the Chairman asked the representatives to furnish requisite information/replies to some points raised by the members during the discussion.

6. The evidence was concluded.

7. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

PART - III

2. At the outset, the Chairman invited the representatives of Ministry of Finance (Deptt. of Economic Affairs) and Small Industries Development Bank of India (SIDBI) to the sitting of the Committee and asked them to introduce themselves to the Committee.

3. Thereafter, the representatives of Ministry of Finance (Deptt. of Economic Affairs) and SIDBI introduced themselves to the Committee.

4. Later, the Chairman, SIDBI with the aid of audio-visual presentation briefed the Committee of the functioning of SIDBI and other related matters.

5. The evidence was not concluded.

The witnesses then withdrew.

6. The Committee then decided to invite the representatives of SIDBI to Delhi for taking further oral evidence.

The Committee then adjourned.

MINUTES OF THE TWENTY THIRD SITTING OF STANDING COMMITTEE ON FINANCE
(1999-2000)

The Committee sat on Thursday, 5 October, 2000 from 1000 hours to
1300 hours.

PRESENT

Shri. Shivraj V. Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Raashid Alvi
3. Shri Rattan Lal Kataria
4. Shri Brahmanand Mandal
5. Shri M.V.V.S. Murthy
6. Shri Rupchand Pal
7. Shri M. Padmanabham
8. Dr. Sanjay Paswan
9. Shri Annasaheb M.K. Patil
10. Shri Varkala Radhakrishnan
11. Shri Pravin Rashtrapal
12. Shri Ram Singh Rathwa
13. Shri S. Jaipal Reddy
14. Shri T.M. Selvaganpathi
15. Mohammad Shahabuddin
16. Shri Ajit Singh
17. Shri C.N. Singh
18. Smt. Renuka Chowdhury
19. Shri Kodikunnil Suresh

RAJYA SABHA

20. Dr. Manmohan Singh
21. Shri Narendra Mohan
22. Shri P. Prabhakar Reddy
23. Shri Suresh A. Keswani
24. Dr. Biplab Dasgupta
25. Shri K. Rahman Khan
26. Shri Praful Patel
27. Shri S.S. Ahluwalia

SECRETARIAT

1. Shri Harnam Singh - Joint Secretary
2. Dr. (Smt.) P.K. Sandhu - Director
3. Shri S.B. Arora - Under Secretary

WITNESSES

Representative of Ministry of Finance (Department of Economic Affairs)

Dr. E.A.S. Sarma,	-	Secretary
Sh. Shekhar Aggarwal	-	Joint Secretary

Representatives of Small Industries Development Bank of India (SIDBI)

1. Shri P.B. Nimbalkar	-	Executive Director
2. Shri G.K. Saxena	-	Executive Director
3. Shri Brij Mohan	-	Chief General Manager
4. Shri V.S. Rathod	-	Chief General Manager
5. Shri Rakesh Rewari	-	CEO, SIDBI Venture Capital Limited
6. Shri G.A. Nayak	-	Chief General Manager
7. Shri M.H. Jhurani	-	Chief General Manager
8. Shri N.K Maini	-	Chief General Manager
9. Shri N. Venkatasubramanyan	-	CEO, Credit Guarantee Fund Trust for Small Industries
10. Shri P.K. Saha	-	General Manager
11. Smt. Bhama Krishnamurthy	-	General Manager
12. Shri A.R. Muralidharan	-	General Manager
13. Shri S. C. Garg	-	General Manager
14. Shri N.K. Madan	-	Deputy General Manager
15. Shri N.K. Narula	-	Deputy General Manager

2. At the outset, Chairman welcomed the Members and representatives of Ministry of Finance and Small Industries Development Bank of India (SIDBI) and asked the witnesses to introduce themselves to the Committee.

3. Thereafter, the representatives of Ministry of Finance (Department of Economic Affairs) and SIDBI introduced themselves to the Committee.

4. The Committee then took oral evidence of representatives of Ministry of Finance (Department of Economic Affairs) and SIDBI.

5. The Chairman, thereafter, asked the witnesses to furnish notes on some points/issues raised by the Members during the evidence.

6. The evidence was concluded.

7. A verbatim record of proceedings has been kept.

The witnesses then withdrew

8. Thereafter, the Committee decided to take the oral evidence of representatives of SEBI, The Stock Exchange, Mumbai and National Stock Exchange, Delhi on 18 October, 2000.

9. The Chairman then referred to the letters written by Shri Kirit Somaiya, MP and Sh. S.S. Ahluwalia, MP on Rajalakshmi Unit Scheme. After discussion, the Committee decided to seek written clarifications from UTI on the points/issues raised in the above letters.

The Committee then adjourned

MINUTES OF THE TWENTY FOURTH SITTING OF STANDING COMMITTEE ON FINANCE
(1999-2000)

The Committee sat on Thursday, 18 October, 2000 from 1100 hours to
1345 hours.

PRESENT

Shri. Shivraj V. Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Ajoy Chakraborty
3. Shri Rattan Lal Kataria
4. Shri M. Padmanabham
5. Shri Raj Narain Passi
6. Dr. Sanjay Paswan
7. Shri Annasaheb M.K. Patil
8. Shri Varkala Radhakrishnan
9. Shri Ram Singh Rathwa
10. Shri T.M. Selvaganpathi
11. Shri C.N. Singh
12. Shri Kirit Somaiya
13. Shri Kodikunnil Suresh

RAJYA SABHA

14. Dr. Manmohan Singh
15. Shri P. Prabhakar Reddy
16. Shri Ranjan Prasad Yadav
17. Prof. M. Sankaralingam
18. Shri Amar Singh
19. Shri Suresh A. Keswani
20. Shri K. Rahman Khan
21. Shri Praful Patel
22. Shri S.S. Ahluwalia

SECRETARIAT

1. Dr. A.K. Pandey - Additional Secretary
2. Shri Harnam Singh - Joint Secretary
3. Dr. (Smt.) P.K. Sandhu - Director

WITNESSES

Ministry of Finance (Department of Economic Affairs)

Dr. E.A.S. Sarma - Secretary

Securities and Exchange Board of India (SEBI)

1. Shri D.R. Mehta - Chairman
2. Dr. Jayant Verma - Member
3. Shri O.P Gahrotra - Sr. Executive Director
4. Shri L.K. Singhvi - Sr. Executive Director
5. Shri Pratip Kar - Executive Director
6. Ms. D.N. Raval - Executive Director
7. Shri Ashok Kacker - Executive Director
8. Shri C.M. Mehra - Executive Director

National Stock Exchange of India Limited (NSE)

1. Dr. R. H. Patil - Managing Director
2. Mr. Ravi Narain - Deputy Managing Director

The Stock Exchange, Mumbai (BSE)

1. Mr. Anand Rathi - President
2. Mr. Himanshu Kazi - Member, Governing Board and Treasurer
3. Dr. Manoj Vaish - CEO, Derivatives

2. At the outset, the Chairman welcomed the Members and representatives of Ministry of Finance (Deptt. of Economic Affairs), Securities and Exchange Board of India (SEBI), the Stock Exchange, Mumbai and National Stock Exchange, Mumbai to the sitting of the Committee.

3. After introduction, the representatives of SEBI and the Stock Exchange, Mumbai with the help of audio-visuals briefed the Members regarding the objectives, functions and operations of their respective organisations.

4. The representatives of the Ministry of Finance (Department of Economic Affairs), SEBI, the Stock Exchange, Mumbai and NSE then replies to the queries raised by the Members during the discussion.

5. The evidence was concluded.

6. A verbatim record of proceedings has been kept.

The Committee then adjourned

MINUTES OF THE TWENTY FIFTH SITTING OF STANDING COMMITTEE ON FINANCE
(1999-2000)

The Committee sat on Wednesday, 29 November, 2000 from 1500 hours to
1700 hours.

PRESENT

Shri. Shivraj V. Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Brahmanand Mandal
3. Shri Rupchand Pal
4. Shri Prakash Paranjpe
5. Dr. Sanjay Paswan
6. Shri Varkala Radhakrishnan
7. Shri C.N. Singh
8. Shri Kirit Somaiya
9. Shri Kharebela Swain
10. Smt. Renuka Chowdhury
11. Shri Kodikunnil Suresh

RAJYA SABHA

12. Dr. Manmohan Singh
13. Shri Krishna Kumar Birla
14. Prof. M. Sankaralingam
15. Shri Suresh A. Keswani
16. Shri K. Rahman Khan
17. Shri Praful Patel
18. Shri S.S. Ahluwalia

SECRETARIAT

- | | | | |
|----|------------------------|---|----------------------|
| 1. | Dr. A.K. Pandey | - | Additional Secretary |
| 2. | Shri Harnam Singh | - | Joint Secretary |
| 3. | Dr. (Smt.) P.K. Sandhu | - | Director |
| 4. | Shri S.B. Arora | - | Under Secretary |

WITNESSES

1. Shri Ajit Kumar, Finance Secretary
2. Shri Devi Dayal, Special Secretary (Banking)
3. Shri P.K. Banerjee, Special Secretary (EF&I)

4. Dr. Jaimini Bhagwati, Joint Secretary (CM&ECB)
5. Shri Ajit M. Sharan, Joint Secretary (Insurance)
6. Shri U.K. Sinha, Joint Secretary (IF)

2. At the outset, Chairman welcomed the Members and representative of Ministry of Finance (Deptt. of Economic Affairs) to the sitting of the Committee and invited their attention to Direction 55 of the directions by the Speaker.

3. After introduction, the Committee took the oral evidence of representatives of Ministry of Finance (Deptt. of Economic Affairs).

4. Thereafter, the Committee requested the representatives to furnish them full information/data on some of the points contained in the supplementary List of Points for which only partial data/information was provided earlier and also on other points raised during the evidence.

5. The evidence was concluded.

6. A verbatim, record of proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned to meet again on 14 December, 2000

MINUTES OF THE TWENTY SIXTH SITTING OF STANDING COMMITTEE ON FINANCE
(1999-2000)

The Committee sat on Tuesday, 19 December, 2000 from 1000 hours to
1100 hours.

PRESENT

Shri. Shivraj V. Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Rattan Lal Kataria
3. Shri M.V.V.S. Murthy
4. Shri Rupchand Pal
5. Shri M. Padmanabham
6. Dr. Sanjay Paswan
7. Shri Varkala Radhakrishnan
8. Shri Ram Singh Rathwa
9. Shri Ajit Singh
10. Shri C.N. Singh
11. Shri Kirit Somaiya
12. Shri Kharebela Swain
13. Shri Narayan Dutt Tiwari

RAJYA SABHA

14. Shri Krishna Kumar Birla
15. Shri P. Prabhakar Reddy
16. Prof. M. Sankaralingam
17. Shri Amar Singh
18. Dr. Biplab Dasgupta
19. Shri K. Rahman Khan
20. Shri S.S. Ahluwalia

SECRETARIAT

- | | | |
|---------------------------|---|----------------------|
| 1. Dr. A.K. Pandey | - | Additional Secretary |
| 2. Shri Harnam Singh | - | Joint Secretary |
| 3. Dr. (Smt.) P.K. Sandhu | - | Director |
| 4. Shri S.B. Arora | - | Under Secretary |

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee and invited their views/suggestions on the recommendations

contained in the draft report on Financial Institutions _ Objectives, Performance and Future Prospects.

3. Thereafter, some Members expressed their views on the recommendation on Personal Guarantees contained in para Nos. 3.57 and 3.58 of the draft Report. However, as the Members felt that more time is needed to discuss the issue the Committee decided to meet again at 1600 hours on Wednesday the 20th December, 2000.

The Committee then adjourned.

MINUTES OF THE TWENTY SEVENTH SITTING OF STANDING COMMITTEE ON FINANCE
(1999-2000)

The Committee sat on Wednesday, 20 December, 2000 from 1700 hours to 1930 hours.

PRESENT

Shri. Shivraj V. Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Rattan Lal Kataria
3. Shri Raj Narain Passi
4. Dr. Sanjay Paswan
5. Shri Varkala Radhakrishnan
6. Shri Ram Singh Rathwa
7. Shri S. Jaipal Reddy
8. Shri Kirit Somaiya
9. Shri Kharebela Swain
10. Shri Narayan Dutt Tiwari
11. Smt. Renuka Chowdhury

RAJYA SABHA

12. Shri Krishna Kumar Birla
13. Shri M. Sankaralingam
14. Shri Suresh A. Keswani
15. Shri K. Rahman Khan
16. Shri S.S. Ahluwalia

SECRETARIAT

1. Shri Harnam Singh - Joint Secretary
2. Dr. (Smt.) P.K. Sandhu - Director
3. Shri S.B. Arora - Under Secretary

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee and requested them to consider the draft Reports on (i) Financial Institutions – Objectives, Performance and Future Prospects and (ii) Action Taken Report on the Recommendations contained in the Fourth Report (13th Lok Sabha) of the Standing Committee on Finance on Demands for Grants (2000-2001) of the Ministry of Statistics and Programme Implementation.

3. The Committee then took up for further consideration the draft report on the Financial Institutions – Objectives, Performance and Future Prospects. The Committee, after deliberation adopted the draft report with modifications/amendments as shown in the *Annexure*.

4. Thereafter, the Committee considered and adopted the draft Action Taken Report on the Recommendations contained in the Fourth Report (13th Lok Sabha) of the Standing Committee on Finance on Demands for Grants (2000-2001) of the Ministry of Statistics and Programme Implementation without any modification/amendment.

5. The Committee, thereafter, authorised the Chairman to finalise the Report on Financial Institutions – Objectives, Performance and Future Prospects in the light of the amendments/suggestions received from the Members and also to make verbal and other consequential changes arising out of factual verification and present the reports to both the Houses of Parliament.

The Committee then adjourned.

<u>Pag</u> <u>e</u>	Para		Suggestion/Modification
15	1.35	<i>For</i>	“However, recently some DFIs were found to be financing the capital requirements of foreign manufacturing companies for acquiring /taking over of indian companies. The Committee are of the view that such a financing to foreign companies for acquiring indian companies is against the avowed objective of attracting foreign capital to make up for scarce domestic capital. Moreover, such requirement of financing by the foreign companies might deprive the domestic industry and commerce of much needed capital. The Committee therefore recommend that Govt. should ensure that in future such financing to foreign companies is not extended by domestic Financial Institutions.”
		<i>Substitute</i>	“Though the Committee are not at variance with Financial Institutions regarding extension of financial assistance by DFIs to MNCs for acquiring indian companies in view of the ongoing reforms in the financial sector, due to scarce domestic capital, they are of the view that some kind of restraint/caution has to be exercised by the DFIs in extending finance to MNCs for acquiring indian companies, lest such requirement of financing by the foreign companies should deprive the domestic industry and commerce of much needed capital. The Committee therefore recommend that Govt. should ensure that there is no unbridled financial assistance to MNCs by DFIs for the above mentioned purpose.
23	2.9 (Sub- para)	<i>After</i>	“wilful defaulters”
		<i>Add</i>	“ defaulters of Group Companies”
32	3.23	<i>Delete</i>	“The Committee also take a serious note of the fact that the Ministry could not provide any specific reply as to why wilful default in case of IFCI Ltd. is abnormally high at Rs. 512 crore constituting 12.54% of its total NPAs (as on 31 March, 2000) vis-à-vis its counterparts IDBI and ICICI Ltd.”
		<i>For</i>	“amount in respect of IFCI”
		<i>Substitute</i>	“amount of NPAs in respect of DFIs”

36	3.33	<i>For</i>	<p>“The Committee take a serious note of the large scale divergence in the data provided by the respective institutions and the Ministry of Finance. The Committee, therefore, recommend that they should be apprised of the reasons as to why there is such variation in the data. The anomalies in the data as explained above clearly demonstrates that there is lack of will on the part of RBI and respective Financial Institutions and the Govt. in providing transparent data to the Parliamentary Committee to have proper assessment of the health of the DFIs. The Committee, therefore, are of opinion that no objective assessment could be made on the health of the DFIs. The Committee would like to have written explanation from ICICI Ltd. for not furnishing the required data on the issue.”</p>
		<i>Substitute</i>	<p>“The Committee are displeased to note that there is large scale variance in the data provided by the respective Institutions and Ministry of Finance. Hence, the Committee feel that it is not possible to have an objective assessment on their financial health. The Committee therefore, recommend that RBI should look into the matter and furnish the Committee the correct data in this regard.”</p>
37	3.36	<i>For</i>	“15 years”
		<i>Substitute</i>	“10 years”
43	3.46	<i>For</i>	“may be enhanced to Rs. 20 lakh”
		<i>Substitute</i>	“may suitably be enhanced”
46	3.50	<i>Delete</i>	“to Rs. 20 Lakh atleast”
51	3.57	<i>For</i>	“recovery/restructuring
		<i>Substitute</i>	“recovery and restructuring
		<i>Delete</i>	“Stringent”
		<i>For</i>	“entrepreneurs in respect of whom the personal guarantees have been invoked but not honoured”
		<i>Substitute</i>	“entrepreneurs who otherwise have the capacity to honour the invoked guarantees but deliberately did not do so.”

59	4.9	<i>After</i>	“directors”
		<i>Add</i>	“by issuing suitable guidelines”
		<i>After</i>	“expected to”
		<i>Delete</i>	“operate on the commercial line”
		<i>Add</i>	“fulfil the objectives laid down in the respective statutes.”
62	4.14	<i>For</i>	<p>“The Committee are of the view that concentration of financial powers for investing huge amounts of funds in securities of different kinds in single individual may lead to undesirable and unhealthy practices. Further, the Committee are of the opinion that given the prescribed parameters, decisions taken by a committee of two or three individuals can be as fast as the ones taken by a single individual. Hence, the Committee recommend that the upper ceiling of the financial powers of the Chairman, which presently stands at Rs. 50 crore should be reduced to Rs. 10 crore. All the investment proposals involving an amount of Rs. 10 crore and above should invariably be approved by the entire Board. Accordingly, the Committee recommend that the UTI Act may be amended suitably.”</p>
		<i>Substitute</i>	<p>“The Committee are of the view that concentration of financial powers for investing huge amounts of funds in securities of different kinds in single individual may lead to undesirable and unhealthy practices. The Committee, therefore recommend that the upper ceiling of the financial powers of the Chairman which are on the higher side need to be rationalised. The Committee note that though the Board of Trustees is competent enough to delegate the Executive Committee consisting of 3 Members of Board of Trustees the power to sanction/invest unlimited amount of money yet the entire Board should not have completely divested of its responsibility for sanctioning even huge amounts of money. The Committee, therefore recommend that entire Board of Trustees should invariably be involved in decisions pertaining to sanctioning/investing huge amounts of money.</p> <p>The Committee are of the view that the functioning of UTI need to be more professional and transparent. Further, the Committee are in favour of bringing all the Schemes of UTI under the ambit of mutual fund regulations prescribed by SEBI. Accordingly, the Committee recommend that the UTI Act</p>

may suitably be amended.”

66 5.7

After “to revamp”

Delete “repeal the Act.”

Add “BIFR enabling it to dispose off the cases expeditiously.”

Annexure II

Financial Institutions included/notified as Public Financial Institutions
under Section 4A of the Companies Act, 1956 as on 31st March 1999

Name of the Institution	Date of Notification
1. Industrial Credit and Investment Corporation of India Ltd.	1 February, 1975
2. Industrial Development Bank of India	1 February, 1975
3. Industrial Finance Corporation of India/ Industrial Finance Corporation of India Limited	1 February, 1975 15 February, 1995
4. Life Insurance Corporation of India	1 February, 1975
5. Unit Trust of India	1 February, 1975
6. General Insurance Corporation of India	8 May, 1978
7. National Insurance Company Ltd.	8 May, 1978
8. New India Assurance Company Ltd.	8 May, 1978
9. Oriental Fire and General Insurance Company Ltd.	8 May, 1978
10. United Fire and General Insurance Company Ltd.	8 May, 1978
11. Industrial Reconstruction Bank of India/ (now Industrial Investment Bank of India Limited)	9 October, 1987
12. Tourism Finance Corporation of India Ltd.	3 January, 1990
13. Risk capital and Technology Finance Corporation Ltd.	20 March, 1990
14. Technology Development and Information Company of India Ltd.	12 April, 1990
15. Power Finance Corporation Ltd.	31 August, 1990
16. National Housing Bank	26 July, 1991
17. Small Industries Development Bank of India	2 December, 1991
18. Rural Electrification corporation Ltd.	11 February, 1992
19. Indian Railways Finance Corporation Ltd.	8 October, 1992
20. Andhra Pradesh State Financial Corporation	28 March, 1995
21. Assam Financial Corporation	28 March, 1995
22. Bihar State Financial Corporation	28 March, 1995
23. Delhi Financial Corporation	28 March, 1995
24. Gujrat State Financial Corporation	28 March, 1995
25. Haryana Financial Corporation	28 March, 1995
26. Himachal Pradesh Financial Corporation	28 March, 1995
27. Jammu & Kashmir State Financial Corporation	28 March, 1995
28. Karnataka State Financial Corporation	28 March, 1995
29. Kerala Financial Corporation	28 March, 1995
30. Madhya Pradesh Financial Corporation	28 March, 1995
31. Maharashtra State Financial Corporation	28 March, 1995
32. Orissa State Financial Corporation	28 March, 1995
33. Punjab Financial Corporation	28 March, 1995
34. Rajasthan Financial Corporation	28 March, 1995
35. Uttar Pradesh Financial Corporation	28 March, 1995
36. West Bengal Financial Corporation	28 March, 1995
37. Indian Renewable Energy Development Agency Ltd.	17 October, 1995
38. Tamilnadu Industrial Investment corporation Ltd.	27 October 1996

39. North Eastern Development Finance Corporation Ltd.	23 July 1996
40. Housing and Urban Development Corpn. Ltd.	9 December 1996
41. Infrastructure Development Finance Company Ltd.	13 December 1997
42. Exim Bank	14 June

Total 42 Public Financial Institutions

Annexure III

STATEMENT SHOWING NO. OF CASES FILED, NO OF CASES DISPOSED OFF
AMOUNT INVOLVED
AND AMOUNT RECOVERED AS ON 30.6.2000

(As reported by DRTS)

(Rs. In crores)

<u>NAME OF DRT</u>	NO. OF CASES FILED	AMOUNT INVOLVED	NO. OF CASES DISPOSED OFF	AMOUNT INVOLVED	AMOUNT RECOVERED
DRT MUMBAI	5365	15487.54 \$ 1.73	190	348.95	199.71
DRT BANGALORE	4224	4434.85	2869	1584.24	450.06
DRT HYDERABAD	2863	7094.24	166	78.40	29.16
DRT CHENNAI	6578	8674.08	1748	801.42	337.58
DRT PATNA	1464	1158.46	238	162.73	56.18
DRT CALCUTTA	3126	3268.29	994	606.45	98.28
DRT JAIPUR	4278	3121.56	1748	584.00	224.08
DRT JABALPUR	3874	3483.19	722	654.95	97.85
DRT AHMEDABAD	3003	4319.88 \$ 1.33	613	343.27	91.29
DET GUWAHATI	478	467.85	113	60.00	5.50
DRT DELHI	4163	9155.27	1308	1529.52	149.40
DRT ERNAKULAM	1346	873.25 \$.05	266	107.74	9.65
DRT CHANDIGARH	95	249.40	---	----	----
DRT ALLAHABAD	81	68.79	---	----	----
<u>TOTAL</u>	40938	61856.65 \$ 3.11	10975	6861.67	1748.74