C.B. II No. 303

LOK SABHA

JOINT COMMITTEE

ON

THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973

EVIDENCE

LOK SABHA SECRETARIAT
NEW DELHI

July, 1975/Asadha, 1897 (Saka)
Price: Rs. 5.70

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JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973

COMPOSITION OF THE COMMITTEE

Shri B. N. Kureel—*Chairman*

MEMBERS

Lok Sabha

2. **Shri Dinen Bhattacharya**
3. **Shri Chandulal Chandrakar**
4. Shri K. Chikkalingiah
5. **Chaudhry Dalip Singh**
6. **Shri Anadi Charan Das**
†7. Shri B. K. Daschowdhury
8. **Shri C. T. Dhandapani**
9. **Shri Jambuwant Dhote**
10. **Shri Jagdish Chandra Dixit**
11. **Shri Devinder Singh Garcha**
12. **Shri Indrajit Gupta**
13. **Shri Noorul Huda**
14. **Shri Ramachandran Kadannappalli**
15. **Shri Robin Kakoti**
16. **Shri N. S. Kamble**
17. **Shri Madhu Limaye**
*18. Shri K. M. Madhukar
†19. Shri Vikram Mahajan
20. **Shri Jagannath Mishra**
21. **Shri Shrikishan Modi**
22. **Shri Piloo Mody**
23. **Shri Surendra Mohanty**
24. **Shri Prata Singh Negi**
25. **Shri Rajaram Dadasaheb Nimbalkar**

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*Appointed w.e.f. 30-8-1974 *vice* Shrimati Roza Vidyadhar Deshpande resigned.

†Appointed w.e.f. 20-11-1974 *vice* Sarvashri K. R. Ganesh and A. K. M. Ishaque resigned.

26. Dr. Laxminarayan Pandeya

27. Shri E. V. Vikhe Patil

28. Shri M. S. Purty

29. Ch. Ram Prakash

30. Shri Ram Swarup

31. Shri M. S. Sanjeevi Rao

32. Shri M. Ram Gopal Reddy

33. Dr. Govind Das Richariya

34. Shri Babu Nath Singh

35. Shri Somchand Solanki

36. Shri K. Suryanarayana

37. Shri T. V. Chandrashekharappa Veerabasappa

38. Shri N. R. Vekaria

39. Shri Sukhdeo Prashad Verma

%40. Shri C. Subramaniam.

Rajya Sabha

41. Shri K. B. Chettri

42. Shri Babubhai M. Chinai

43. Shri Bhupesh Gupta

44. Shri Yashpal Kapur

45. Shri M. S. Abdul Khader

46. Shri B. V. Abdulla Koya

47. Shri A. G. Kulkarni

48. Shrimati Sumitra G. Kulkarni

49. Dr. K. Mathew Kurian

50. Shri B. N. Mandal

51. Shri Rishi Kumar Mishra

52. Shri Lokanath Misra

53. Shri Deorao S. Patil

54. Shrimati Saraswati Pradhan

55. Shri S. Ranganathan

56. Shri R. Narasimha Reddy

57. Shri Kameshwar Singh

%Appointed w.e.f. 20-11-74 *vice* Shri Y. B. Chavan resigned.

58. Shrimati Maimoona Sultan

59. Shri Subramanian Swamy

60. Shri Gian Chand Totu

LEGISLATIVE COUNSEL

1. Shri S. K. Maitra, Joint Secretary and Legislative Counsel.

2. Shri N. L. Vaidyanathan, Additional Legislative Counsel.

REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF BANKING)

1. Shri N. C. Sen Gupta, *Secretary.*

2. Shri M. G. Balasubramanian, *Additional Secretary.*

3. Shri M. K. Venkatachalam, *Joint Secretary.*

4. Shri D. K. Sen, *Deputy Secretary.*

5. Shri V. K. Shunglu, *Deputy Secretary.*

SECRETARIAT

1. Shri P. K. Patnaik, *Additional Secretary.*
2. Shri H. G. Paranjpe, *Chief Financial Committee Officer.*
3. Shri Y. Sahai, *Chief Legislative Committee Officer.*

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	3. Shri N. C. Das, Secretary		
	4. Shri G. K. Bhardwaj, Secretary		
	5. Shri D. T. Taide, Secretary		
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RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973.

Monday, the 15th July, 1974 *from* 10.00 *to* 12.30 *hours.*

PRESENT

Shri B. N. Kureel—*Chairman*

MEMBERS

Lok Sabha

2. Shri Chandulal Chandrakar
3. Chaudhry Dalip Singh
4. Shri Anadi Charan Das
5. Shrimati Roza Vidyadhar Deshpande
6. Shri K. R. Ganesh
7. Shri Noorul Huda
8. Shri A. K. M. Ishaque
9. Shri Ramachandran Kadannappalli
10. Shri N. S. Kamble
11. Shri Madhu Limaye
12. Shri Jagannath Mishra
13. Shri Surendra Mohanty
14. Shri Pratap Singh Negi
15. Dr. Laxminarayan Pandeya
16. Shri M. S. Purty
17. Shri Ram Swarup
18. Dr. Govind Das Richariya
19. Shri Babu Nath Singh
20. Shri K. Suryanarayana
21. Shri Sukhdeo Prasad Verma

Rajya Sabha

22. Shri Babubhai M. Chinai
23. Shri Yashpal Kapur
24. Shri B. V. Abdulla Koya
25. Shrimati Sumitra G. Kulkarni
26. Dr. K. Mathew Kurian

27. Shri B. N. Mandal
28. Shri Rishi Kumar Mishra
29. Shri Deorao S. Patil
30. Shrimati Saraswati Pradhan
31. Shri S. Ranganathan
32. Shri R. Narasimha Reddy
33. Shri Kameshwar Singh
34. Shri Subramanian Swamy
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2. Shri M. K. Venkatachalam, *Joint Secretary.*
3. Shri N. Sethuraman, *Joint Secretary.*
4. Shri V. K. Shunglu, *Deputy Secretary.*
5. Shri D. K. Sen, *Deputy Secretary.*

SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

WITNESSES EXAMINED

I. Unit Trust of India, Bombay.

Spokesmen:

1. Shri J. S. Raj
2. Shri S. D. Deshmukh
3. Shri M. R. Damle
4. Shri S. S. Williams
5. Shri R. Srinivasan

II. Industrial Finance Corporation of India, New Delhi.

Spokesmen:

1. Shri C. D. Khanna
2. Shri Baldev Pasricha
3. Shri T. M. Sen
4. Shri V. S. R. K. Sastri

I. Unit Trust of India, Bombay

Spokesmen:

1. Shri J. S. Raj.
2. Shri S. D. Deshmukh.
3. Shri M. R. Damle.
4. Shri S. S. Williams.
5. Shri R. Srinivasan.

(The witnesses were called in and they took their seats.

MR. CHAIRMAN: Mr. Raj, I welcome you all here. Before we commence our deliberations, you may introduce your colleagues to the Committee.

You may also kindly note that the evidence you give would be treated as public and is liable to be published, unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire the evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

Mr. Raj, you may kindly make your general remarks about the Unit Trust and about the Bill which is before us.

SHRI J. S. RAJ: Regarding the Unit Trust, Mr. Chairman, we have been in existence since 10 years. The Unit Trust came into being in 1964.

SHRI K. SURYANARAYANA: Have they submitted any memorandum?

MR. CHAIRMAN: This is oral evidence.

SHRI K. SURYANARAYANA: Even then, I would like to know whether they have submitted any memorandum.

SHRI J. S. RAJ: We have not submitted any memorandum. The Unit Trust was set-up, Mr. Chairman, in order to mobilise savings from the public, invest them in securities of different types and to distribute the income to the public. Basically, therefore, we are an investment institution. We started with a capital of Rs. 5 crores contributed 50 per cent by the Reserve Bank of India, 15 per cent by the State Bank of India, another 15 per cent by the LIC and the balance 20 per cent by the banks and long term financing institutions. On the basis of this Rs. 5 crores, we went out and sold units to the public which carry a face value of Rs. 10. These are sold at different prices over the years and we take this money and invest it in securities and we distribute dividends after paying for our expenses. Today, our total fund stand at Rs. 172 crores. Our total unit, capital is 151.50 crores. On this capital, we have recently declared a dividend of 8½ per cent. This 8½ per cent represents a steady increase from 6 per cent, which we declared in our first year. Apart from this, we put our money in a variety of securities. We have money in ordinary shares, preference shares, debentures and in a variety of financial instruments including call money, advance deposits with banks to whom we have given loans etc. This is as far as Unit Trust is concerned.

Regarding the Bill, Mr. Chairman, would you like me to comment on the whole Bill or only as it relates to the Unit Trust?

MR. CHAIRMAN: You can make your general remarks on the whole Bill. Then, you can come to specific clauses.

SHRI J. S. RAJ: On the whole Bill, Mr. Cnairman, the basic concept of re-structuring IDBI as a separate entity for giving more attention to development banking is, in my opinion, a good one. Time has come when development banking has become sufficiently large and sufficiently complicated for one institution to take charge of it completely. Then as regards the coordination between the IDBI and the various financial institutions, I think, this is, to some extent, already being done through the medium of what are called inter institutional meetings. But, it is a good idea to formalise these relationships. Therefore, I have nothing to say on this matter. But, I would like to make one point that among the financial institutions which are coming under the leadership of the IDBI, Unit Trust is somewhat in a peculiar position, because it does not receive funds from any source, but only from the public on its showing as giving dividend and it attracts money on that basis. It is, what I would call, an investment institution. It has to be, by its very nature, return conscious. People put money in the Unit Trust because they expect a somewhat higher return than what they have been getting from competing financial instruments. Secondly, according to the present regulations of the Unit Trust, only 5 per cent of its total investible funds can be put into new projects. Therefore, this is one constraint on the development banking activities of the Unit Trust. I just want to say this that so far as the coordinating role of the IDBI is concerned, the part of the Unit Trust where it would have a constructive role to play would be relatively smaller proportion of its total activities. Otherwise, the Bill is well-conceived. We have nothing against it.

MR. CHAIRMAN: Any remarks on the clauses?

SHRI J. S. RAJ: We have carefully gone through this Bill. We have nothing to say on the clauses.

SHRI BABUBHAI M. CHINAI: Mr. Raj, you have very rightly said that in the Unit Trust, public money is involved, and to that extent, you have to be very careful on your investment and on the return also. You have also said that you have recently declared 8½ per cent dividend. May I know from you, on your investment of Rs. 172 crores, which is distributed amongst 151.50 crore people, whether, when you come under the umbrella of IDBI, and after the latest Ordinances which have come and which are interpreted as after tax, you will be able to give this 8½ per cent dividend? If not, what is your estimate of the dividend which you think you will be able to give, when you come under the umbrella of IDBI? Now, my second question is this. At present, the holding by the Reserve Bank in the Unit Trust is 50 per cent. Under the bill, the whole holding of the Reserve Bank will now go under the Government. Would you like this 50 per cent to be with the Reserve Bank or with the Government?

SHRI J. S. RAJ: On the first part of the question and on the effect of the proposed link with the IDBI on our dividend paying capacity, I do not anticipate any change. Our development banking activities are confined to 5 per cent of our total investment funds. I have no reason to believe that this percentage will change. If it does and it becomes 20 per cent, naturally that money will be invested in new projects which will not bring in immediate dividend and it will affect our capacity; but we do not have to cross the bridge to-day. And till the IDBI asks us to change it, I do not think we have to make any change in the calculations. About the recent ordinances, I would like to point out that our total income during 1973-74 was Rs. 13.82 crores. Out of this, almost exactly Rs. 5 crores came from the dividends on ordinary shares of ordinary companies. We have naturally made some calculations on this basis,

according to which our income would, under the present wording of the ordinances, worsen by roughly Rs. 2 crores.

SHRI BABUBHAI M. CHINAI: According to the brief given by the Cabinet Secretary, Mr. Pande, the effect would be after tax. What would be the position, in that case?

SHRI J. S. RAJ: In that case, the fall in profits would go up from Rs. 2 crores to Rs. 2½ crores. But I would still say that we have declared a certain dividend this year; it could have been a quarter per cent higher. When the final accounts are cast, we hope to carry something to reserve. We already have Rs. 43 lakhs in the reserve. I am figuring that next year, if we can earn 8 per cent on our Unit capital, we can still maintain the dividend. If it goes up from Rs. 151.5 crores to roughly Rs. 20 crores more, we would need Rs. 85 lakhs for every 0.5 per cent of the dividend. We have lost Rs. 2.5 crores; we may have made up Rs. 85 lakhs; and may have to make up about Rs. 1-3/4 crore. So long as the tight money policy of the Government continues, we would expect that on our short-term assets we would have, for the whole year, roughly 13 per cent to 14 per cent compared to what we have earned during only half the year, this year. If I may answer Mr. Chinai's question in a hypothetical manner, I would not rule out the possibility of our declaring 8.5 per cent next year.

SHRI BABUBHAI M. CHINAI: Are you going to lose only Rs. 0.5 crore due to this? In view of your claim that the common man is contributing to you, in view of the existence of so much of inflation and there being no saving and also 50 per cent of the employees' contribution going to the Reserve Bank, do you expect small people, numbering 95 lakhs, to continue to be with you?

SHRI J. S. RAJ: Our impression, based on experience, is that people who buy Units are not that much sophisticated, by and large. Most of them calculate as to what they would get if they had kept the money in the Fixed Deposit. Till recently, they compared the interest that they would get by keeping it in the bank for 5 years and withdrawing it earlier. In that case, they would lose not only the interest for the remaining number of years, but also an additional one per cent. Such a person would think that if he kept the Units to the same extent, he would incur only a slight loss. In fact, he may not incur a big loss if he makes the sale at the right month. I would not, therefore, say that our sales would remain completely unaffected. Since our 6-lakh Unit-holders are spread over all over India in small towns and backward areas, I would not say that sales will fall very much, necessarily.

SHRI BABUBHAI M. CHINAI: Secondly, do you think that there is an apprehension in the minds of some people that this bill will result in centralizing all power in one Board on behalf of the Central institutions—more or less in Government hands? You are free to-day. Would you prefer this change or the existing situation? From the day on which this bill is passed, you will be under the guidance and inspection from the Government.

SHRI J. S. RAJ: It is human nature to prefer liberty to order; but speaking in the wider public interest, I do not see any reason why the present set of bills should lead to vesting of any more dictatorial powers with the IDBI than is the present situation. After all, contrary to the present situation, the bills provide for the representation of the constituent financial institutions on the Board of the IDBI, which is a very important point.

SHRI BABUBHAI M. CHINAI: I now come to Claue 6. When there are separate institutions, people have to approach them separately. The entrepreneurs may have two different views as to the possible results. Different people will give different reactions in

regard to giving money. Once a Board sits together and decides not to give money, all the doors are probably closed to an entrepreneur. Is this difficulty genuine; or is there any scope for improvement?

SHRI J. S. RAJ: So far as the present arrangements are concerned, there is nothing to prevent a representative of an institution from reserving his position when he sits on the Board of the IDBI. I do not think that this will act in a monolithic way at all. As far as I can see, there will be a closer relationship and uniformity in the appraisal procedures. May be it is short-circuiting of some procedures, but speaking from my own experience on the inter-institutions meeting, very often we take a decision in principle on the financing of a project, and quite often it is felt that we should go back and explain to them that from our point of view the equity capital is too much, and tell them, "Why don't you change from equity to debentures?" I have no reason to believe that the mere fact that there will be a closer relationship will necessarily change the situation.

SHRI BABUBHAI CHINAI: I concede that there will be a closer relationship between all the institutions, but don't you think that when you take a decision altogether, there will be no scope left to the entrepreneur to go to any other representative institution, because, once having taken a joint decision, it is not possible for a new or individual institution to change its decision.

SHRI J. S. RAJ: That situation already exists through the existing mechanism.

SHRI BABUBHAI CHINAI: This will be a statutory thing. That will be informal.

SHRI J. S. RAJ: I do not know what can be more formal than meetings, minutes, agendas and all the rest of it.

SHRI BABUBHAI CHINAI: Another point I would like to ask is this. In a way, when a loan is to be taken, they approach the institutions, and between themselves they have different forms and different solicitors; both the institutions and the entrepreneurs. If they are all brought under one umbrella, this expansion of different solicitors and different consultations and different forms would be obviated. Do you agree?

SHRI J. S. RAJ: With your permission, may I ask Mr. Deshmukh to speak on this?

MR. CHAIRMAN: Yes.

SHRI S. D. DESHMUKH: I think it is quite true that many entrepreneurs have been complaining that there is duplication and triplication of the various forms which have to be completed, and in fact, they demand that there should be a centralised appraisal of projects as coming from the entrepreneurs. It is not as if this is a matter which has been initiated by the institutions themselves, but in the last two or three years—

SHRI SUBRAMANIAN SWAMY: May I know whether that demand is documented or it is just your own opinion?

SHRI S. D. DESHMUKH: People have been complaining that different documents are creating—

SHRI SUBRAMANIAN SWAMY: You said that a demand has come from the entrepreneurs. I do not agree with you. On what basis do you say this?

SHRI S. D. DESHMUKH: They have expressed their belief to us.

SHRI SUBRAMANIAN SWAMY: There must be something in writing a letter or a memorandum or some association should have made some such representation.

SHRI S. D. DESHMUKH: If I recall Mr. T. A. Pai has been often saying that there should be a centralised appraisal of projects.

SHRI SUBRAMANIAN SWAMY: This is a problem, that all of us are experienced. The management of the UTI is pronouncing a view, without the background literature, and nothing in writing. We have to bring out certain information. Here is this witness who says that this is what the entrepreneurs say. I do not agree with him.

SHRI K. SURYANARAYANA: The office has not sent to us the agenda, etc. We do not know the ABC of the functions of the UTI. Even in regard to the LIC, they have not given us any literature.

DR. K. MATHEW KURIAN: If the entrepreneurs have been demanding this, there will be at least some written letters to somebody; some evidence about their real interest. The fact that Mr. T. A. Pai or somebody else has said this is no evidence at all.

MR. CHAIRMAN: What is your basis for saying this?

SHRI S. D. DESHMUKH: Time and again, people have told us that it must be uniform. If I may go back, I think Mr. Chinai started on this particular line of questioning—

SHRI SUBRAMANIAN SWAMY: This is your opinion; Mr. Deshmukh's opinion. You are informing us that the entrepreneurs have told you in a general sense. There is nothing to substantiate what you are saying. After all, we are taking an important decision. I cannot just agree with you on what you say. I want to make this absolutely clear that we cannot simply go by what Mr. Deshmukh has just now said.

SHRI J. S. RAJ: People do not like to put this in writing because they feel it might spoil their relations with many other institutions. Mr. Palkhivala of the Tatas, and representative of the Modis, and the Kasturbhai group—all have personally told me that we want something whereby we can deal with this thing in a uniform way.

SHRI SUBRAMANIAN SWAMY: This witness has supported the Bill. He says that somebody has told him. He is already a party to the Bill in the sense that he is in support of the Bill. Secondly, he says that Mr. Palkhivala told him. It is no evidence at all. We can give him time to go back and come prepared to give concrete evidence. He cannot tell us that Palkhivala told him something in a cocktail party.

MR. CHAIRMAN: Let us hear their opinion. It is only oral evidence.

SHRI SUBRAMANIAN SWAMY: I would like to make it clear that he is representing the management of the UTI. I do not even know whether he has consulted the employees of the UTI before coming here. I will certainly take this up when questions on that side are finished. I want to make it clear that since the evidence presented to us here is very important, there has to be something more substantial than what the Chairman of the UTI says here or what a number of people have told him.

SHRI K. SURYANARAYANA: Even all these institutions have not circulated any literature or anything so far. How can we understand the evidence on this important Bill without them?

MR. CHAIRMAN: This is oral evidence.

SHRI K. SURYANARAYANA: Some Members on this side are in business. But the rest of us are only lawyers. We do not know what is the ABC of the functioning of these institutions.

MR. CHAIRMAN: Let us hear him first.

SHRI DESHMUKH: What I wanted to add was that earlier, a point of view was expressed that there are two schools of thought in this business. One set of people believe that when there are four to five different institutions operating if they do not get satisfaction at the hands of one institution, they are free to go to another institution. I think specifically it was mentioned that if they did not feel satisfied with the work done by the UTI, perhaps they could go to the LIC for a better deal. What I am trying to say is that when the project cost is getting so big, it is difficult for one single institution to provide all the assistance that is needed. In fact, much of the time at the institutional meetings is spent in trying to allocate the different amounts. It is a matter of persuasion for the different institutions to try and fill the various gaps that arise. In a situation like this, it is necessary for an entrepreneur to approach a number of institutions and when that happens, it is quite likely that certainly some people who have expressed their opinion not only to us but to other institutions also back out and say, "Nevertheless we would prefer an individual approach." I do not want to connect that in any sense with this Bill. This is coming from my own experience.

डा० लक्ष्मी नारायण पांडेय : कौन से सैंक्शन पर इनका क्या कहना है इसका विवरण हमें मिलना चाहिये । ऊपरी तौर पर बातें करने से क्या लाभ है ?

सभापति महोदय : ये ओरल एवीडैंस देने आए हैं । बिल आपके सामने है ।

डा० लक्ष्मी नारायण पांडेय : किस आधार पर ये कोई बात कह रहे हैं यह चीज लिखित होती हमारे सामने तो ज्यादा अच्छा होता । जिस तरह से ये चल रहे हैं उससे समझने में दिक्कत पड़ती है । एक ही सदस्य सवाल कर रहे हैं । दूसरों को भी मौका मिलना चाहिये ।

सभापति महोदय : आपको भी मौका मिलेगा ।

SHRI A. K. M. ISHAQUE: They have not submitted any memorandum. Let us examine first those who have submitted memorandum.

MR. CHAIRMAN: They have not submitted any memorandum because they do not have anything to say against the Bill.

SHRI BABUBHAI CHINAI: Were you consulted at any stage by the Government in drafting this Bill because you are going to be affected?

SHRI J. S. RAJ: Yes. We were consulted through the Reserve Bank. We have no independent existence.

SHRI BABUBHAI CHINAI: Were you consulted on the merits of the subject or on the draft of the Bill?

SHRI J. S. RAJ: We were consulted on both.

SHRI BABUBHAI CHINAI: Did you submit any written note to the Reserve Bank giving your views on the Bill and if so, will you submit a copy of it to us?

SHRI J. S. RAJ: Meetings were convened by the Governor of the Reserve Bank at which we were asked our views on the various clauses. I recall only one thing. We had expressed the view on the first draft that there are not enough provisions regarding staff matters, as a result of which various clauses were redrafted. We agreed with the redrafted clauses.

SHRI BABUBHAI CHINAI: You had no comment on any other clause?

SHRI J. S. RAJ: No.

SHRI BABUBHAI CHINAI: Will the Finance Ministry representative kindly enlighten us whether at any stage the financial institutions were consulted in the drafting of the Bill?

SHRI BALASUBRAMANIAN: The Department of Banking in the Finance Ministry had individually consulted all the financial institutions on the draft Bill and their comments were received by us. Some of the original drafting was modified to accommodate some of their views. But the final decision has been that of the Government. We had only sought the advice of these institutions so far as the practical implementation of these decisions was concerned.

SHRI MADHU LIMAYE: The Unit Trust people just now said that they offered no comments except on clause 1 of the Bill. Am I to understand that they had nothing to say about the central idea of the Bill, that is to say, separating the Development Bank from the Reserve Bank and transferring the Reserve Bank holding to the Central Government? Have they no views on that?

SHRI J. S. RAJ: As the representative of the Banking Department pointed out, we were not asked to give our views on that. We were asked for our comments on the draft Bill in so far as it related to us. We were only asked what the implementation of the central idea of the Bill will mean. We communicated our views to the Reserve Bank and, I presume, those were communicated to the Government.

SHRI MADHU LIMAYE: It is not clear. There seems to be a lot of confusion. We have been told that their comments were communicated to the Reserve Bank. Were the comments only on clause 1, not on the substantive clauses of the Bill?

SHRI J. S. RAJ: May I request Mr. Balasubramanian to elucidate it further? I feel he knows the exact position.

SHRI BALASUBRAMANIAN: Originally, when we conceived this new proposal, we consulted the Reserve Bank. The Reserve Bank naturally had a meeting with the various financial institutions. That is what Mr. Raj was referring to. The Reserve Bank had a meeting with them. After the meeting, we had the comments of the Reserve Bank and we re-drafted these provisions. Again, we sent the re-drafted provisions individually to the institutions for their comments. After receiving those comments, any changes that were considered necessary were also made. These are all, if I may submit, internal matters. That happens in drafting every Bill. The same thing happened in the case of the Bill which is now before the Joint Committee.

SHRI BABUBHAI CHINAI: If I understood correctly, they were consulted by the Reserve Bank at a meeting where they expressed their views on clause 1 and they had no comments on the implications of the Bill as such. If that is so, may I know if they had sent any comments to the Reserve Bank earlier in writing?

SHRI J. S. RAJ: I think, what the Banking Department representative said will throw light on that. When the original idea about the series of Bills was mooted, there was a meeting in the Reserve Bank at which all of us were invited. We discussed the general concepts of these Bills. At that stage, as far as I recall, I had merely said that if this is intended to bring about greater coordination in the banking development field, it is a good idea. Beyond that, I was not called upon to say anything more.

Now, when I come to the question of staff, I am referring to the second stage, when a draft Bill was circulated for our comments. Our entire staff is drawn from the Reserve Bank with exception of myself and five officers from the LIC. We had some doubts as to whether, in case all the staff opt to go to the Reserve Bank, it would create a great deal of problems for the Unit Trust. So, we had to make out some detailed provisions as to how much longer time should be

given for this to be done during the transitional period. We gave our comments on that. That is all. I do not think there is any confusion about it.

SHRIMATI ROZA DESHPANDE: We want to know whether they were consulted only on staff matters, not on other matters. It is not yet clear. He has created more confusion by his answers.

SHRI J. S. RAJ: I expressed my views on staff matters because that is what affects the Trust. It is the staff matters which affect the functioning of the Trust. So, I expressed by views on them in detail.

SHRI BABUBHAI CHINAI: As regards clause 6 is concerned, there is a provision for nomination of not less than five Directors having special knowledge or practical experience in science, technology, economics, industry, industrial cooperatives, industrial finance investment, accountancy or any other matter. Don't you think that the representation to industry should have been a little more in view of the fact that most of the money which you will be giving would be practically used by the industries as such? What is your opinion on this? The provisions of the Bill vitally concern the industries.

MR. CHAIRMAN: Do you want to answer questions on the clauses or not.

SHRI J. S. RAJ: Since I have said that we have no comments on the clauses....

SHRI BABUBHAI CHINAI: When they have come before the Joint Committee to give oral evidence, I am sure, they must have read the Bill from 'A' to 'Z'. We want to have a clarification on some clauses. How can they say that they have come only for a general discussion?

SHRI J. S. RAJ: If you want, I am prepared to give my views.

MR. CHAIRMAN: What have you to say on clause 6?

SHRI J. S. RAJ: I notice that the IDBI is also being given wider responsibility. I think the definition of "industry" is also being widened. In that context, I am sure that representation given to the various interests has been carefully gone through. I would not wish to make off the cuff remarks on whether industry should be more represented or not.

SHRI BABUBHAI CHINAI: The industries which manufacture these products require a very wide market in the country. Do you think that a marketing representative should also be in this Board?

SHRI J. S. RAJ: If it can be accommodated, certainly it would be a good idea.

SHRIMATI ROZA DESHPANDE: This is a very important Bill which affects the entire functioning of Unit Trust and other financial institutions. The Chairman of the Unit Trust says that he is only concerned with his staff, because except for four or five all the rest have come from the Reserve Bank. Is that the only thing which should concern him? Was he not concerned with the basic principles incorporated in this Bill? This Bill affects the entire structure of the Unit Trust. Staff is only a secondary subject. How is it that he has no opinion at all on what should be done? We look upon him as a financial expert of this country who can assist Parliament in understanding this Bill. We have no desire to contradict him or to put him in a witness box but let him explain how the whole thing is going to function, whether it is beneficial and so on.

SHRI J. S. RAJ: Naturally, as the chief executive of the organisation, I did give thought to what the position of the Unit Trust would be in the revised set up. As I saw it, the function which the Reserve Bank had so far

would be transferred to the IDBI. We have dealt with the IDBI all our life time and I have no reason to believe that the effectiveness of the Unit Trust regarding its functioning would in any way be adversely affected by the transfer from the Reserve Bank to the IDBI. The present regulation whereby not more than 5 per cent of the total investible funds of the Unit Trust are available for new projects would not be changed. So far there is nothing to indicate that it would be changed. Therefore, I had no reason to apprehend any adverse effect on the transfer of the Unit Trust from the Reserve Bank to the IDBI.

The hon. Lady Member referred to the overall situation. I am quite conscious that I am responsible towards this body. It so happens that although today I am running what I would call an investment banking institution, I spent four years in the senior management of the ICICI. I established the Industrial Bank in Nigeria and worked there for three years. I have worked in the World Bank for four years. I have no reason to believe that the restructuring of the IDBI with the powers which it had been given in this Bill would not be a more effective instrument of development banking in India than the present situation. That is my considered view.

SHRIMATI ROZA DESHPANDE: So, it will be a positive improvement over the present management.

SHRI J. S. RAJ: Yes.

DR. MATHEW KURIAN: As the management of the Unit Trust would agree, so far the Reserve Bank of India has been dealing with not only short-term lending, short-term financing, but also through the IDBI and the Agricultural Re-Finance Corporation trying to link it up with long-term lending. I think he would also possibly agree with me that in underdeveloped countries the role of a central bank is not the traditional role assigned to the central banks in developed, advanced capitalist countries. It is agreed that in developing countries we must have a linkage between short-term and long-term lending so that the developmental effort is made in a planned way. But this Bill actually cuts at the very root of this principle of integration between short-term and long-term lending. Now there is an attempt to take away this role, which has been rightly assigned to the central bank in a developing economy. We are going to take a wrong step from where we began. At least some beginning was made to integrate long-term and short-term financing through the IDBI and Agricultural Refinance Corporation. The Government is not proposing to take away the functioning of the Reserve Bank in agricultural finance.

MR. CHAIRMAN: Let him ask a question.

DR. MATHEW KURIAN: I have to give the background before asking the question. If the management of the Unit Trust would agree with me that the central bank in a developing economy should integrate long-term and short-term financing, in view of the fact that the Government itself has not taken away the functions of agricultural finance from the Reserve Bank, what is the rationale for this de-linking at all? Secondly, Shri Sunder Raj himself said that Shri Palkhiwala had suggested that Tatas and Modis have interest in this. Unlike Dr. Swamy I do believe that Tatas, Modis and Palkhiwalas have demanded this type of Bill and that is precisely my point. Today the Reserve Bank, which is at least relatively independent, has a role to play. Now that relative independence of the Reserve Bank is taken away and given to a holding company, which will further strengthen the stranglehold of the monopoly companies on this banking institution and ICICI, which is famous for its linking with monopoly capital. The investment

pattern of ICICI shows that it is helping only monopoly in this country. Once this holding company is established, the hold of Shri Palkhiwala, Modis and Tatas on Shri Sunder Raj and his organisation will further be strengthened. So, will this de-linking of the IDBI and Unit Trust from the Reserve Bank not further strengthen the wrong tendencies of the monopoly growth in this country and result in the misuse of the resources for development in non-priority sectors?

SHRI J. S. RAJ: Before answering this question, I would make one small correction. My name is not Sunder Raj, but James Raj.

I would deal with the simple questions first. Regarding the proliferation of forms, documentation and all that, I did not mean to imply that they have anything to do with the rationale of this Bill. I was merely trying to buttress what Shri Deshmukh said. In fact, I am aware of specific instances where people have complained about this lack of documentation, proliferation and all that. I would be sorry if a link were to be established between their views and ours. I would also refrain from making any comments on ICICI where I had the privilege of working for a long time.

Now, coming to the question of the Central Banks in developing countries, it is correct that the Central Banks in the developing countries have a role other than simply monetary stability. That is well recognized by all students of economics. I would suggest for the members' consideration whether it necessarily has to take the form of integration of short-term and long-term interest rates under one roof. After all, in an economy like this where, for all practical purposes, the Government here has really the last word on the structure of interest rates.

SHRI SUBRAMANIAN SWAMY: He did not say under one roof. He said that it would be under one management. He is not pleading for integration under one roof but for integration under one management That is completely different.

SHRI J. S. RAJ: I am not familiar and I am really surprised to hear that the Reserve Bank is taking measures completely on its own.

DR. MATHEW KURIAN: No. 2—I would like you to give a specific answer. Compared to the present degree of integration of short-term and long-term lending, will the new Bill reduce the degree of integration or not?

SHRI J. S. RAJ: If the situation continues as of now, it will reduce the degree of integration. If the necessary liaison is established between the Reserve Bank and the Department of Banking Affairs, it will not.

SHRI SUBRAMANIAN SWAMY: I think he has posed a very sharp and considered view of the problem, that the Reserve Bank is not capable of integrating this and running the financing of the short-term and long-term lending under its own management. The separation implies somehow that the Reserve Bank is incapable of doing it. Is that your opinion?

DR. MATHEW KURIAN: The Chairman pleads for informal integration, but, to-day, it is integration in the Reserve Bank. He hopes for integration if the Finance Ministry and the Reserve Bank integrate. Naturally, it implies that the integration is lost.

MR. CHAIRMAN: There is a proposal for an independent Board.

SHRI J. S. RAJ: Developmental banking is not simply a matter of long-term and short-term rates. It is a matter of promoting projects and various measures for developing backward areas.

SHRI SUBRAMANIAN SWAMY: Can the Reserve Bank do that?

DR. MATHEW KURIAN: Can the Reserve Bank through the IDBI or the Unit Trust do that?

SHRI J. S. RAJ: Frankly, the situation has developed to a point where it is desirable to have an independent institution to do all this.

SHRI SUBRAMANIAN SWAMY: A few moments ago you expressed a great deal of concern that the employees will go back to the Reserve Bank of India, that there will be bottlenecks and their future promotion, etc., will pose a great difficulty. Have you consulted the employees? Have you forwarded their opinion?

SHRI J. S. RAJ: I have been receiving deputation of employees and I have forwarded their opinions to the Reserve Bank.

SHRI SUBRAMANIAN SWAMY: Had it been made available to us, it would have been a great help in conducting the oral evidence to-day.

DR. MATHEW KURIAN: My second question is about increasing the hold of monopolies on the new type of holding companies.

SHRI J. S. RAJ: Every now and then we get questions as to how much proportion of the various institutional funds have gone to the monopoly companies. From a study I have made of the subject, that proportion does not differ significantly from the proportion of industrial licences granted to such large companies.

SHRI SUBRAMANIAN SWAMY: He is right.

DR. MATHEW KURIAN: What is the conclusion? It is that both the Government and the companies are in favour of monopolies.

SHRI J. S. RAJ: That means that the institutions are in conformity with the Government's intentions regarding which companies deserve financial help.

SHRI DEORAO S. PATIL: In this Bill you see that the Agriculture Refinance Corporation has been kept separate and other financial institutions have been included. Why is this Agriculture Refinance Corporation kept separate? As you have given your opinion on this Bill, I am asking this.

SHRI J. S. RAJ: I am concerned with that part that concerns me, that is the Development Bank and the financial institutions. I think this question may best be answered by someone else.

DR. MATHEW KURIAN: Does he have an opinion?

SHRI J. S. RAJ: No, Sir. It is not my field of interest at all. Agriculture has not been my interest.

SHRI DEORAO S. PATIL: Do you agree that agriculture is an industry or not?

SHRI J. S. RAJ: Regarding the Reserve Bank role I have nothing to say.

SHRI MADHU LIMAYA: Now, with regard to the central idea of the Bill, we were told that the UTI's position is that it would lead to a better co-ordination. I want to know whether after studying the Bill the UTI is of the opinion that this Bill will lead to a more effective co-ordination of the investment activity.

SHRI J. S. RAJ: Yes.

SHRI MADHU LIMAYE: With regard to clause 6(b) which reads as follows:

"In the discharge of its functions under this Act, the Development Bank shall be guided by such directions in matters of policy involving public interest as the Central Government may give to it in writing."

I would like to know whether the

UTI would like to eliminate the Reserve Bank completely from this. Or would they like the Reserve Bank to have some say in the matter?

SHRI J. S. RAJ: There can be two divided opinions on this question. The clause as it stands seems all right to me. I do not wish the Reserve Bank to have any say in the matter because the whole idea is to transfer the control to the Government.

I have always told you that the relationship can be in hundreds of ways. It does not have to take the position whereby the Reserve Bank has the right to give any direction in writing. It will be very difficult for anybody running the institution all the time thinking to whom he has to go for directions and on what.

SHRI MADHU LIMAYE: Could there be a combination—the Reserve Bank and the Central Government jointly formulating the guidelines?

SHRI J. S. RAJ: I do not see how this is possible. I do not personally think it possible to have two authorities as final.

SHRI MADHU LIMAYE: With regard to the structure of the Bank from clause 7 it becomes clear that out of the 21 or so Directors, 20 will be nominated by the Central Bank including the Directors on behalf of the financial institutions. Will this not make the Bank, a department of the Government?

SHRI J. S. RAJ: As I read Clause (c), page 7, the qualifications laid down for the directors to be nominated by the Government do not necessarily mean Government officials for, I would not think that, this would necessarily mean the Government influence on the affairs of this Bank.

SHRI MADHU LIMAYE: Will the financial institutions nominate their own directors? Could not we change the Bank? I am not saying that all these directors will be Government officials but the influence will be there.

SHRI MATHEW KURIAN: Will the Government pick up their own men?

SHRI MADHU LIMAYE: If we change the clause to provide for the nomination of their own representatives by the financial institutions on the Development Bank, what are the UTI to say about this suggestion?

SHRI J. S. RAJ: Well, in practice, I doubt whether it would make much difference. But, naturally, if each institution can nominate its own representatives, it would be easier.

SHRI SUBRAMANIAN SWAMY: I would like to ask a question on the same clause.

SHRI RISHI KUMAR MISHRA: You can put that question when your turn comes.

I would not like the impression to go round that we expect those who are making arrangements, the U.T.I., to defend or disagree with that particular part of the Bill. I think it would be better if a free and frank assessment is available as a leading expert and chief executive of an investment financing institution. That is better instead of trying to defend the Bill or any particular clause of the Bill. In that context, I would like to ask what Mr. Raj thinks whether the formation of a separate holding company which will deal with all types of lendings—long-term, medium-term and short-term—will be better leaving the Reserve Bank mainly with the short-term and long-term lendings which the commercial banks are already doing. Will it create some confusion in regard to the investment finance, planning and other things instead of bringing about any coordination?

SHRI J. S. RAJ: As I have stated earlier, we do not anticipate any adverse effect on the Unit Trust from

this new-re-structuring. As far as I can see we will be represented on it and, instead of receiving our directives from the Reserve Bank as we do now, we will obtain it from the I.D.B.I. which will, in turn, obtain it from Government. This does not change the situation as far as we are concerned.

Regarding the overall Bill as such, I would crave your indulgence to say one thing that after all, the whole concept is something on which the views of those who are currently running the I.D.B.I. and the Reserve Bank would be more valuable than mine. But, if you want me to give my views on the basis of my general experience in different fields, I shall do so. I shall not mince matters.

SHRI RISHI KUMAR MISHRA: I think it would be better if he expresses his views

SHRI J. S. RAJ: I am of opinion that restructuring will make the development banking far more effective. I must tell you Mr. Chairman—I have an apology to make here—that I wrote a report on the holding companies for the Planning Commission about a year and a half back which was the basis for the setting up of the holding companies on Steel. I can say that I was a crusader for the holding company. You must take my views to some extent as prejudiced views.

SHRI RISHI KUMAR MISHRA: About the holding company, I think there is an essential difference in the case of financial institutions. They are not running at losses and this was one of the arguments advanced for re-structuring in the steel industry. Secondly, there is no tier system in deciding about their own financial institutions as was the case of the steel industry where there were many tiers of the decision-making. In your case, these two basic arguments which were there for having holding company in steel do not hold good. What are the new arguments?

SHRI J. S. RAJ: I am confining myself to the narrow question of whether the re-structured and independent I.D.B.I. would be a more effective instrument for development banking than the present system. I firmly believe that it would be better and I do not go into arguments any further.

SHRI RISHI KUMAR MISHRA: Can you tell us whether there is any country in the world where the term-lending institution is separate from the central banking institutions in the matter of control, currency, credit and all that. What are those countries in the world where the term-lending institutions are separated from the Central Banking Institutions which control the currency and credits?

SHRI J. S. RAJ: I would confine myself to a sort of border-line developing countries and definitely developing countries. Spain, Italy and Greece are considered to be border-line developing countries and each of these has a Central Bank which is not concerned with long-term financial institutions at all.

Now, coming to developing countries, I may submit that in Brazil, Argentina, Indonesia and Nigeria—a very rich country—also the Central Bank is separate from long-term financial institutions.

SHRI SUBRAMANIAN SWAMY: They have got dictatorships.

SHRI RISHI KUMAR MISHRA: In Italy, if I may mention, mid-term lending institutions are given certain specific tasks for development banking. Italy and Sicily are considered to be backward areas. They are given loans at subsidised rates of interest by Government and things like that. It is common in many of these countries as well. As regards the military dictatorship, I do not know whether there are efficient military dictatorships, efficient democracies, inefficient democracies and inefficient dictatorships.

SHRI SUBRAMANIAN SWAMY: Name one efficient military dictatorship. Is Brazil having an efficient military dictatorship?

SHRI J. S. RAJ: Yes.

SHRI RISHI KUMAR MISHRA: Mr. Raj mentioned countries that are having Central Bank. As regards term-lending, I think we do not want to follow Brazalian experience in the matter of industrial credit and investment. In the capital structure there would be no disturbance. In your case the industrial reconstruction corporation is a subsidiary of the Reserve Bank. There also its own company is disturbed. And, there, if coordination with these two organisations could be maintained without disturbing their capital structure in the case of one and without disturbing its present status respectively with the Reserve Bank, in the case of others, why it is not possible to devise ways of ensuring such coordination between various financial institutions without creating the holding company? If you think that this holding company helps, why not bring hem under onefold?

SHRI J. S. RAJ: So far as Industrial Reconstruction Corporation of India is concerned, 51 per cent of the capital is already held by the I.D.B.I. There is no need to change it. It has already got the control. So far as I.C.I.C.I. is concerned, it is a private sector company under the Companies Act. I do not know what consideration weighed with the Government in not taking any sharholding in it. But, I do know one thing that about 54 per cent of the capital of ICICI is owned by government's own financial institutions and banks.

Therefore, there again, I think ultimately the Government's view would prevail. So, I do not think there is any need to get more control. That is my point.

SHRI MATHEW KURIAN: Now, I want to pursue this. This is an important point. This is a crucial question to be clinched. I think that it is necessary before Shri Raj finishes his evidence to thrash this issue. We have been persistently asking the Chairman of the Unit Trust whether the new arrangement under the Bill will further the objective of integration of development lending. Development lending has two parts, short-term and long-term lending. Questions have been asked on this. Mr. Raj maintains almost in a theological fashion that he thinks that the new Bill will make effective development lending. Development lending has to bring about integration between short-term and long-term lending. Delinking of the Reserve Bank from this function under the new Bill in fact reduces the degree of integration. But, nevertheless, he maintains in a theological fashion that this will improve matters. Now, either Mr. Raj is reluctant or a little hesitant or he feels embarrased to express his views before the officials of the Finance Ministry. I think Mr. Raj should give his views about development lending, with specific reference to integration of short-term and longter lending, and if necessary, his views may not be recorded.

SHRI J. S. RAJ: Mr. Chairman, I am speaking with full sense of responsibility here. So far as coordination between short-term and long-term lending rates is concerned, I sincerely believe that this coordination can be as effectively achieved under the umbrella of IDBI and its associate, Department of Banking, as under the umbrella of the Reserve Bank.

SHRI SUBRAMANIAN SWAMY: From your statement, the question arises, why should we change it?

SHRI J. S. RAJ: The change under the new system....

DR. MATHEW KURIAN: If it is as good as the other one, why should we change it?

SHRI J. S. RAJ: I have said again and again that I am thinking of other aspects of development banking, promotional activities like taking up schemes of development of backward areas.

SHRI SUBRAMANIAN SWAMY: Which you think Reserve Bank cannot do?

SHRI J. S. RAJ: I am saying that the Reserve Bank as it is constituted at present is better off without tagging on functions which are getting more and more complicated in today's India. Obviously, you can coordinate the whole country under the Prime Minister. What is the difficulty about it?

SHRI SUBRAMANIAN SWAMY: You cannot. Do not get that impression. Does he mean to say that the Department of Banking under the Finance Ministry can do the job and the Reserve Bank cannot do it? He should answer this specifically. Does he mean to say that all these developmental activities can be better done by the Department of Banking and that they cannot be done by the Reserve Bank? Is that what your are saying?

SHRI J. S. RAJ: Yes.

I would like to refer to the statement of objects and reasons where it is stated:

"Besides these, the State Bank of India, its seven subsidiary banks, the fourteen nationalised banks, scheduled banks and the State cooperative Banks are also proposed to be brought within the purview of coordination by the Development Bank as these institutions participate with the Development Bank and other term lending institutions in financing industry."

SHRI RISHI KUMAR MISHRA: I would like to know, why not the Industrial Reconstruction Corporation of India Limited and the Industrial Credit and Investment Corporation of India Limited be also brought under this new holding company? If you really think that this would result in better coordination and improved functioning, then, why these two also?

SHRI J. S. RAJ: In regard to Industrial Reconstruction Corporation of India Limited, 51 per cent is held by IDBI. In regard to Industrial Credit and Investment Corporation of India Limited, 54 per cent is held by Government financial institutions.

SHRI RISHI KUMAR MISHRA: We have already the Industrial Development Bank of India. My point is, whether it should be guided by the Reserve Bank or whether it should be guided by the Department of Banking?

MR. CHAIRMAN: We will discuss this among ourselves.

SHRI RISHI KUMAR MISHRA: If I were to propose to him that in order to have better coordination between the various financial institutions, a holding company should be created under IDBI which can obtain its policy direction either from the Finance Ministry or from the Reserve Bank, how would he react to such a suggestion?

SHRI J. S. RAJ: I think that would run counter to the idea of not adding more tiers to the structure that we have. I think it would mean one more decision making layer which would not be a good idea.

SHRI RISHI KUMAR MISHRA: Will you disagree with me if I say that the creation of holding company creates more tiers than reducing them. At the moment, financial institutions are almost autonomous in taking their decisions. You are creating a situation wherein, you will have the Department of Banking, the Finance Ministry, the Cabinet etc. and there will be more tiers for decision making, than they are at present, because to the extent the financial institutions will not be able to take their own decisions, which they are in a position to take today, you will not be reducing the number of decision making tiers but you will be adding to it.

SHRI J. S. RAJ: I have already answered that. As far as Unit Trust is concerned, I do not expect any difficulty in our functioning.

MR. CHAIRMAN: Thank you very much, Mr. Raj.

II. Industrial Finance Corporation of India, New Delhi

Spokesmen:

1. SHRI C. D. KHANNA:
2. SHRI BALDEV PASRICHA:
3. SHRI T. M. SEN:
4. SHRI V. S. R. K. SASTRI:

[*The witnesses were called in and they took their seats*]

MR. CHAIRMAN: You may kindly note that the evidence you give would be treated as public and is liable to be published, unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire the evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

Now that I have done so, are there any general remarks?

SHRI C. D. KHANNA: When the IFC was originally established in 1948, 20 per cent of the share capital was held by the Reserve Bank, 20 per cent by the Central Government, 25 per cent by scheduled banks and 25 per cent by the insurance companies and trusts and 10 per cent by co-operative banks. When the IDBI was established in 1964 the holdings of the Central Government and the Reserve Bank were transferred to I.D.B.I. and they acquired another 10 per cent. At present 20 per cent of the share Capital is held by scheduled banks, 20 per cent is held by the LIC etc. and 8 per cent by the co-operative banks. Among the board of directors, six are elected; they are elected from among the co-operative banks, scheduled banks and LIC etc. Out of six nominated directors, two are nominated by the Central Government and four by the IDBI. There are no changes affecting us in the Bill.

SHRI BABUBHAI CHINAI: In view of the fact that a new direction is being given, you will also be part and parcel of the IDBI as holding company. That is what is proposed. Will it affect any enterpreneur who wants any money from you?

SHRI KHANNA: Under this arrangement we will have no problems. There is good co-ordination among all India institutions. There are meetings of heads of institutions and we act in co-ordination with each other. The proposed arrangement will lead to better co-ordination.

SHRI BABUBHAI CHINAI: Since you will now be under the umbrella of the new organisation, were you consulted about this Bill? If so, did you offer any comments giving your reaction?

SHRI KHANNA: The Secretary of the Banking Department asked for our views and I wrote back saying that we were not affected in any way. There is a small amendment. The tenure of the Chairman will be increased from 3 to 4 years. I made one suggestion. Till recently on the State financial corporations IFC was represented on the board. I suggested to the Government to consider whether similar, representation should be there on the State financial corporations' boards.

SHRI BABUBHAI CHINAI: You are a lending institution. How will your investment be affected henceforward? Two ordinances had been issued recently, giving less return. According to the statement made by the Cabinet Sercretary this will be done after tax, not before tax. What would be the position so far as IFC is

concerned when they join this? Will they have the same resources at their disposal or will it be less?

SHRI KHANNA: We are not an investment organisation; we are not affected much by this.

SHRI BABUBHAI CHINAI: At present, of course, in your case, it is 20 per cent. But in other institutions, the RB is holding a major part of the shares. Will you prefer that the RB should continue or this holding company should have 100 per cent shares in that? If the RB continues, then as far as employees are concerned, they are more or less on par with the other employees of the R.B.

SHRI KHANNA: As far as employees are concerned, we have no employees on deputation from of the R.B; they are entirely IFC employees.

SHRI BABUBHAI CHINAI: As far as clause (c) is concerned, would you like to suggest that there should be some representative of marketing organisation?

SHRI KHANNA: I don't think there is any need for any separate representative of marketing organisation.

DR. K. MATHEW KURIAN: Mr. Chairman, IFC is not being affected. IDBI will change its character. It will no longer get the directive from the R.B. Therefore, there is an implication as far as change is concerned. The other question is that IFC is concerned with the new arrangement, because it concerns with development lending. If there is any change, it does affect it. Since the Chairman of the IFC says that it has an impact on development lending, to that extent, IFC should be concerned with the integration of short-term and long-term lending. Under the new arrangement, long-term will be taken away from the RB in future and handed over to the holding company. To extent, there is a lesser degree of integration between short-term and long-term lending. What is the reaction of the IFC Management on this possible lesser degree of integration?

SHRI KHANNA: I would sumbit that prior to 1965, it was directly under the control of the Central Government. But I don't think even if I.F.C. comes under direct control of I.D.B.I. it will make any material difference.

DR. MATHEW KURIAN: Between 1964-65, there was a different point of view. Will this new Bill pose any problem?

SHRI KHANNA: Under existing arrangement, we do not have any problems.

DR. MATHEW KURIAN: Whether the management has no problem or the country has no problem?

SHRI KHANNA: Well, in my view, our working will not be affected by this change.

DR. MATHEW KURIAN: Therefore, the management does not seen to be concerned with the new arrangement. But in regard to *de-facto* change because IDBI's character itself is going to be changed and there is a delinking of the IDBI from the RB and therefore it has an impact on financing operation as well.

SHRI KHANNA: It leads to better coordination among the financial institutions.

SHRI SUBRAMANIAN SWAMY: Kindly see on page 3 of the background note which has been circulated by the Ministry of Finance to all the Ministries. According to this note, do you think that this Bill is bringing about purely an administrative change or do you think from the economic consideration of term lending and financing on investment that this is a desirable Act? I would like to add one more thing. Do you agree with this Finance Ministry's statement that at present the entire financial institutions are functioning under the IDBI and seem to be functioning all right

and yet the load of the RB. can be lightended and it is delicate task? By the way, I do not know what is this delicate task. Do you think that the RB is doing a good job with the IDBI as an apex body or do you think that it is not doing a good job and therefore this merit should be transferred?

SHRI KHANNA: I have gone through the Statement of Objects and Reasons. The main object is to bring about better coordination between various lending institutions. You are aware that during the last decade, at the State level, particularly, a number of development lending institutions have come up. Every State today has got a State Financial Corporation and a State Industrial Development Corporation. In States like Tamil Nadu and UP, you have got other institutions for development lending, particularly in regard to development of under-developed areas.

SHRI SUBRAMANIAN SWAMY: They all function under IDBI.

SHRI KHANNA: Not directly at the moment. In the case of State Financial Corporation, equity is held by the Reserve Bank. IDBI is not holding any equity. A time has come when there should be better coordination among the term lending institutions.

SHRI SUBRAMANIAN SWAMY: Can there be better coordination by increasing the autonomy of the IDBI under the Reserve Bank? Now, what is going to happen? The staff of the IDBI will go back to the Reserve Bank. There will be problems like problems of promotion etc. Even productivity of Reserve Bank may come lown if you disturb the administrative set-up. Don't you think that a more autonomous IDBI, with all these loopholes being attended to by the Reserve Bank, could be equally good?

SHRI KHANNA: That is a matter of opinion.

SHRI SUBRAMANIAN SWAMY: I am asking for your opinion. Please do not confine yourself to the Act. You are not here as an advocate of the Act.

SHRI KHANNA: The main object is to bring about better coordination.

SHRI SUBRAMANIAN SWAMY: Don't you think that better coordination can be achieved with the IDBI functioning a little more autonomous under the Reserve Bank or do you think that coordination will be better achieved under the Department of Banking of the Ministry of Finance?

SHRI KHANNA: Central Government's wisdom has brought about this Bill.

SHRI SUBRAMANIAN SWAMY: I am asking for your wisdom. Central Government is not necessarily wise by the way. Often they have to be told the truth by some of us.

SHRI KAMESHWAR SINGH: I think Mr. Swamy should ask this question to the IDBI and not to the IFC. He is basically wrong in asking this question to these people.

SHRI SUBRAMANIAN SWAMY: May I clarify Mr. Kameshwar Singh's confusion. These people are financial experts. They have been called here to give evidence. I have every-right to ask them, what their opinon is. My question is, don't you think that financial institutions can function as effectively under the IDBI as they can under the Reserve Bank?

SHRI KHANNA: As I submitted earlier, there is need for coordination.

SHRI SUBRAMANIAN SWAMY: I do agree with you. But, it can be done by the IDBI under the Reserve Bank.

SHRI KHANNA: I have no comments on this matter because I am not affected in any way.

DR. MATHEW KURIAN: The Chairman of the IFC very forcefully said that he considers the new arrangement better for coordination. That is his opinion. It has been expressed. That would really imply that compared to the existing arrangement of IDBI being under the Reserve Bank, it is better that IDBI is under the Department of Banking, Ministry of Finance, in order that better coordination takes place. When he says that the new arrangement will ensure better coordination, does he accept that the Reserve Bank is relatively, compared to the Department of Banking, incapable of making development finance. Do I take it that this is his view?

MR. CHAIRMAN: Is it that?

SHRI KHANNA: It is difficult for me to express any view.

DR. MATHEW KURIAN: I worked out the implications from his statement.

SHRI KHANNA: I do feel that this is a step in right direction, to bring about coordination among all India institutions and State level institutions.

SHRI BABUBHAI CHINAI: According to Clause 7,

> "not more than five directors shall be from financial institutions."

Do you think would be included in these 5? If not, what steps you intend to take? This is not specifically mentioned here.

SHRI KHANNA: This is not specifically mentioned. But, I think there will be some directors from the financial institutions.

SHRI BABUBHAI CHINAI: There will be. Will you be one of them? I would like to know whether you would like to be one of them.

SHRI KHANNA: We would like to be one of them.

SHRI BABUBHAI CHINAI: For that, what efforts have you made?

SHRI KHANNA: It is provided that there will be 5 directors from the financial institutions.

SHRI KAMESHWAR SINGH: It will be very difficult for the witness to answer this question.

SHRI BABUBHAI CHINAI: I ask this question because in this Bill, it is provided that 5 financial institutions' directors would be there on the board of the IDBI. I am asking this question in order to find out whether the witness is seized of the problem, whether he would like to be one of the directors on the board and if so, whether he has already sounded the Department of Banking and the Finance Ministry or he is going to do it in future. This is a very important institution which will be coming under the umbrella of IDBI. It will not be at the sweet will of the Government that this will be done. I would like to know their reactions.

SHRI KHANNA: Our Industrial Finance Corporation is one of the institutions from where persons will be nominated as directors on the board of IDBI. I do not think it will be proper on my part to convass for the representation of the IFC on the board of IDBI.

SHRI BABUBHAI CHINAI: This is not mentioned.

SHRI KHANNA: This is mentioned in Clause 7.

SHRI BABUBHAI CHINAI: I have have gone through it. It is said

> "not more than five directors shall be from financial institutions."

That does not mean that IFC will be one of them.

SHRI KHANNA: IFC is not one. That is correct.

SHRI BABUBHAI CHINAI: You may be one. But, how do you think that you will be one of them. This is a very important institution which will be coming under the umbrella of IDBI. You said that you would like to be there. I would like to know, what steps you are going to take to be there.

SHRI KHANNA: I would like to be there. I have left it to the Government. I cannot canvass for my own representation.

SHRI SUBRAMANIAN SWAMY: I think the question has already been asked, whether you were consulted about the Bill in advance. Now, please see Clause 7—Page 4 of the amending Bill. The constitution of the Board is described there. It is said here:

"The Chairman and the managing director shall hold office for such term not exceeding five years as the Central Government may specify in this behalf and any person so appointed shall be eligible for re-appointment."

It is also stated here:

"A nominated director shall hold office during the pleasure of the authority nominating him."

In this case, the Central Government. Do you feel that these two clauses are desirable in regard to financial institutions which have to deal with so many multiplicity of pressures in the allocation of funds? Do you think that this should remain as it is? What is your opinion about these two clauses?. According to this, the Directors will be nominated by the Central Government. The initial work will, in my opinion, be done by the Central Government. The procedure of the Board shall be on the basis of the majority vote, and furthermore, the holding of posts shall be at the pleasure of the Central Government. As a realistic administrator-*cum*-financial expert knowing the multiplicity of pressures working in the country, do you think that this is a good clause?

SHRI KHANNA: As regards the Chairman and the Managing Directors, if the Central Government were to appoint them, they have got the discretion. This is the position in the Reserve Bank as well as the IDBI. No doubt, the board of directors nominated by the Government shall be there at the pleasure of the President. But that is normal in all such cases, even at present.

SHRI SUBRAMANIAN SWAMY: The present position is not something Utopia-like. It may be that the present position may not be acceptable to some. Are you in favour of such a clause?

SHRI KHANNA: If the Central Government have to appoint the board of directors, they have to be at the pleasure of the President. The term may be fixed and may be terminated at any time; and if a Director is appointed ex-officio, naturally he would not be able to continue if there is a change in his post.

DR. MATHEW KURIAN: A fixed term should not be there.

SHRI KHANNA: There should be a fixed term, in my opinion.

DR. MATHEW KURIAN: Not necessarily in regard to the I.F.C.; but could you tell us about the imperfections in the present arrangement of co-ordination between various financial institions, so that we may understand as to how far this bill will be able to remedy those inadequacies?

SHRI KHANNA: As I had mentioned earlier, even to-day there is a good degree of coordination between the all-India institutions; but I think there could be better coordination

between all-India and State level financial institutions. Even in regard to banks there is need for better co-ordination between term-lending institutions and others; as well as between banks and the financial institutions.

SHRI RISHI KUMAR MISHRA: Do you think that this coordination can be achieved better, through bifurcation of functions?

SHRI KHANNA: Long-term financial institutions give long-term loans. Our role is supplementary or complementary to that of the banks. Both the commercial banks and the long-term financial institutions go into the same field; and there is need for better co-ordination among them.

SHRI RISHI KUMAR MISHRA: Does it make any difference to you, whether the whole of the 50 per cent shares in the IFC is held by an institution of the Reserve Bank or by the Central Government? Does it change the quality of those who control 50 per cent shares in your Corporation?

SHRI KHANNA: So far as we are concerned, it does not.

SHRI RISHI KUMAR MISHRA: Would it make any difference if the 50 per cent shares are held by private shareholders?

DR. MATHEW KURIAN: Particularly monopoly companies?

SHRI KHANNA: In fact, institutions like the IDBI have to be owned either by the Reserve Bank or the Central Government. That is the pattern all over the world; there is no other choice.

DR. MATHEW KURIAN: The question, in fairness, has not been answered. It was very specific. I had also asked the same question in a different form. The Reserve Bank to-day controls the IDBI which has 50 per cent share in the IFC. The Reserve Bank as the chairman, is relatively more independent, compared to the Department of Banking. The former constitutes at least a body of financial experts, relatively independent, created by a certain Act of Parliament. There is, therefore, a qualitative change in the character of those institutions which are owned by the IDBI. If it is under the Department of Banking, all kinds of political pressures will operate on the application of scarce resources of the nation. If it is controlled by the five monopoly companies, it would worsen the situation further. Will the Chairman, IFC give his assessment, as to whether the Reserve Bank will be able to give a better service?

SHRI KHANNA: As a professional man, I would say that most of the development banks all over the world are owned by the governments.

DR. MATHEW KURIAN: What is your judgement in regard to India? Which is likely to be more objective in the allocation of resources—the Reserve Bank or the Department of Banking?

SHRI KHANNA: I am not competent to answer this but I can say that looking to the world conditions, most of the development banks are to-day owned by the respective governments.

SHRI SUBRAMANIAN SWAMY: Is it so in Japan?

SHRI KHANNA: There, one is in the private sector; but the Japan Development Bank is wholly owned by the Japanese Government.

SHRI SUBRAMANIAN SWAMY: Does the Central Government there deal only with short-term finances, or with long-term ones also?

SHRI KHANNA: There are two development banks in Japan. The Industrial Bank of Japan is in the private sector. But the Japan Development Bank is wholly owned by the Japanese Government.

DR. MATHEW KURIAN: My question has remained unanswered, Mr. Chairman.

MR. CHAIRMAN: He has replied.

DR. MATHEW KURIAN: The reply is in relation to the countries abroad. That does not enable me to understand what his judgement is about India; whether the Reserve Bank of India will be better off in allocating the resources compared to the departments of the Government under political pressure. This is a simple, direct question. Yes or no should have been given as an answer.

SHRI KHANNA: As pointed out earlier, even under the existing arrangements, we have no problem. We get full co-operation from the IDBI. Under the revised arrangement, I do not think we will have any problem or difficulty. That is my view.

SHRI RISHI KUMAR MISHRA: Will it make a difference if the IDBI is made a holding company and will it remove the inadequacy in the present arrangements?

SHRI KHANNA: Already, the IDBI is holding 50 per cent of the share capital. I do not know how it will make a difference.

SHRI DEORAO S. PATIL: The Bill has two objects. One is to restructure the Industrial Development Bank of India to enlarge its role as the principal financial institution, and the second is to co-ordinate the working of the financial institutions engaged in financing, such as the Industrial Finance Corporation. I think you have gone through the Bill. Are you in favour of all the clauses of the Bill?

SHRI KHANNA: Yes.

SHRI DEORAO S. PATIL: Under the proposed clauses 6 to 7 power is not given to the co-operative banks to send their own representatives to be on the Board of Directors. The Central Government is to nominate the directors. Power is not given to the co-operative banks. What is your opinion in this regard?

SHRI KHANNA: We are playing a very important role in the financing of the co-operatives. About 30 per cent assistance is given to the sugar co-operatives. I do think that the co-operative sector should be represented on the Board of the IDBI.

SHRI DEORAO S. PATIL: Whether power should be given to the co-operative banks to nominate their own nominees.

SHRI KHANNA: Nomination has to be done by the Central Government, and I think it has been mentioned that there will be some representation from the industrial co-operatives.

SHRI DEORAO S. PATIL: Power has been taken by the Central Government to nominate the Board of Directors. Why power should not be given to the co-operative banks to nominate their own people?

SHRI KHANNA: Nomination will be by the Central Government. They will be holding the entire share capital. In the case of the IFC, there are two representatives because they are holding 10 per cent of the share capital.

MR. CHAIRMAN: Thank you very much, Mr. Khanna.

(The Committee then adjourned)

RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973

Tuesday, the 16th July, 1974 from 10.00 to 12.35 hours.

PRESENT

Shri B. N. Kureel—*Chairman*

MEMBERS

Lok Sabha

2. Shri Chandulal Chandrakar
3. Chaudhry Dalip Singh
4. Shri Anadi Charan Das
5. Shrimati Roza Vidyadhar Deshpnde
6. Shri K. R. Ganesh
7. Shri Noorul Huda
8. Shri A. K. M. Ishaque
9. Shri N. S. Kamble
10. Shri Madhu Limaye
11. Shri Jagannath Mishra
12. Shri Piloo Mody
13. Shri Surendra Mohanty
14. Shri Pratap Singh Negi
15. Shri Rajaram Dadasaheb Nimbalkar
16. Dr. Laxminarayan Pandeya
17. Shri M. S. Purty
18. Shri Ram Swarup
19. Shri M. Ram Gopal Reddy
20. Shri Somchand Solanki
21. Shri K. Suryanarayana
22. Shri Sukhdeo Prasad Verma
23. Shri Y. B. Chavan

Rajya Sabha

24. Shri Babubhai M. Chinai
25. Shri Yashpal Kapur

26. Shri B. V. Abdulla Koya

27. Shri A. G. Kulkarni

28. Shrimati Sumitra G. Kulkarni

29. Dr. K. Mathew Kurian

30. Shri B. N. Mandal

31. Shri Rishi Kumar Mishra

32. Shri Deorao S. Patil

33. Shrimati Saraswati Pradhan

34. Shri S. Ranganathan

35. Shri R. Narasimha Reddy

36. Shri Kameshwar Singh

37. Shri Subramanian Swamy

LEGISLATIVE COUNSEL

1. Shri S. K. Maitra, *Joint Secretary and Legislative Counsel.*

2. Shri N. L. Vaidyanathan, *Additional Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE
(DEPARTMENT OF BANKING)

1. Shri N. C. Sen Gupta, *Secretary.*

2. Shri M. G. Balasubramanian, *Additional Secretary* .

3. Shri M. K. Venkatachalam, *Joint Secretary.*

4. Shri N. Sethuraman, *Joint Secretary.*

5. Shri V. K. Shunglu, *Deputy Secretary.*

6. Shri D. K. Sen, *Deputy Secretary.*

SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

WITNESSES EXAMINED

I. Industrial Credit and Investment Corporation of India Ltd., Bombay.

Spokesmen:

1. Shri H. T. Parekh, Chairman.

2. Dr. Phiroze B. Medhora, Joint Managing Director.

II. Life Insurance Corporation of India, Bombay.

Spokesmen:

1. Shri K. R. Puri, Chairman.

2. Shri B. C. Randeria, Executive Director (Investment).

3. Shri C. R. Thakore, Investment Secretary.

I. Industrial Credit and Investment Corporation of India Ltd., Bombay.

Spokesmen:

1. Shri H. T. Parekh.
2. Dr. Phiroze B. Medhora.

[The witnesses were called in and they took their seats]

SHRI D. S. PATIL: Before we take evidence I want one information. Has the Industrial Credit and Investment Corporation of India submitted any memorandum?

MR. CHAIRMAN: No, they have not submitted any memorandum.

Mr. Parekh, on behalf of the Committee, I welcome you here. You may introduce your colleague.

SHRI H. T. PAREKH: I would like to introduce Dr. P. B. Medhora, Joint Managing Director of I.C.I.C.I.

MR. CHAIRMAN: Before we proceed further, I want to draw your attention to the Direction of the Speaker of the Lok Sabha regarding the tendering of evidence. Under that direction the witnesses may please note that the evidence they give would be treated as public and is liable to be published, unless they specifically desire that all or any part of the evidence tendered by them is to be treated as confidential. Even though they might desire their evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

SHRI H. T. PAREKH: First of all, I would like to say a few words about the institution which I have the honour to represent, the Industrial Credit and Investment Corporation of India, which is one of the three development banks which are operating in India on an all India basis. It is also one of the five institutions which constitute an inter-institutional arrangement under the aegis of I.D.B.I. who meet every month and discuss the projects in which they are commonly interested in providing finance.

One aspect of this institution is that, while it is engaged like others in providing capital in various forms for industrial development, its special field is provision of foreign exchange because it has been fortunate in having a relationship right from the beginning with the World Bank. The World Bank has been providing long term credits to this institution. We have had about ten such credits, about 330 million dollars so far. We also get foreign exchange from German credit, from British credit, and in the past we had also got from the U.S. credit. As a result of this, almost 55 to 60 per cent of our operations constitute providing loans in foreign currency. One point about these loans is that a major part of this which comes from the World Bank at very low rate of interest, is free foreign exchange; it is not tied in any way and to that extent we are able to extend assistance in foreign exchange for development of industries in this country. Secondly, we also provide rupee loans and we have been fairly active in the field of under-writing of capital. We provide this assistance largely to medium and large-sized industries, though even to small-sized units we have been doing our best to provide particularly small foreign exchange assistance which they might need.

So far as our Board of Directors is concerned, we have the Secretary of the Ministry of Industries on our Board, we have the Secretary in the Banking Department on our Board, we have the representatives of L.I.C. U.T.I. and commercial banks on our Board. That way we can be regarded as a semi-public institution.

Roughly 20 per cent of our capital is held by foreign banks and other in-

stitutions; originally it was 30 per cent, but now it is 20 per cent. A good part of the capital is held by the L.I.C., commercial banks and U.T.I. As I said, we work closely with the Industrial Development Bank. We meet every month. Our appraisals are common in the sense that we accept each other's appraisals and we work jointly in the processing of cases, in the follow-up of cases, and so on.

This is by way of a small introduction.

MR. CHAIRMAN: Anything about the Bill in general or about the Clauses in particular?

SHRI PAREKH: We have not submitted, as you indicated earlier, any written memorandum. We did not think that it was necessary. We have gone through the Bill. There are, it seems to us, three principal aspects of this Bill which require to be mentioned in brief.

First of all, the Bill recognises the I.D.B.I. as the apex institution in the field of industrial finance. Now what this really means is this: the arrangement which is existing today as *de-facto* is being made *de jure*, the Bill seeks to give it a formal existence.

Secondly, the I.D.B.I. Board earlier was the same as that of the Reserve Bank. Now it is sought to be made much more representative of institutions, banks and so on. Here it is our opinion that it is an improvement on the earlier arrangement because it takes into account the special role that the I.D.B.I. plays as district from the Reserve Bank, though the link between the two has to be maintained.

Thirdly, so far as holding of capital is concerned, there is one major change. That is, instead of capital being hundred per cent owned by the Reserve Bank, it is now sought to transfer the ownership to the Central Government. It is our feeling that Government must have thought of the various considerations; we have nothing to say so far as that matter is concerned. But, by this arrangement, our feeling is, the link with the Reserve Bank has been made too short or small. If it had been possible to keep the capital with the Reserve Bank there would have been some advantages. Anyway, the relationship between the Reserve Bank and the Government is very close and whatever is the legal form, conventions can be developed under which the arrangement cannot make any difference. We envisage, in the years to come, a much greater need for capital for industrial development. In the last few years the I.D.B.I. has been able to provide jointly with the other institutions and jointly also with the commercial banks a lot of capital. The financial institutions, taken together, have disbursed last year about Rs. 200 crores of assistance, and this is going to increase at the rate of 15 to 20 per cent. In the years to come we expect much greater increase in the disbursement, in the need for finance. By the arrangement proposed, the link with the Reserve Bank so far as provision of capital is concerned, is made somewhat lighter. This has some disadvantages in the sense that, while in the arrangement as proposed in the Bill the Government will have certainly to provide for budgetary allocation for the requirements of I.D.B.I., under the aegis of the Reserve Bank perhaps that was not found necessary, and when there is need for a larger provision of capital it would have been easier for I.D.B.I. to draw from the Reserve Bank in one form or the other. As I said, conventions can still be developed between the two institutions under which an arrangement can be made. But we feel that there would have been some advantage in that the Reserve Bank determines the short term rates of interest and short term rates of interest are also related to long term rates of interest. An arrangement under which the same agency can coordinate the long term and short term rates of interest has some advantage

over the arrangement as proposed.

MR. CHAIRMAN: Now, Members may ask any question or clarification from the witnesses.

SHRI SUBRAMANIAN SWAMY: I would first like to express an opinion. We are aware of what the I.C.I.C.I. stands for. First of all, 25 per cent of shares are owned by the foreign companies. Am I right?

SHRI PAREKH: Roughly 16 to 17 per cent of shares is held by L.I.C., about 10 to 12 per cent of shares is held by Unit Trust; about 25 to 30 per cent is held by Commercial Banks and General Insurance and about 10 to 15 per cent is held by the general public.

SHRI SUBRAMANIAN SWAMY: In a sense over 50 per cent is owned by Government of Government agencies. How many people are on the Board of Directors and how many of them are Government representatives?

SHRI PAREKH: About 50 per cent If we take representatives of L.I.C. and U.T.I. I would say about 5 to 6 and three professional men and two joint managing directors are on the Board of Directors. I would say that more than 50 per cent is represented that way. We have three representatives of foreign institutions.

SHRI SUBRAMANIAN SWAMY: Who chooses the foreign representatives?

SHRI PAREKH: We have Britishers, Japanese and German amongst us as representatives. The original foreign owned share capital roughly was 30 per cent. At that time 20 per cent of them were Britishers, 10 per cent from U.S. Also there were Directors—two from Britain and one from America.

SHRI SUBRAMANIAN SWAMY: What fraction of your investment is owned by or loans, that you advance, are given to the large and medium industries?

SHRI PAREKH: I would also like to explain that in some greater details. There are two things. So far as these figures are concerned, I would say in a way as mentioned generally in the public that about 40 to 42 per cent of the capital goes for large houses. I would also like to clarify that in this way we are not free agents in deciding about this. Firstly, industrial licences are granted by the Ministry here. We are not originating agencies that anybody can come to us and ask us for finances. First of all they have to show industrial licence and letters of intent. Secondly, a part of the assistance is in foreign currency. There is a Capital Goods Committee here which could tell us to whom to finance. Here again, we are not free agents by any means in disbursing foreign capital or foreign exchange. We are really doing what the Government would like us to do. Even in this field of large business, we must recognise one or two distinctions. Our statistics show that we have assisted more than 100 new entrepreneurs—people who came for the first time. Secondly, more than fifty new processes and products were encouraged by us. We can claim a role in developing new entrepreneurs. A good part of our assistance to day goes to the joint sector projects. In regard to large houses, I think we must recognise that in many cases, the new units which we have put up are large houses against established monopolists foreign companies. Take for example aluminium. There was almost a monopolistic position in this field. In that project, we assisted them. The result of that was that an element of competition was introduced. A foreign entrepreneur who had the monopolistic position was made to face competition of Indian firms. From the point of view of this country, we were benefited most by the competition that was introduced here. Even though the competition came from large houses, it was against the foreign house. That is the point again to be noted. Lastly, I would mention one thing. Recently, our emphasis in our operations of the in-

stitutions is to assist the backward areas. About 17 per cent of our assistance has gone to the projects in the backward areas. This year, in the first six months, almost 45 per cent of our assistance has gone to the projects in the backward areas.

SHRI SUBRAMANIAN SWAMY: Within backward areas, the projects are taken up by the large houses.

SHRI PAREKH: A good many of them are joint sector projects in which Government takes part. May I make my submission with regard to the remark made originally? We had made no representation. Frankly speaking, we have had an opportunity to see the Bill. Earlier we had some general discussions. We did not think it necessary or it was called for at all for us to make any special point which would affect us or the situation generally. That was why we did not make any representation.

SHRI SUBRAMANIAN SWAMY: I now come to the substantive part of my question. Would you like me to have a break now?

MR. CHAIRMAN: Please be brief.

SHRI SUBRAMANIAN SWAMY: Is there time limit in this Committee? Anyway a point that you made was that the Finance Ministry have circulated to Members of Parliament in this Committee a note and we find from that that the I.D.B.I. is an apex body and it is doing the job of coordination. Consequently, am I to infer that the Reserve Bank performs the role of a holding company? Or would you say that the Reserve Bank to-day is a holding company for the I.D.B.I. and other institutions?

SHRI PAREKH: Obviously, the Reserve Bank provides the capital. In a way it is a holding company today. This manages the I.D.B.I. and some other institutions.

SHRI SUBRAMANIAN SWAMY: In this Bill, it seeks to transfer the ownership from the Reserve Bank to the Government of India. That is strictly in the sense of the words occurring. You have not said a word about the efficiency at all or about marshalling the resources independent of the Reserve Bank of India. Is it possible to introduce an amendment by which the I.D.B.I. could have a wider representation than having purely the Directors on the Board? Would the Reserve Bank not serve better as the Bill stands to-day? Or do you see any gain in efficiency by this Bill?

SHRI PAREKH: As I said earlier, my choice would be for the Reserve Bank to continue the ownership. If I am asked a question, I would say it would be much better if the Reserve Bank continues the ownership on that basis.

SHRI SUBRAMANIAN SWAMY: If that is so, will there be any gain in transferring the ownership?

SHRI PAREKH: My preference would be, let the Reserve Bank continue to hold the capital.

On the point of efficiency to-day major part of the staff of I.D.B.I. is drawn from the Reserve Bank. Personally, I have felt all along that it would have been better if an element of outside skill may also be included whenever needed. I do not know what are the difficulties with the Reserve Bank to have new institutions of this nature which have special work to perform.

SHRI SUBRAMANIAN SWAMY: You express disapproval in regard to the recruitment of staff from the staff of the Reserve Bank. In the new Bill out of 21 Directors, 20 are going to be appointed by the Central Government. Do you think any advant-

age accrues by such transformation in the Directorship pattern?

SHRI PAREKH: To-day the arrangement is with the same Board as that of the Reserve Bank. That is not a happy arrangement. There is need for a change. The new Bill proposes a very broad Board on which five representatives of the Financial Institutions are going to be there that you mentioned, five or six from the Co-operative Banks, Commercial Banks, representatives of the Central Government, representatives of the Reserve Bank, representatives of Industry.

SHRI SUBRAMANIAN SWAMY: These are selected by the Government and are at the pleasure of the Government.

SHRI PAREKH: If it is 100 per cent own selected either by the Reserve Bank or by the Government, I think nomination would have to be by the Reserve Bank or the Government. The only point here is that while this is the arrangement here, I feel the proposed representation of the Reserve Bank is very thin. Only one Deputy Governor will be on this Board.

SHRI SUBRAMANIAN SWAMY: Why do you want representatives on IDBI? A few moments ago you said relationship between the Government and the Board is much too close. What do you mean by this?

SHRI PAREKH: There is a constant dialogue between Bombay and Delhi between Reserve Bank and Government of India. At the same time if IDBI has to continue as a specialised institution, it is the Board which reflects that. Therefore, a broad based Board is a desirable thing. One can always argue whether you have one more or one less. By and large this representation/nomination is a well thought out representation.

SHRI MADHU LIMAYE: Before drafting the Bill whether the views of ICICI were sought on the central idea of the Bill.

SHRI PAREKH: We did express our views as we felt. Some of these things have been incorporated and some have not been incorporated.

SHRI MADHU LIMAYE: Which are the things which have not been incorporated.

SHRI PAREKH: When we were shown the draft I think the proposed capital was Rs. 100 crores. We mentioned to Government that after this Rs. 100 crore is exhausted, you will have to go to Parliament again. So it is better, because the financial needs are growing at a fast rate, you increase the capital even beyond Rs. 100 crores. I am glad to find that in the proposed Bill capital upto Rs. 200 crores can be raised by the Government on their own.

2. We had also indicated our view that since the operations were very wide and they were growing, it would have been better if there had been a provision for Deputy Chairmen also. Government did not accept it.

SHRI MADHU LIMAYE: So far as the question of raising the capital is concerned, I think it has been accepted. Is it the view of the ICICI that the Reserve Bank should only be confined to traditional monetary field only and that credit and investment functions should be completely taken away from the Reserve Bank.

SHRI PAREKH: Reserve Bank has necessarily to play a much wider role than the control of currency. There was a time when they controlled only short term money market.

SHRI MADHU LIMAYE: What according to the ICICI was the justification to separate the activities of the Development Bank from the activities of the Reserve Bank?

SHRI PAREKH: The main thing one could gather from the public press was the criticism that the Reserve Bank and IDBI were managed by the same

Board of Directors. The new Bill proposed to make a major change.

SHRI MADHU LIMAYE: Considering the fact that the share holding which formerly was handled by the Reserve Bank is being transferred to the Central Government and looking at the structure of the Board of Directors and the way in which it is going to be nominated, do you not think that there is a danger of the Development Bank becoming an extension of the Finance Ministry.

SHRI PAREKH: I have said that while there is every justification for having a much more broadbased board than we have in the earlier arrangement, I do not think personally in this way. Because, lot of thing depends really upon the convention one develops and even if the Finance Ministry were to control this institution, for all practical purposes, it is linked with the Reserve Bank and its link with the Reserve Bank would have to be very close because the Reserve Bank of India controls the interest rates structure, short-term credit etc. while this is long-term credit and these are very closely related to each other.

SHRI MADHU LIMAYE: What is the institutional framework for preserving this link and for making this link closer with the Reserve Bank? From the provisions of the Bill it is seen that Reserve Bank will have no say whatsoever in the interests there.

SHRI PAREKH: So far as the Board of Directors is concerned the Reserve Bank will be represented by one Deputy Governor and from that angle the link with the RBI obviously is very thin. What happens for all practical purposes depends upon the traditions which can be developed between the Government and the Reserve Bank.

SHRI MADHU LIMAYE: You talked about conventions and traditions. It is all right in one sense. But unless there is going to be institutional and legal framework, what is going to be achieved? Take the experience after the nationalised banks for instance. Take the control of the Banking Department. This does not lead to any very great hope about the conventions being developed. Banking Department is interfering too much with the functioning of the nationalised banks.

SHRI PAREKH: One method of having closer link is for the Reserve Bank to continue to own the capital. That is one way. Secondly, regarding banking department's interference, it is not for me to say anything. So far as I can say, we have not experienced any interference at all. Our relations have been most cordial and they consult us and we consult them.

SHRI BABUBHAI CHINAI: He has pleaded that the RBI should have maintained their capital and should not have transferred it to the Development Bank which now it is proposed in the Bill. Is this not a fact? Agricultural Finance Corporation's share capital, 100 per cent is with the Reserve Bank. 92 per cent of State Bank's share capital is with the Reserve Bank. If this capital remains with the Reserve Bank what would be the main advantage besides what you have said that there will be a link between the Reserve Bank and the Development Bank proposed? That is to say, will there be any advantage so far as the employees of the proposed Development Bank are concerned or will there be any disadvantage to the Reserve Bank employees who are at present there? Will you also enlighten me on one other point? In the Management of the Board as in the Bill it has been mentioned that a representative of the industry may be given representation and all that. The industries have grown enormously. Marketing of the products by industries assume significance in view of the loans which have been given by the development bank. Don't you think that a specific representative for marketing should be also appointed there? What is your view about it, I would like to be enlightened.

SHRI PAREKH: Sir, yours is a valid point. The roles are different and so far as the mode of employment etc. is concerned I am afraid I do not know enough about the kind of arrangement that exists between them there. By and large their staff is recruited from the staff of the RBI. That has same disadvantage in the sense that they are not able to recruit people from outside to a large extent which one would have liked them to do. You have asked whether for marketing a special and specific representative is necessary. That is really a part of industry. One can have more than one, that is a different thing. Government has a right to nominate and in practice they can take care of this problem. So far as marketing is concerned, as you know, it is all a part of industry. One can say such and such institutions should be represented and such things can be taken care of. But so far as marketing as a specific item, that is rather an unusual thing and this is not existing so far as I know anywhere else also. It is very difficult to identify.

SHRI BABUBHAI CHINAI: It has been said that Reserve Bank of India takes care of short-term loans and long term also. There are big projects involved. There are amounts to the tune of Rs. 100, Rs. 200, Rs. 300 crores etc. Long term projects are there. Long term loans are there. Short-term loans are there. Under the present system Reserve Bank must be using their influence with the nationalised banks etc. Now what I want to know is this. May I know whether certain aspects of the Reserve Bank doing this work will be fulfilled in future by the new Development Bank which is envisaged? I think I am clear to you.

SHRI PAREKH: If I may explain in a little bit of detail, I would like to say this. The cost structure of projects today is increasing like anything. A fertiliser project costing Rs. 60 crores some years ago costs Rs. 20 crores today. Another project, a tyre project for instance, which cost Rs. 10 crores costs Rs. 25 crores today. The requirements of capital also have become very large today for the same project, for the same set-up, for the same capacity and even five of us are not able to take care of all their financial needs. This is the position today. The result has been in many cases the IDBI which is the coordinating agency has been talking to the commercial banks to provide a part of the long term credit. Until recently when the banks became tight they were willing to provide long-term credit. So, there was a lot of coordination between IDBI and commercial banks.

SHRI BABUBHAI CHINAI: May I know if IDBI is separated from Reserve Bank should it be made completely autonomous or not?

SHRI PAREKH: We have to play a different role. On the one hand all these three institutions have to be autonomous. They have to take decisions and take responsibility. At the same time to talk of complete autonomy is unworkable. We are much dependent on each other. Some autonomy is necessary but at the same time close cooperation and coordination is equally necessary.

SHRI BABUBHAI CHINAI: To what extent Government should exercise its control. Should it be to the extent of nomination of Chairman and Managing Director or also in the matter of deciding of individual cases?

SHRI PAREKH: The autonomy of IDBI should be preserved. For that while Government can nominate Chairman and the Managing Director it cannot get involved itself into individual cases.

SHRI BABUBHAI CHINAI: If IDBI is accepted as the central coordinating agency as proposed in the Bill will not the competition between other financial institutions get affected?

SHRI PAREKH: There is a certain amount of competition. A person can come to us or go to IDBI for loan. But in large cases a person has to go to all the institutions and we have no fear that our activity will be reduced by IDBI coming in the picture. On the contrary IDBI has been very helpful to us.

SHRI BABUBHAI CHINAI: May I know what will be the situation so far as distribution of dividend of your organisation is concerned now in view of the latest two ordinances and yesterday's ordinance correcting the former one? How much will you be affected?

SHRI PAREKH: We have been maintaining our dividend at 10 per cent. We have examined the effect of this ordinance on our profitability and we find that the dividend may have to be reduced to 7 to 7½ per cent. It will mean 25 per cent cut.

SHRI A. G. KULKARNI: I want to know from the hon. Witness with his experience of the working of the ICICI for a long time; has he found that in these three institutions--IDBI, IFC and ICICI—they have a different approach towards the different sectors in industry. Further industrial activity in this country is not only confined to private sector but it is in public as well as cooperative sector. In your estimate do you feel there is already a system in their approach to deal with different sectors which processing loan applications and by creating now a new organisation it will be worthwhile so that the guidelines given by the Government new organisation as regards pattern of investment industry-wise and sector-wise will be effectively co-ordinated through one agency.

SHRI PAREKH: First of all, you mentioned, these institutions have a different approach. I am afraid we do not have a different approach. Our methods may be different but basically all of us ask the same questions. We look into the viability of the project. There is some slight difference in style.

As for coordination there is today such close coordination under the Deputy Chairman of IDBI that we are constantly discussing matters with each other at different levels. So, whatever change is proposed is not going to make much of difference.

SHRI KULKARNI: I am more interested in coordination and a worthwhile coordination. Today IDBI, ICICI and IFC are joining together for granting loans but previously this was not the practice. I am particularly pointing out there is a viable cooperative sector and your Organisation had a luke-warm interest in entertaining any request for financial accommodation.

SHRI PAREKH: I agree that we have not given large assistance to the Co-operative sector. At the same time, we have been giving assistance to the co-operative units in Textile and Sugar Industries for the last seven or eight years. So we have been in the field. So far as the co-operatives are concerned, I.F.C. will be the leading institution in the matter of giving assistance. We come into the picture when they want capital.

SHRI KULKARNI: The second point I would like to know is whether the ICICI underwrite the equity of the private sector.

SHRI PAREKH: Yes, Sir.

SHRI KULKARNI: Have you ever thought of underwriting the equity in any co-operative venture because to my knowledge and everybody's knowledge, a private entrepreneur with 5 per cent of the capital can claim resources from the I.C.I.C.I. and a farmer with 20 per cent of his own capital cannot claim to get help from the I.C.I.C.I. That has created

a little bit of apprehension in our minds. So I would like to know from you whether you feel that whatever benefits are given to the private sector are given to the co-operative sector also.

SHRI PAREKH: I would first of all make it very clear that we have the highest regard for the co-operative form of enterprises which have done magnificent jobs in many fields and on our part we would like to do the maximum we can because the co-operative form of enterprise should be encouraged. So, we should not be misunderstood in any way. So far as backing of capital on a co-operative venture is concerned, we have two difficulties. First of all, when we underwrite, the capital is offered to the public. Now co-operative, to my knowledge, has not come up with public offer. It is perhaps against the co-operative principle. Now, another thing is that the public issue under-writing means that the shares will be quoted at the Stock Exchange. We will be able to sell them when we want to do so. In the case of co-operatives, there will not be any market for them. So our funds will be permanently locked up. That is our difficulty. Another difficulty is that the dividend of co-operatives is limited to 9 per cent or like that and we do not mind that even. But the main thing with the co-operative sector is that it does not offer capital to public for subscription by open advertisement or open invitation. These are the difficulties. Otherwise it is good to help them and we can take risk in this case because they are doing an excellent job. So many textile units and sugar units have been doing good work.

SHRI KULKARNI: I had once approached personally your organisation for help but your organisation replied that they would not entertain applications from the co-operatives. And ultimately we approached the Government who advised the ICICI that co-operatives should also be considered in the matter of giving help in the form of foreign exchange whenever required. Why I was concerned in this was that the ICICI has got more foreign exchange credit and suppose a turbine equipment was required by a cooperative unit, foreign exchange was necessary. Since foreign exchange resources are available with the ICICI, will they be able to help the small industry or a co-operative sector? If such help is given, what is the quantum of help that you have given so far because to my mind the small scale industry and cooperative sector has received negligible foreign exchange assistance.

SHRI PAREKH: There is nothing to prevent us from helping the small scale units. We are more happy to help them and I believe we have done this in a few cases. But the point is that very few co-operatives may have come to us for foreign exchange loans. Both for the Textile and Sugar industries, machinery and other equipment are available indigenously and therefore they do not need any foreign exchange for buying any equipment. But if they need it we shall be more interested to give them.

SHRI Y. B. CHAVAN: Possibly he might be having fertilizer in his mind.

SHRI PAREKH: We would be glad to help them, Sir.

SHRI B. V. ABDULLAH KOYA: I think he said it very correctly that there is need for co-ordination between short-term and long-term lending and therefore the role of the R.B.I in that disposition should be larger than what is contemplated in the Bill. In view of that, whether the Board of Directors of ICICI will be broad-based but the R.B.I. would continue its service and control and co-ordinate the long-term financing also.

DR. K. MATHEW KURIAN: It has been argued by some people that the RB has overgrown in size and is unable to manage things efficiently and therefore the industrial finance should be delinked with the RB. Do you think that this charge is correct

and therefore some better agency should be given this charge? (2) Are you aware that the businessmen are complaining about the RB's continued role in industrial finance?

SHRI PAREKH: As far as your last question is concerned, I am not aware of anyone who has made this kind of suggestion. Regarding the second point, this kind of a general charge is common not only against the RB. People keep on saying anything about anyone. I think in the nature of things the country is growing, the institution has to grow; it has to become bigger. My experience says that the RB has come up to the task. I think its efficiency has been well maintained and I don't think it will be right to say that its effciency has gone down because of the size or anything else.

DR. K. MATHEW KURIAN: In view of the fact that the agricultural finance continue to be looked after by the RB, even if the Bill is passed, is it not true that there is inequity in the situation? If the argument of the Government is that RB should be concerned only with short-term credit and so on and as far as monetary control is concerned, that position is being contradicted by the fact that proportional investment in agricultural finance is continuing even after the Bill is introduced, if that is true then I don't think that only agricultural finance continues while the industrial finance is delinked.

SHRI PAREKH: I am inclined to agree with you that today the short-term capital situation is controlled by the RB, even agricultural finance is controlled by the RB and disassociating industrial finance from the RB would be some kind of inconsistency, I would notice.

SHRI RISHI KUMAR MISHRA: Do you think that the provisions in this Bill make any other change apart from coordination?

SHRI PAREKH: There is a major improvement in the Board of Directors.

SHRI PILOO MODY: If this is taken care of and the Board is more representative, will that meet the needs of the situation?

SHRI PAREKH: I personally think so.

SHRI RISHI KUMAR MISHRA: When the long-term lending is taken care of by the IDBI and the short and medium-term lending is taken care of by the commercial banks, do you think it will create some complications? As far as the role of the RB in credit planning and investment management is concerned, do you think it will not adversely affect the general investment programme?

SHRI PAREKH: This question of coordination has to be examined from two angles. (1) Coordination as between financing agencies and others where IDBI plays an apex role. (2) Coordination in the overall field of financing short-term and long-term lending, that is, were the coordination between IDBI, the Government and the RB comes into the picture. The field of coordination requires equal attention and strength, that is, in my opinion, not achieved at present. There is a certain amount of lacuna.

SHRI SUBRAMANIAN SWAMY: According to the new arrangement which has been proposed, do you think that the costs will come down?

SHRI PAREKH: No, Sir.

SHRI SUBRAMANIAN SWAMY: In view of the fact that the licensing authority is different, will the pattern of investment change?

SHRI PAREKH: It will not.

SHRI SUBRAMANIAN SWAMY: By this new arrangement, do you think that delays will be reduced in granting of loans?

SHRI PAREKH: All the institutions together have been applying their mind to reduce whatever delays take place. Now, they are working out a formula. This aspect is being tackled independently by the institutions together under the leadership of IDBI as it exists today.

SHRI SUBRAMANIAN SWAMY: The cost of capital is not coming down. The pattern of investment is not going to change. There is no economic force behind the Bill. Would I be summarising you correctly?

SHRI PAREKH: I have held that this coordination which the Bill seeks *de jure* is there at present *de facto*. Change of ownership of capital in my opinion is not enough.

SHRI SUBRAMANIAN SWAMY: It is not a *de facto* situation that the Department of Banking should control the apex institutions.

SHRI PAREKH: Today, all the financial institutions are operating under the department of Banking, at least, the development banks.

SHRI SUBRAMANIAN SWAMY: IDBI is supposed to be under the Reserve Bank unless you say that an ex-ICS Officer is appointed as Governor and consequently his mentality would be the same and would still salute the Minister.

SHRI PAREKH: Development banking field as such is a special purpose of the Department of Banking.

SHRI BABUBHAI CHINAI: In view of the fact that every year about Rs. 100 crores of equity capital used to come in the market, subscribed by the general public, do you think, under the new set-up the same thing will continue? I would also like to know, whether you think you will have a place on the new board of the IDBI?

SHRI PAREKH: On this point about Rs. 100 crores of capital being provided, that has been the situation in recent years. As we all know, the development has been extremely slow. I personally envisage that in the next five years, particularly in the context of the Plan, and even apart from that, the capacity of the market to provide capital is not going to be reduced. I can go up to Rs. 300 crores in the next five years.

SHRI BABUBHAI CHINAI: What about the next two years?

SHRI PAREKH: It is growing. It is bound to grow.

SHRI BABUBHAI CHINAI: Even after the latest two Ordinances?

SHRI PAREKH: There are two aspects of this. The Ordinances while they do affect the institutions who have to pay dividends and those who get dividends, they do not affect the profitability of units. Companies may continue to make profits, but, they are not allowed to distribute. In today's conditions, some thing of this nature has to come and we all have to accept the situation whether one likes it or not. This is a proper thing. This is for two years. It does not take away the finances. It does deprive the shareholders of some dividend. When we think of the long term prospects for industry, the prospects are tremendous, more so because in recent years, there has been stagnation. We have to make it up in one form or other. I would also like to say that Government's industrial policy is becoming more and more realistic in this respect. There are more licences issued today than ever before. If this gives us a short term set-back, it has to be made up in some other form. So far as the representation on IDBI is concerned, I think it is taken care of by the provision here where it says that 5 directors would be taken from financial institutions. So, I take it that we will be one of them.

SHRI Y. B. CHAVAN: Mr. Parekh, your evidence was very enlightening, I must say. I have to ask one or two questions. You have been associated with the development banking institutions for a long time. I would like to know something about agricultural development banks. Do you think that the financing institutions connected with agriculture can be compared with the financing institutions connected with industrial development in matter of sophistication tech-

niques, personnel, area of operation etc? Can you say that both these things are on a comparable basis?

SHRI PAREKH: I agree that there is far larger amount of industrial finance provided through institutional agencies than agricultural finance through specialised agencies like the agricultural Finance Corporation. I do not know enough about it. From whatever little I know, I can say that in the last 5 or 6 years, Agricultural Finance Corporation under the Reserve Bank has been making tremendous progress. Its financing is getting wider and more extensive and larger and I think it is catching up in a very goodway. This is a very healthy feature.

SHRI Y. B. CHAVAN: Threefore, you would consider that the present functioning of the agricultural finance requires still further guidence by the Reserve Bank of India ?

SHRI PAREKH: Yes, Sir. It is a field which needs greater and greater interest. It is growing at a very good rate. It should grow at a much faster rate.

SHRI Y. B. CHAVAN: Then, in this respect, the functions of the Industrial Development Bank of India and the Agricultural Finance Corporation are somewhat distinct from each other?

SHRI PAREKH: I entirely agree. They are different fields. What I was mentioning was, when we talk of monetary coordination, Reserve Bank is the coordinating apex agency, coordinating short-term finance, long-term finance, agricultural finance, industrial finance, export finance and all that. From that angle, this field of coordination should be taken care of.

DR. MATHEW KURIAN: I would like to ask one question. My question arises out of what has been stated by the Finance Minister. I am not taking the points entirely from him. An argument has been put forward by some people that industrial finance should be delinked from the Reserve Bank. They say that it has become an adult; it has grown and that it has already reached sophistication in terms of methods, quality etc. Their argument is, the role of the Reserve Bank is to see that when a particular type of financing becomes an adult, it should be left to its free will. They say that since industrial finance has reached that stage of sophisticated growth, it can be given to a holding company. They also say that agricultural finance is still in its infancy, and therefore, it needs some more time and that it should be put under the tender care of the mother, that is, the Reserve Bank. Is this view correct? Is it correct to say that industrial finance and agricultural finance should be done by the Reserve Bank till they grow, and then they should be left to their free will? On the contrary, is it correct to say that while Reserve Bank should look after both industrial finance and agricultural finance, once they grow, they should be sustained and coordinated still further; it is not as if they should be left to a holding company?

SHRI PAREKH: I do not know whether the hon. Member put this question to me. But, I think, one important point to remember is, since these fields, whether it is industrial finance or agricultural finance or any other specialised field, are getting more sophisticated, they have to be managed in an autonomous fashion to meet their individual requirements. The only thing is, while their autonomy has to be maintained, they should be allowed to work, develop in the way they are required to. Overall look of some coordination at the apex activities also needs to be taken periodically. That is all I would like to say.

MR. CHAIRMAN: Thank you very much, Mr. Parekh.

(Witnesses then withdrew)

II. Life Insurance Corporation of India, Bombay.

Spokesmen:

1. Shri K. R. Puri—*Chairman.*
2. Shri B. C. Randeria—*Executive Director (Investment).*
3. Shri C. R. Thakore—*Invcstment Secretary.*

MR. CHAIRMAN: You may kindly note that the evidence you give would be treated as public and is liable to be published, unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire the evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

Mr. Puri, you may now proceed to give your general remarks about your institution as well as the bill.

SHRI K. R. PURI: L.I.C. needs no introduction, Sir; but as far as we are concerned in this particular bill, there are only two changes. The number of members of the Board will go up from 15 to 16; and that of the members of the Investment Committee would increase from 7 to 8.

SHRI YASPAL KAPUR: Please give us a resume of the role that your Corporation has been playing in the part of few years, in the investment and development fields and whether you envisage any change in your role after this bill comes into being.

SHRI PURI: I do not foresee any change, because we have been participating with other institutions in making investments. There are inter-institutional meetings in which we participate. What is *de facto* now will become *de jure* after this becomes a law; it is a healthier thing. But I do not expect any change resulting in the investment policy.

SHRI YASHPAL KAPUR: Your Corporation has been playing a vital role not only in financing industrial concerns in different sections, may be joint, cooperative or private. You have also gone into certain activities that concern the general mass of the people, *viz.* financing rural water supply, low-income housing and investment in areas industrially backward but fetching huge amounts of premium for you.

SHRI PURI: As far as LIC is concerned, we are not giving loans directly to the industries in the backward areas—but only indirectly. We are mainly an investing institution and not a development bank. That is the difference between us and the other institutions. We make investments in industries and other organizations at the joint institutional meetings. Our investments have to be made according to the rules made under the L.I.C. Act and the Insurance Act. Our investments to-day are, 44 per cent of them under the State and Central Government bonds and another 42 per cent under socially-oriented schemes. 25 per cent of the entire capital and the bonds of the State financial corporations have been subscribed by us. Where these State corporations go into backward areas, it is LIC's money that they are utilizing. Similarly, we are the biggest subscribers for the ICICI bonds and other bonds. Where these institutions go into the backward areas, we are also indirectly involved; but we have no administrative machinery to do things ourselves.

SHRI YASHPAL KAPUR:: Your role is one of financing development projects, rather than going into investments.

SHRI PURI: We do it; but consider each case on its merit.

SHRI BABUBHAI CHINAI: What would be the net effect on your investment and also on returns, after the Government's promulgation of the ordinances a few days earlier and yesterday's clarifications thereon, that the effect would be after tax? You are also the custodian of the money of the policy-holders. Therefore, as you had said, you have a limited sphere within which to operate, and not a wider one as in the case of other financial institutions. Will you be able to maintain the same level of bonus paid annually to the policy-holders in future, say after 2 or 3 years?

SHRI PURI: The effect of this ordinance on the LIC is going to be very little. Our total investments in the private sector is about Rs. 270 crores. Out of this, only Rs. 136 crores is equity capital, and the rest in term loans, debentures and preference shares which are not affected at all. Out of these Rs. 136 crores, again, our dividend income during 1973-74 is expected to be around Rs. 11 crores. We feel that our total loss on account of this ordinance will only be between Rs. 4 and Rs. 5 crores out of dividend income of Rs. 11 crores on our equity investment. Considering that in 1974-75 the effect of the ordinance is going to be there, and our total income on interest, dividends and rents is to the tune of nearly Rs. 200 crores, the effect is going to be only 0.2 per cent. We are happy about this ordinance because it is an anti-inflationary measure and it would also result in the growth of net worth of equity capital in due course. To-day, it is not there because people are paying dividends from a large portion of their profits. Now, a certain portion has compulsorily to be put into reserves. It will lead to the improvement of net worth of equity capital in the country. It is a healthy thing.

SHRI BABUBHAI CHINAI: The latest ordinances will pump out of the general public Rs. 100 crores. Do you say that it would be beneficial to have more equity capital in the market? Do you think it will have a favourable effect on the people to make investment?

SHRI PURI: I would put it in my own way. What is happening to-day is that reserves of the companies are not being built up. This compulsory giving of two-thirds of the reserves will help to strengthen the companies as such. I am restricting myself only to this.

SHRI BABUBHAI CHINAI: Does it mean that you are not talking about the new equity which it is pumping in to the tune of Rs. 100 crores?

SHRI PURI: Not about it.

SHRI BABUBHAI CHINAI: Since you will also be covered by the IDBI and your representative will naturally be on its Board, you will have to answer to them in course of time regarding your investment etc. We would like to know about your future views.

SHRI PURI: That representation is not going to make any difference. Even to-day, a Deputy Governor of the Reserve Bank is the Vice-Chairman of the IDBI.

SHRI BABUBHAI CHINAI: You have to look to the future, since you are holding the money of the policy-holders. You must have applied your mind to it, since the ordinance was issued 7 days ago. We are anxious to have your views.

SHRI PURI: We are examining that question. If I had been given some notice, I would have expedited its examination. To-day, I am not in a position to say anything.

DR. K. MATHEW KURIAN: Mr. Puri, you had said that this new bill will have very little effect on the LIC. I presume that that statement refers to administrative arrangements. I am sure you will agree to view this also in the wider context of industrial financing in general. According to the new bill, the Reserve Bank and the IDBI are being delinked from each other. Will this be in the interests of effective industrial financing in this country, particularly because the role of the Central Bank in a developing economy should be to ensure the effective integration of short-term and long-trem lending? As such, the Reserve Bank should continue to perform the role of stipulating not only the monetary policy but also looking after the promotional aspects of industrial and agricultural financing. According to the bill, agricultural finance will continue to be the responsibility of the Reserve Bank. If that is so, would you like to comment upon this particular provision in the bill that the Reserve Bank's role will now be reduced to the minimum? In the interests of effective industrial financing, in which LIC is interested, should the Reserve Bank continue to play the role which it is doing to-day; or, will the new bill make that participation lesser?

SHRI PURI: In my view, this delinking of the IDBI and the Reserve Bank is very much called for, because I feel that the way these development banks have developed during the last 10 years, a stage has come when all types of expertise should be available to the new body which is envisaged in the bill, in the form of having not only representatives of financial institutions but also bankers representatives and 5 specialists from outside. This autonomous body will be able to achieve much greater results than otherwise. There are so many problems involved in developing backward areas, expediting the growth of industries etc.

DR. MATHEW KURIAN: My point has been missed. If you feel that in view of the sophistication, the board of the IDBI should be more diversified, that view can be considered independent. My question is about the need for integrating long-term and short-term lending. In spite of the provisions in the new Bill, is it not better for the Reserve Bank to continue to have its major share-holding in the IDBI; and the IDBI's board of directors being diversified, to take into account the type of problems that you had mentioned?

SHRI PURI: My personal view is that this autonomous body will be much more helpful.

DR. MATHEW KURIAN: Will that help ensure better coordination?

SHRI PURI: Coordination will be ensured if you have, in the same institution, representatives of long-term investors like the LIC and the bankers who would provide the holding capital.

DR. MATHEW KURIAN: I am not convinced. You have a holding company under the new bill which is in the field of long-term lending. You have representatives of various financial institutions; but the Reserve Bank's role as a Central Bank in a developing economy in charge of coordinating short-term and long-term lending cannot be performed by a holding company.

SHRI PURI: Under the new procedure, short-term lending will be provided by bankers' representatives; but those bankers will not be acting contrary to the Central bank's policy. It will be the same. Such expertise will take care not only of long-term but also short-term lending, because those bankers will be chosen from the nationalized banks who will be aware of the Reserve Bank's policy at a particular moment.

SHRIMATI SUMITRA KULKARNI: Is there any provision in this bill whereby we will be able to attract more investment? What exactly worries me is that to-day's rate of interest on the LIC's policy as worked out by you, is between 4.5 per cent and 6 per cent whereas 7 per cent is paid on fixed deposits by the banks. After this bill becomes law, will you be able to attract more savings from the public? Will they be prompted to come out with greater savings?

SHRI PURI: I do not think our savings drive will be affected by the new bill. We will be able to mop up more savings from the backward areas, if the IDBI really makes an effort to go there. Secondly, as and when the new bill becomes law, we will be able to sell more insurance.

SHRIMATI SUMITRA KULKARNI: The return given by the LIC on a policy is only 4½ per cent; as against this, according to the recent ordinance, 11 per cent interest is available. I do not think that people will be prompted to make investment with you.

SHRI PURI: We have two elements in savings. One is earning of interest; but we also cover the risk which is very important. We are selling policies because people want the risk element to be covered.

SHRIMATI SUMITRA KULKARNI: But things have got to be rational. To-day it is less than half the rate of interest available elsewhere. Even though you are not directly affected by this bill, your views will be very much appreciated because you are incharge of a large financial house. Today the Reserve Bank has been adequately tackling and discharging these duties and developing banking. If I am not wrong, three years ago agricultural financing was considered to be a limited function. But today it has increased by 20 per cent, if not more. Will you be able to substitute the IDB for the Reserve Bank, so far as these functions are concerned? Is not the present arrangement more satisfactory? Will there be a distinct improvement by handing over these duties of the Reserve Bank to the IDB?

SHRI PURI: In my view, the new arrangement is distinctly better because it brings within its own fold two advantages. One is it gets all the expertise that is necessary for development. Secondly, it is an autonomous body. When you put in so many directors from so many bodies it will be an advantage. With what little experience I have of LIC, I can say that it is an autonomous body. The members of the Board can express their opinion. Autonomy is one thing which is certainly desirable and this much amount of expertise which is brought into being will have a very healthy effect and will make the Development Bank function very much better.

SHRI SUBRAMANIAN SWAMY: I want to ask you two or three short questions and then ask a basic question. You just now said that this Bill will not make any difference to the savings that are being generated and channelled into the LIC. You also said that LIC does not give loans to entrepreneurs. It buys shares of other companies. So, its promotional activity is indirect in the sense it invests in shares. Firstly, will this Bill make any difference to the investment pattern of LIC?

SHRI PURI: Very little. I will explain it. Even today what is happening is that when a new flotation is made, when a company offers to sell equity capital, debentures and term loans for ten years, we do give them loans. Therefore, we would still be participating in that. We make only one distinction. We give only large loans. We direct those who want small loans to go to the IFC, SFC and so on.

SHRI SUBRAMANIAN SWAMY: If I am an entrepreneur and I want to set up an industry, you will not give a loan?

SHRI PURI: No. We do not have the expertise for that. You have to go to the IFC.

SHRI SUBRAMANIAN SWAMY: Do you think that if this Bill is implemented the cost of capital for Industrial concerns will be significantly reduced? Today the industrial concerns are advanced loans on a certain rate of interest. By virtue of the arrangement implied in this Bill, do you think the cost of capital, the interest at which you advance the loan, will be reduced?

SHRI PURI: No.

SHRI SUBRAMANIAN SWAMY: Do you support this Bill?

SHRI PURI: Yes.

SHRI SUBRAMANIAN SWAMY: On what ground? On what economics? Because, it does not make any sense. It does not make any difference to your pattern of investment or the cost of capital. On what ground do you support this Bill?

SHRI PURI: Because, it will enable the Development Bank to function in a much more effective manner, thereby opening up investment opportunities in other ways.

SHRI SUBRAMANIAN SWAMY: In other words, you would be neutral to any Bill which changes the management structure of the IDBI in whatever form, if it is under the RBI, the State Bank of India or even under Parliament.

SHRI PURI: I am asked my opinion as to what changes I would like to make the Development Bank function better. In my view, I will repeat that, with the changes that are being made to make it an autonomous body, not under the Reserve Bank, with all types of experts associated with it, it would have a much healthier way of functioning than what it is today.

SHRI SUBRAMANIAN SWAMY: You have said it very clearly and precisely. I am trying to pin you down—sorry, it is a very wrong word. What I am trying to get a clarification is on this point. When an opinion is asked about the Bill if you had said "I support clause 6 of it, as far as the rest of the Bill are concerned, I am not concerned with them", I could have understood it. By the way, were you asked for your opinion on this Bill?

SHRI PURI: When the Bill was published we sent our comments. We said that as far as the LIC is concerned, it is only concerned with the structure and if something is added to the existing provisions it makes no difference.

SHRI SUBRAMANIAN SWAMY: According to you as far as LIC is concerned, this Bill makes no difference. Suppose I brought in another Bill, which is a one-line Bill, which says that the management of the IDBI shall henceforth be governed by some wonderful people of this country, nice, talented, intelligent people who will be represented in the Board, would you be in favour of that Bill as opposed to this Bill?

MR. CHAIRMAN: Why are you asking a hypothetical question?

SHRI SUBRAMANIAN SWAMY: That is precisely the point. He is not at all focussing his attention on the point that the management of the IBDI is going to be shifted from the Reserve Bank to the Finance Ministry under this Bill. That is the point raised by Dr. Kurien over and over again.

SHRI Y. B. CHAVAN: He has answered this question very specifically

that this is certainly a better form of functioning. If you want to ask him a hypothetical question and if he does answer that, well it is his look out.

SHRI SUBRAMANIAN SWAMY: He said that the board as constituted under the Bill is better than the present board. Then the Finance Minister made a very important intervention . Do I understand him to say that the management under the direct control of the Department of Banking would be much better than the management under the control of the Reserve Bank of India?

SHRI PURI: The management, as long as it is autonomous management, will certainty be much better.

DR. MATHEW KURIEN: I think Shri Puri said that an autonomous body will be much better. He is entitled to that view. I would like to pursue the matter whether on the basis of his reading of the Bill the new arrangement will create an autonomous body, when that body is under the Department of Banking of the Ministry of Finance, where the tiers and layers of bureaucratic control will increase, as compared to the Reserve Bank, which is at least relatively a more independent body, compared to the department of banking under the political leadership. Of course, individuals are not important here. The question is whether as compared to the existing arrangement under the Reserve Bank, the new arrangement would be better even in terms of autonomy.

SHRI Y. B. CHAVAN: Certainly, Shri Puri can answer this question. But I would like to make one point clear. Some of the questions are based on some misconception of the Bill. If a Bill is being sponsored by the Finance Ministry, it does not mean that the Development Bank is going to be under the Finance Ministry. Many times we sponsor legislation to amend the Reserve Bank of India Act. That does not mean that the Finance Ministry is controlling the Reserve Bank. Sometimes this misconception is allowed to spread. I wanted to make this position clear. Now Shri Puri can answer the question.

DR. MATHEW KURIEN: Let me make it clear that this idea does not arise from the fact that the Government is sponsoring the Bill. Of course, not. We are not foolish enough to make that point. But in the Bill drafted by the Ministry the new arrangement of the holding company, the composition of the Board of Directors, the way in which it will be removed at the pleasure of the Government, all that adds up to further lack of autonomy.

SHRI Y. B. CHAVAN: Not at all. Even the Reserve Bank Directors are appointed by the Government. The Finance Ministry takes an initiative in the matters. It does not make any difference between two propositions.

SHRI SUBRAMANIAN SWAMY: There is a lot of difference between the Finance Ministry appointing the Board of Directors of the Reserve Bank and the Board of Director then subsequently appointing or constituting the I.D.B.I.

SHRI Y. B. CHAVAN: How?

SHRI SUBRAMANIAN SWAMY: It is a question of psychology.

SHRI Y. B. CHAVAN: You are asking questions from a different psychology. As a matter of fact, this Bill makes a provision of confining the Directors to certain institutional structure. About the power of appointing Directors of the Reserve Bank, that is only to see it is much more institutional. The structural shape of the present Board of Directors is completely different.

SHRI SUBRAMANIAN SWAMY: Why don't you allow the Reserve Bank to nominate Directors?

SHRI Y. B. CHAVAN: At the present moment, the Reserve Bank's Board of Directors is the present Board of Directors of the IDBI. That we want to change. When the ownership

goes to the Government of India, how is it that I give the authority to the Reserve Bank to appoint Directors.

SHRI SUBRAMANIAN SWAMY: We do not want it.

SHRI Y. B. CHAVAN: You may not want it. Certainly you are entitled to have your view and the Parliament can have their view. Why we are taking the power is because the ownership is coming to the Government of India.

DR. K. MATHEW KURIAN: Why should the ownership go to the Government of India if autonomy is the question?

SHRI Y. B. CHAVAN: That we will argue later on.

SHRI K. SURYANARAYANA: Have you got the percentage figures of the investments made by the LIC in the rural sector, in the industrial sector, in the hosuing and cooperative sector, in the industrial sector, etc.?

SHRI PURI: I have not got the figures with me now. I will send them to you.

MR. CHAIRMAN: You can do that.

SHRI PILOO MODY: From all the evidence that he has given so far, it appears that the LIC is not very much concerned about what happens to the IDBI except to the extent that if the IDBI functions more effectively, Mr. Puri seems to think that will give him more investment opportunities. Do I take it that you are lacking in investment opportunities?

SHRI PURI: We are not lacking but they will increase.

SHRI PILOO MODY: How?

SHRI PURI: The Development Bank, when it functions effectively, will help the industry and more investment opportunities will become available for the LIC. That is one aspect. The other aspect is that once the Development Bank begins to help the backward areas, those areas will grow economically and we will be able to mop up more savings from these areas and sell our policies.

SHRI PILOO MODY: Your main interest is that the IDBI should do some yeoman's service in the backward areas where at the moment there is no development activity going on so that these areas are opened up for you to sell your LIC policies.

SHRI PURI: I would like to put it in a different way....

SHRI PILOO MODY: I wish you had said yes which would have given me a great pleasure to realise that you are doing your duty. But you are prevaricating.

SHRI PURI: I am not prevaricating. We are all interested in the development of backward areas. The LIC with its present set-up has not got the administrative machinery to make investments in those areas. When the Development Bank opens out opportunities for investment, the LIC is also a beneficiary in that as far as the investment is concerned. Secondly, it will also help the country to become industrially strong. Thirdly incidentally when those areas develop industrially, we shall also be able to mop up more resources from those areas.

SHRI PILOO MODY: In other words, you perform your main function purely incidentally.

You said just now that you have an investment of about Rs. 136 crores equity capital. As a result of these Ordinances, you must have lost book value at least to the extent of about Rs. 50-60 crores. Am I correct?

SHRI PURI: The Stock Markets have not yet opened. We do not know what the rates are at the moment.

SHRI PILOO MODY: You know the closing rates.

SHRI PURI: The closing rates are what they were before the Ordinances were issued. Those rates we will be having.

SHRI PILOO MODY: As the largest investment agency, that is, the LIC, I ask you as to which way the market will react to the Ordinances.

SHRI PURI: Obviously, the market will go down.

SHRI PILOO MODY: If the market goes down and if the dividend rate is frozen as indicated by the Ordinance, your income which you said was about Rs. 4½ crores, out of these equity investments, should reduce or should go up?

SHRI PURI: Rs. 4½ crores is the loss in the equity dividend income that we expect out of Rs. 11 crores that we get. Out of a total investment interest income of Rs. 200 crores, the effect on the LIC would be to the extent of 0.2 per cent.

SHRI PILOO MODY: Will that have any effect on the bonus that you are paying which is about 4½ per cent?

SHRI PURI: It will have no effect on the bonus.

SHRI PILOO MODY: I now come to the I.D.B.I. From what you have said, I take it that the new structuring of the IDBI has two distinct advantages. One that it concentrates all expertise under one roof and that the new arrangement will give the Bank greater expertise and the other advantage is that it will be an autonomous body. Are you of the view that today it is not an autonomous body?

SHRI PURI: Practically all the financial institutions are controlled by the Government of India and this does not at all take away their autonomy. In respect of these five financial institutions the heads and subheads will be chosen in such a way that one cannot say that they are not persons who do not have expertise in their respective fields. That is the point. So, when such arrangement is reviewed, it is a total review. So far as restructuring is concerned, if you ask me, I will say, this autonomy will prevail. I will give you example from LIC and from others also if you like. Autonomy is there and autonomy is not taken away.

SHRI PILOO MODY: That is to say, you are satisfied with the sort of degree of autonomy that you enjoy.

SHRI PURI: Anywhere I would be satisfied with this degree of autonomy, I would say.

SHRI PILOO MODY: You said that there will be certain amount of expertise in various fields and that will ensure the autonomy of the board. How that connection could come about. —expertise with independence, in respect of movement, action and thought and behavior? How can this bring about atonomy no matter what the expertise is?

SHRI PURI: Sir, they are there in view of certain expertise, in view of certain tpyes of institutions about which they have close knowledge etc. and I think if they cannot bring about autonomy in this sense I do not think anybody else would bring about such a thing in the world.

SHRI PILOO MODY: In this Bill you have the provision regarding the MD and Chairman of the Board etc. This is left to the discretion of the Government. Out of 20, they choose to retain the nominating control over 19. One of them is given to the Reserve Bank. If you see the provision you will see that these nominations will be determined by the Central Government and they will hold office at the pleasure of the nominating authority. The exception is in case of Deputy Governor who has somehow sneaked into the new Bank. So, I ask you, under these terms and conditions, what sort of autonomy or indepen-

dence of judgment do you expect from these people so nominated?

SHRI PURI: You select persons who represent certain expertise and they will definitely uphold what is right with such expertise and such experiance as they have and you can expect them not to compromise on these things also. If they cannot function independently I don't know who can. This is the type of expertise which they represent and they will uphold that sort of independence and I think we must welcome such a thing. The representative of the banks are directly involved.

SHRI PILOO MODY: There is this point of enlargement of the pool from which such persons are to be chosen, or nominated by the Government. Now, what I would like to know is this. What sort of new thinking or new idea which you think will emerge in the management of the new banks and what risks or proposals or new frontiers do you expect from such people who are so nominated and who are beholden to the Central Government?

SHRI PURI: I am afraid I cannot agree with you on the point. If they sit together they go into problems and decide; they do definitely represent certain expertise in their respective fields. Interests of LIC and IFC are slightly different. One is an investing body and the other is a development bank. And when knowledge is pooled, because each one as expert knowledge, naturally, they will be able to function very effectively and with real autonomy and independence.

SHRI DEORAO S. PATIL: Apart from what is there in these amendments, do you want to sugest any new amendments to fulfil the objects of the Bill?

SHRI PURI: As far as LIC is concerned, no.

SHRI A. K. M. ISHAQUE: There are some persons who have some committed ideas. If those set of persons come and hold the office do you think that they can look at the problem from a different and a new kind of angle? Do you think that this Bank will achieve its purpose when the persons interested in other banks assemble there and do their job?

SHRI PURI: We have experience of the Life Insurance Corporation Board. The L.I.C. Board not only consists of 16 but almost all of them excepting two or three officials—the Managing Directors and Chairman—are from outside. Our experience has been that all of them contributs very much in the thinking process and in the administering processes although they are nominated by Government. They are able to guide us and help us. We are able to see how it is going to affect the various areas and various people. The fact is that if the Government chooses the persons who have a certain expertise or background, I think, they can contribute substantially to the efficient working of the Corporation. In the case of L.I.C. it is not that every proposal put up to the management is accepted *in toto* by the Board. The Board members may differ with that. Not only that, Sometimes they suggest a change which we take into account. That may, autonomy is there and their effectiveness administratively is there.

SHRI A. K. M. ISHAQUE: I now take it that you are of the view that the constitution of the Board as it stands now will help to keep the independence for the Bank.

SHRI PURI: It should be as suggested in the Bill.

SHRI YASHPAL KAPUR: I want to seek a further clarification in answer too question posed by my friend, Shri Mody. May I take it that the present Board of Directors in the LI.C. and in I.C.I.C.I. are on the same footing as we have in the Reserve Bank of India and other participating institutions;

like the I.F.C., U.T.I. etc.? Or are they subservient in position to-day because they have to go by the guidelines or the decision taken by the Board of Directors?

With the coming into existence of the new company, will the participating units which were subservient in position till now get into the position of a policy-making body and will it become more efficient in the discharge of its duty? Do you mean that by your answer to Shri Piloo Mody's question?

SHRI PURI: I have not put it in that fashion. I have answered his question in my own way. We have been talking in the same wavelength!

SHRI PILOO MODY: Naturally.

SHRI PURI: I have a very small suggestion to make which I think, necessary to bring to your notice. Regarding this Bill, on page 4, there is a provision for the Chairman and the Managing Director. If this body is going to become very large, I thought that by this Bill, we may raise the number of managing director and director a little more. In the case of L.I.C. and other financial institutions, the enabling provision is to have a managing director. I think it is going to be very big soon and it may reach a stage where we may have one more managing director. I therefore want that there should be a provision for another Managing Director.

MR. CHAIRMAN: We shall consider this point at the appropriate time.

SHRI PURI: According to Clause 9 of the Bill, in the Executive Committee, under sub-clause (d) (ii) there is a provision that six shall be directors nominated. Nomination of the bank's director has not been included. I think the nomination of the bank's director may be considered so that he can also give his guidance in the matter of short-term loans.

Thank you very much.

(*The Committee then adjourned*).

RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973

Wednesday, the 17th July, 1974 from 10.00 to 12.50 hours.

PRESENT

Shri B. N. Kureel—*Chairman*

MEMBERS

Lok Sabha

2. Shri Dinen Bhattacharya
3. Shri Chandulal Chandrakar
4. Shri K. Chikkalingiah
5. Chaudhry Dalip Singh
6. Shri Anadi Charan Das
7. Shrimati Roza Vidyadhar Deshpande
8. Shri K. R. Ganesh
9. Shri A. K. M. Ishaque
10. Shri Robin Kakoti
11. Shri N. S. Kamble
12. Shri Madhu Limaye
13. Shri Jagannath Mishra
14. Shri Piloo Mody
15. Shri Surendra Mohanty
16. Shri Pratap Singh Negi
17. Shri Rajaram Dadasaheb Nimbalkar
18. Ch. Ram Prakash
19. Shri Ram Swarup
20. Shri M. Ram Gopal Reddy
21. Dr. Govind Das Richariya
22. Shri Babu Nath Singh
23. Shri K. Suryanarayana
24. Shri T. V. Chandrashekharappa Veeerabasappa
25. Shri Sukhdeo Prasad Verma

26. Shri Babubhai M. Chinai
27. Shri Yashpal Kapur
28. Shri B. V. Abdulla Koya
29. Shri A. G. Kulkarni
30. Shrimati Sumitra G. Kulkarni
31. Dr. K. Mathew Kurian
32. Shri S. Ranganathan
33. Shri Subramanian Swamy
34. Shri Gian Chand Totu

LEGISLATIVE COUNSEL

1. Shri S. K. Maitra, *Joint Secretary and Legislative Counsel.*
2. Shri N. L. Vaidyanathan, *Additional Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE

(DEPARTMENT OF BANKING)

1. Shri N. C. Sen Gupta, *Secretary.*
2. Shri M. G. Balasubramanian, *Additional Secretary.*
3. Shri M. K. Venkatachalam, *Joint Secretary.*
4. Shri N. Sethuraman, *Joint Secretary.*
5. Shri K. P. Guthakrishnan, *Director.*
6. Shri V. K. Shunglu, *Deputy Secretary.*
7. Shri D. K. Sen, *Deputy Secretary.*

SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary*

WITNESSES EXAMINED

I. All India Reserve Bank Workers' Federation, Calcutta.

Spokesmen:

1. Shri Amit Kar, *Vice-President.*
2. Shri Jatin Bhattacharyya, *General Secretary.*

All India Reserve Bank Workers' Federation, Calcutta.

Spokesmen:

1. Shri Amit Kar
2. Shri Jatin Bhattacharyya

(The witnesses were called in and they took their seats).

MR. CHAIRMAN: On behalf of the Committee, I welcome you here and I would request you to introduce yourself and your colleague to the Committee.

You may kindly note that the evidence you give would be treated as public and is liable to be published, unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire the evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

Now, you may proceed.

SHRI JATIN BHATTACHARYYA: Sir, apart from what we have stated in our Memorandum which is possibly before you, I have got only three points to place before you for consideration. With all earnestness I would like to stress that by keeping the present set-up of the Industrial Development Bank of India and the UTI as it is, why it should not be possible to streamline these long-term financial institutions to co-ordinate the working of other financial institutions engaged in the financing or promotion or development of industry. This has been proposed in the Bill. The point I would like to stress is that this particular Bill deals with two aspects. One is that the ownership is being taken out from the R.B.I. and the same is placed with the Government of India. The second aspect is that the financial institutions rendering mid-term and long-term financial help should be streamlined and brought together and co-ordinated under the Industrial Development Bank of India. Our suggestion is that all these things can be done with the present set-up as it is. It is because the Board of Directors of the R.B.I. are nominated by the Government and the IDBI Board of Directors are also nominated by the Government and if there has been any necessity of putting some special expertise to ensure proper functioning of IDBI, a small amendment could be suggested in the present Act so that some expertise could be included to ensure efficient functioning of this institution.

In 1970 there was an International Seminar held in Bombay under the auspices of the Reserve Bank of India. The speeches and the suggestions made by the various eminent persons have been brought out in the form of a publication called "Banking and Development". This publication tells in detail about the functions of the Central Banks in under-developed countries. I would like to stress here that this particular publication should have been given due weight although the Seminar does not draw any conclusion. If you go through the publication, you will find that the foreign luminaries who came here have stressed that in countries like India Central Bank has got some further job to do than those in advanced countries. Except in a few advanced countries, Central Bank has not developed in most of the under-developed countries. The colonial countries became independent only after the Second World War and they started the economic development after their independence. Therefore, the Central Bank has got to bear a special responsibility to develop the country's economy, because in our country sufficient saving is not forthcoming. Naturally the funds have to come from Government and that would mean forcible induction of fund into the economy and that will entail inflation which has got to be tackled by the Central Bank of India.

MR. CHAIRMAN: When was this International Seminar held?

SHRI JATIN BHATTACHARYYA: The International Seminar was held in February 1970 in Bombay under the auspices of Reserve Bank of India. The proceedings of the Seminar have been recorded and have been brought out in a book form called "International Seminar on Banking and Development". In that book you will find that the suggestion of the foreign luminaries is that the IDBI should be owned and controlled by the Reserve

Bank of India. The fact remains that today there are 1500 employees in IDBI. We are against this particular Bill *in toto*. Our suggestion is that it can be kept as it is. The second aspect is about strengthening the financial apparatus. That can be done by keeping this set up as it is.

DR. K. MATHEW KURIAN: On page 3 they have rightly asked the question as to why there should be a change in the present system of arrangement between short-term and long-term finances. Since the answer is 'no', obviously the conclusion to be drawn is that we have not yet reached that stage. Now, I would like to ask a very specific question in regard to last paragraph 14 of the memorandum. What are the ideas of the federation in regard to streamlining of the existing arrangement about effective coordination between various agencies? Some financial experts have mentioned that the RB has over-grown in size and its staff is not capable enough to cater to their functioning and therefore they want new talent to be drawn up from outside. What is your impression? You have already mentioned that this new arrangement will create formidable problems for employees who will face the problem of retrenchment and so on. Does it imply that this new arrangement will reduce the efficiency of these agencies because it will create undue hardship to the employees?

SHRI JATIN BHATTACHARYYA: As far as employees are concerned, there are two types of duties. One is for workmen staff and the second one is directional duty. The whole difficulty is that in a country like ours, there is a shortage of efficient persons to man this type of body. This is the real problem. Now, the pooint is that it has been stated by some persons that IDBI persons who conduct the whole show are not efficient or they are not trained persons, something like that. In that case, the difficulty will remain the same if it comes under the new set up. If it is a question of importing or recruiting better persons from inside the country, then it can be done. Now, at least, I think, it is not correct. I think it is a developing body. So, naturally, the question of keeping more trained persons inside it is not out of question.

The second point is regarding long-term investment. It has got two aspects financial and other. Suppose one industry has got to be started. Then persons should be there who understand that industry. Those who are expert in a particular field, they have got to be taken in. As far as all the Nationalised Banks are concerned, possibly, they have to recruit some specialist who can know these things.

The point is, financial aspect is the main aspect here, and from that point of view, the persons who control these institutions should have some understanding of finance and for that, Reserve Bank is the best organisation which can provide that type of persons.

DR. MATHEW KURIAN: I take it that your suggestion is, under the existing arrangement, we should train the top officers of the Reserve Bank, as you have various training institutes. There should be better training for the existing staff and if necessary we can recruit specialists from outside, within the existing arrangement.

SHRI JATIN BHATTACHARYYA: Yes. Any outsider, the moment he comes into the Reserve Bank, becomes a part of the staff.

SHRI A. G. KULKARNI: May I ask my friend who is representing the All India Reserve Bank Workers' Federation—of course, we have his memorandum, his explanation as well as the policy frame which my colleague has given to him—to explain this point? You said that the market is not properly monetised and the banking institutions are not so developed, and therefore, there is no necessity

of having this one institution and that the existing arrangements should work. I would like to say that apart from your interest as the President of this organisation or the Vice-President or the General Secretary, there is also another interest, a wider interest, namely development of backward areas. My colleague on the right was just now explaining the lack of monetisation in this country. He, his party and some other parties preach that there must be specialised institutions to develop backward regions. Now how do these two principles go together? As Members of Parliament, we feel the necessity of specialised institutions, in order to give financial assistance for the development of agriculture, industry etc. I can understand the super-imposed interest in your mind. You have already made out in your memorandum as well as in your evidence that the employees should be protected. We are also for that. We are also for protecting the legitimate interests of the employees of the Reserve Bank, as well as other nationalised banks. You have also mentioned about bonus. The new institution, under the Bill, has not been debarred to give bonus. I do not find anything to that effect in the Bill. It is for the institution and for you, friends, to build it up and make it profitable. I would like to know, how are you going to reconcile the interests of yours, with the larger interest of development of industry, agriculture etc? For this purpose, why should you grudge a specialised agency? You can say that in the specialised agency, your interests should be protected. I can appreciate that view point. There is no bar on the Reserve Bank to recruit persons from outside. What is the real intention in advocating this view point?

SHRI JATIN BHATTACHARYYA: Possibly, I had replied to this already. This is very vast country. This is not a country like Belgium or Hungary. This is a very big country, where some parts are developed, like West Bengal, Maharashtra etc, which could be compared with the developed countries in Europe. But, we should make comparisons taking the whole country into account, with so much of population and the stage of economic development. Up till now, Government of India was following a policy which ultimately led to the nationalisation of banks. So far, Government's economic policies have been in a particular direction. Suddenly, Government is thinking that industrial development is an aspect, which should be given to a specialised institution. The point is if it had been a developed country, these specialised institutions would not have been necessary. Economy itself would have created its savings and development would have been there. Any demand for a commodity does not immediately create that commodity. That is the problem here. It is not an instant economy where there would be more production if there is more demand. But, in our country, the first task is so far as the Reserve Bank is concerned, to bring about rapid development of the backward regions. There should be integrated development of agriculture and industry. We should not pay our attention only to industry. If we start a specialied institution for industrial finance, then tomorrow, there will be a demand that we should have a specialied institution for agriculture also. This trend will continue. Our point is, all these things have got to be done from a particular centre. We would not have objected, if in our country, the Planning Commission would have been that centre, a central body, from where the whole policy would have emanated. There should be one particular centre which will control all the aspects of economic development. If we start creating multi centres, there will be clash of interests, there will be clash of tasks and the whole purpose will be defeated. Finally, I should also say that although I am representing the workers, and although I am morally bound to support their cause, I have come not

only for that. We have our organisation. We know how to face our problems. We have taken this opportunity to come before you and place our position that in the present stage of economic development in our country, Reserve Bank should be the Central Bank, from where all the activities will be coordinated.

SHRI A. G. KULKARNI: You said that you wanted Reserve Bank to be developed as a monopoly organisation as a centralised organisation. On the contrary, you are against monopoly. A centralised monopoly organisation in the banking sector, which apart from protecting your own interests, how is it reconciled with the large interest of development of the country, through financial assistance to priority industries. In this connection, the witness has rightly suggested that for agriculture, a similar organisation will be necessary. Once the Government has accepted the position that industrial finance can be brought under the umbrella, it also applies to agricultural finance. We would request the Government to have a similar institution for agriculture also.

You had said that the Reserve Bank should have a centralized position; and that technical people can be recruited. As consumers and representatives of the people, we feel that after nationalization, the working discipline in banks has deteriorated. I can give you many instances. In the light of this, decentralization of work between a development bank for industries and the Reserve Bank would at least enable management to bring some type of discipline, since the new banking institution will be a smaller one. I am not against the interests of the labour. Labour must be protected; but protection is not to be given to the indisciplined class of labour. The nationalized banks are suffering from indiscipline encouraged under the misguided leadership and guidance of the Reserve Bank Workers' Federation or some other Banks' Union.

SRHI JATIN BHATTACHARYYA: Before the banks were nationalized, the bankers who were private men, had submitted a particular report to the Banking Enquiry Commission. They had stated therein that bank employees did not do any work. All sorts of allegations were there. The day the banks were nationalized, the very same people started complaining that till then, there was efficiency but since Government had taken over, the banks would go to hell. A campaign has now started that the standard of efficiency has come down since nationalization. In fact, more number of cheques are now coming to the banks; we are passing them everyday. More cheques come through clearing. We do the work during the time allotted to us. Deposits have increased after nationalization. They are Rs. 10,000 crores today which is two and half times more than earlier. Still this campaign is there. It is there against every governmental institution. We do not say that we are completely immune from all these defects; but I must stress that more work is thurst upon us and we are doing it. In banks, the work cannot be postponed to the next day. It is not like the L.I.C. When a man goes to the bank he does not return without our doing the work the same day. That is the simple criterion, to decide whether we do work or not.

SHRI A. G. KULKARNI: I am not referring to the Banking Enquiry Commission's report. I am referring to the latest report on the working of the Central Bank of India. When you say that work has increased, you have to remember that over-time and the number of personnel have also increased.

SHRI YASHPAL KAPUR: We are talking to the employees of the banks and not to the directors.

SHRI JATIN BHATTACHARYYA: We ourselves are the Reserve Bank since our organization runs the whole show. We have cooperated and we shall cooperate. It is not correct that we take unlimited over-time. It is limited in the banks. So far as the employees are concerned, we have told the tribunals to stop the payment of overtime and to get us more staff.

SHRI A. G. KULKARNI: We can give you many instances of deterioration in the service.

SHRI M. RAM GOPAL REDDY: The witness had stated that on account of the provision in regard to the IDBI, the chances of promotion in the Reserve Bank will become very bleak; and there would also be retrenchment. How would that happen?

SHRI AMIT KAR: The hon. Member's question is this, *viz.*, if ultimately, IDBI and the Unit Trust are separated from the Reserve Bank, how would the employees of the Reserve Bank suffer in the matter of promotion etc. The answer is very obvious. At present, the entire staff of IDBI and UTI are supplied by the Reserve Bank and the staff working in those two institutions are treated as Reserve Bank employees for all purposes. The moment these two institutions are separated from the Reserve Bank and become completely independent of the latter, the employees working in the former will have no connection with the Reserve Bank. Naturally, the employment potential or the chances of promotion that exist in the whole of Reserve Bank will get reduced to a large extent. That is how they will be affected. The hon. Member, Mr. Kulkarni is obviously suffering from a misapprehension. He is thinking that we in the Reserve Bank are nicely paid and inspite of it, we are grumbling. Far from it, we do not get any bonus. We have so many grievanves. In our Memo., we have relegated the interests of the employees to the background. We are first interested in the national economy. The whole question binges on what benefit the Government wants to derive. Is it the labour problem in the Reserve Bank which prompted the Government of India now to think in terms of separating these two institutions? If indiscipline is there, I may submit that it is found everywhere. As our General Secretary, Mr. Bhattacharyya, has already pointed out, we do not deny that our Bank employees have got defects. Every human being has some defect. In spite of this, it is a fact that the deposits have increased and the advances have increased to a huge extent and the work of banking has increased, and the bank employees are doing their best.

DR. K. MATHEW KURIAN: As a matter of procedure—

MR. CHAIRMAN: Let him proceed. I request the Members to hear him.

SHRI M. RAM GOPAL REDDY: I want to know whether he was answering my question or he was answering the question of Mr. Kulkarni.

MR. CHAIRMAN: He answered your question. (*Interruption*).

This is not a place for quarrelling. Kindly hear the witness.

SHRI M. RAM GOPAL REDDY: I have not completed my question.

MR. CHAIRMAN: He has replied to it.

SHRI M. RAM GOPAL REDDY: Let me complete my question. He did not properly explain how they are going to be affected, whether they are in the Reserve Bank of India or in the UTI or some other organisation because they will all become the employees of the new institution. Their service condition will remain the same. Is this Bill contemplating that there will be any change in the service conditions? When service conditions are not going to be changed, why should they worry about it?

SHRI JATIN BHATTACHARYYA: Possibly, the hon. Member has not been able to follow our position. Today, the employees in the IDBI and the UTI, although they work there, are employees of the Reserve Bank of India. This Bill says that these employees have a right to exercise option to go back to the Reserve Bank of India. Supposing the IDBI and the UTI come out of the Reserve Bank of India and the employees are still the Reserve Bank employees, if they opt, immediately, 1500 employees will be rendered surplus; they will become surplus hands, and the other people who are working there will be in trouble. So, it affects their future recruitment and promotion. It affects everything.

SHRI MADHU LIMAYE: I have three short and specific questions. First, Have the Federation people ever heard complaints either from the borrowers or any other quarters that the efficiency of the Development Bank has suffered because of its being a subsidiary of the Reserve Bank?

SHRI JATIN BHATTACHARYYA: No; we have not heard any complaints, and we should not hear anything, because if it becomes a separate body, the same thing may result, because another hon. Member was asking whether we want the Reserve Bank to be a monopoly. For that matter, the biggest monopoly in India is the Government of India. By nationalising the existing banks, it has tried towards building up a monopoly. There were 16 different groups of employers. Now, it is one single employer, and that is the Government of India.

So far as any complaint from any side against the IDBI is concerned, it is something separate. I do not think it is connected with the Reserve Bank.

SHRI MADHU LIMAYE: My second question is whether this idea of separation of the IDBI from the Reserve Bank was conceived of to provide a berth for some retiring or retired officials of the Finance Ministry. It is a very specific question.

SHRI JATIN BHATTACHARYYA: I cannot go into that.

SHRI A. K. M. ISHAQUE: How can such a question be put?

SHRI MADHU LIMAYE: I want to know from them whether they are aware. My question is in order. It is for them to say that they do not know, if they do not know. (*Interruption*) Mr. Chairman, my question is very specific. I am putting the question through the Chairman. First of all, they answered my first question saying that they have heard no complaint. As a member of the Joint Committee of Parliament, I have every right to elicite information, and I am addressing my question to the witness through the Chairman. I am following the proper procedure.

My question is whether they hold that this idea of separation has been conceived merely to provide berths for some retiring or retired officials of the Finance Ministry. What is wrong about this question?

SHRI JATIN BHATTACHARYYA: On this question, I have only this much to say. After all, any efficient person in any other department of Government is welcome to join the IDBI.

SHRI MADHU LIMAYE: That is not my question.

SHRI JATIN BHATTACHARYYA: About that aspect which has been raised in his second question, definitely we are not ir a position to know, because we have no connection with the particular department.

SHRI MADHU LIMAYE: My third and last question is, what amendments would the Federation propose to the Bill in order to en-

courage agriculture and agriculture-based industries? Have they any suggestions?

SHRI JATIN BHATTACHARYYA: That is possibly not within the purview of this particular Bill. The whole ploint is, I have already explained the apprehension that once the Government starts thinking of taking over the Industrial Development Bank from the purview of the Reserve Bank of India, tomorrow the Government may start taking over the agriculture-based industries also.

SHRI GIAN CHAND TOTU: The witness has referred to the seminar in 1970. That seminar must have gone into the conditions during the last decade. Does the witness mean to say that there has been no progress in banking in the last ten years?

SHRI JATIN BHATTACHARYYA: I am again requesting you, possibly, if you have the time—

SHRI MADHU LIMAYE: My suggestion is, instead of making the Finance Minister a member of this Committee, you might make him an honourable witness before the Committee; that is the only solution. Why should he be a Member of the Committee?

SHRI JATIN BHATTACHARYYA: Regarding the seminar, the seminar is still not out-of-date. It was only in 1970 that the seminar was held, and it is now 1974. So, it is still not out-of-date. I would insist upon the Committee to impress on the Government that if there be any change in what that particular seminar had suggested, then there should be a national seminar held to discuss the whole thing.

SHRI GIAN CHAND TOTU: I have gone through your memorandum. I have not been able to find any facts which may entail a change, except that there may not be as many staff promotions. My question is—this is my second question—should staff promotion have an overriding consideration over the national interests?

SHRI JATIN BHATTACHARYYA: Definitely not.

SHRIMATI SUMITRA G. KULKARNI: My submission is that for the last ten minutes we have been discussing things which are not pertinent to this Committee as such. This is not a place where labour wrangling has to be carried on. After all, it is human nature to have grievances about something or the other, in whatever walk of life they may be. So, there will be this kind of grievances, but this is a perpetual process and it will find its own solution. Besides being office bearers of the Reserve Bank workers Federation, they are also members of the larger society. While I appreciate that they may not be experts in high finance, living in the financial atmosphere do they think that this measure will help development of industry and agriculture or not? To consider this measure from narrow parochial angle, whether the federation will earn bonus or not, whether this measure will profit them or not, etc. is not worthy of such a senior federation like this. Will they for a change rise above personal considerations and give us their valued opinion as to what is their opinion about this Bill?

SHRI JATIN BHATTACHARYYA: I must say with all the emphasis at my command that we are here not for any parochial or narrow interest. We may not be expert economists. As a responsible citizen of this democratic country, we have to view this Bill and we are arguing here not for the workers of the Reserve Bank of India; we are arguing here because it is the Central Bank of the country and it has got an economic connotation. Being a Central Bank it controls the whole finance which is the lifeline in our society. From that angle we say that the particular Bill which had been brought here is going to hurt people and the whole Bill

should be scrapped because it is not going to help economic development. It is trying to create two centres; there is no link between the two. We are not thinking here as employees; we can deal with that question outside. We are part and parcel of the Central Bank and we thought we have a special position and so we took the opportunity to come here.

SHRI SUBRAMANIAN SWAMY: I have three questions on this Bill and I should appreciate yes or no answers to them. You represent class IV unions. Before coming here have you consulted the other unions, such as class III unions, officers union and so on, on this matter? Have you consulted the Reserve Bank staff officers' association?

SHRI JATIN BHATTACHARYYA: The reply is yes and no. At the initial stage we held some discussion but at the final stage we did not because of excessive rains in Bombay; we could not talk to the Secretary. Otherwise all of us should have come here together.

SHRI SUBRAMANIAN SWAMY: What is the total number of unions in the Reserve Bank?

SHRI JATIN BHATTACHARYYA: Four unions.

SHRI SUBRAMANIAN SWAMY: When this Bill was drafted were you at all sounded by the management of the Reserve Bank of India?

SHRI JATIN BHATTACHARYYA: No.

SHRI SUBRAMANIAN SWAMY: You say that duplication of the machinery will be there. The cost of operations will go up. Would you explain what you mean by this statement in your memorandum?

SHRI JATIN BHATTACHARYYA: Duplication does not mean cost. The whole point is: duplication in control.

SHRI SUBRAMANIAN SWAMY: If the present Bill goes through, the workers in the IDBI will go back to the Reserve Bank?

SHRI JATIN BHATTACHARYYA: Yes.

SHRI SUBRAMANIAN SWAMY: Government will have to recruit new people to man positions in IDBI?

SHRI JATIN BHATTACHARYYA: Yes.

SHRI SUBRAMANIAN SWAMY: Will not the cost go up?

SHRI JATIN BHATTACHARYYA: Yes.

SHRI SUBRAMANIAN SWAMY: Could you explain the statement made in your memorandum, on page 4. You say that there will be internecine rivalry between technocracy and bureaucy and frequent bottlenecks. It was stated here by representatives of managements who had come in the last two days that the purpose is to bring in experts and make this a very efficient organisation. You say that there will be rivalry.

SHRI JATIN BHATTACHARYYA: Up till now in regard to industrial finance, Government makes the budgetary provision and the particular financial institution distributes it in that sphere. If we want to develop the country, we must think in terms of developing proper savings incentives. For that, the Reserve Bank, as the Central Bank of the country must see that banking development is there. LIC and UTI have funds, but those are meant for particular purposes. What is envisaged is, possibly the nationalised banks will be asked to put a portion of their deposits in the form of long-term finance and that will be at the control of IDBI. It is possible that while managing the monetary situation, the Reserve Bank may think that for the sake of liquidity, banking advances must be stopped and at that very moment IDBI may think that more money has got to be extracted from nationalised banks. Because there is no coordination, there is a possibility that these

two may clash with one another. We want that there should be a single body to coordinate these things.

SHRI SUBRAMANIAN SWAMY: Your President Mr. Parvana made a statement in Punjab as follows:

"The 14 nationalised banks have failed because of the grip of the monopolists on these organisations." Do you think by the Bill the grip of the monopolists will be weakened or strengthened?

SHRI JATIN BHATTACHARYYA: So far as I have been able to understand, outside interests are complaining before Government that Reserve Bank is not doing satisfactory work and so, they should be provided personnel from among themselves to get things done. In that context, Mr. Parvana might have made that statement. Apart from being our President, he is connected with so many other organisations. I do not know in what capacity he made that statement.

SHRI SUBRAMANIAN SWAMY: A few moments ago, Mr. Limaye asked whether this whole Bill is being brought to suit the employment needs of certain superannuated bureaucrats. You were not keen to answer it.

SHRI A. G. KULKARNI: Let us know whether the Government accepts that contention at all.

SHRIMATI SUSHILA ROHATGI: It was conveyed to me that Mr. Limaye had thought it fit to say that the Government was probably looking for berths for some high officers. It is an absolutely baseless fear which should be removed and not raised again.

SHRI MATHEW KURIAN: Some members of the committee might ask questions which are inconvenient for the Government, but Government need not butt in at every stage to reply. We are now collecting evidence from witnesses. It is for the Committee to sit later and discuss with the minister whether a particular evidence is correct or not.

SHRIMATI SUSHILA ROHATGI: There is no intention on the part of Government to butt in during evidence. A question was specifically put to me by an hon. member and I thought it fit tc reply to that. That is all.

SHRI SUBRAMANIAN SWAMY: We have just heard the Genera Secretary say that he apprehends increasing control of monopolists by the passage of this Bill. At the same time, in his memorandum he has talked about rivalry between bureaucracy and technocracy. Do you think that nationalisation of banks has led to monopoly control over finances?

SHRI JATIN BHATTACHARYYA: To come to the question of technocracy and bureaucracy which you have raised and which Mr. Madhu Limaye wanted to stress upon, the way he put it, regarding the retired officials or something like that, we do not have that in mind. But we have got one thing in mind and that is going to be a sore issue in the country —the fight between technocracy and bureaucracy.

SHRI SUBRAMANIAN SWAMY: That is a general objection. It has nothing to do with the Bill.

SHRI JATIN BHATTACHARYYA: So far as this is concerned, we apprehend that there is an attempt to take out the Reserve Bank personnel, although they belong to an institution controlled by the Government. The question of bureaucracy is there.

SHRI SUBRAMANIAN SWAMY: The Reserve Bank is headed by the bureaucrats. I think, half of the number of Directors are bureaucrats.

SHRI JATIN BHATTACHARYYA: Today they are not. Tomorrow, when the new Board will be there, that will be nominated by the Government.

SHRI SUBRAMANIAN SWAMY: The Government has laid down the basis on which they will nominate the Board of Directors, five from financial institutions, eminent economists, etc. These are not bureaucrats.

SHRI JATIN BHATTACHARYYA: It is better I keep my answer vague. I have just expressed my apprehension.

SHRI SUBRAMANIAN SWAMY: You have said that you apprehend the growth of monopolists as a result of this Bill.

SHRI JATIN BHATTACHARYYA: What I said here is that it has come to our notice that some sections, some quarters, outside the Government feel that all is not well with the IDBI which is being controlled by the Reserve Bank and, therefore, some people from outside should come in.

SHRI SUBRAMANIAN SWAMY: This is not your independent view.

SHRI BABUBHAI M. CHINAI: Are you the employees of the Reserve Bank or are you the General Secretary and the Vice-President outside the employees of the Reserve Bank?

SHRI JATIN BHATTACHARYYA: I am a Bank employee but not an employee of the Reserve Bank.

SHRI AMIT KAR: I am a Reserve Bank employee,

SHRI BABUBHAI M. CHINAI: Do you know of any country where the central Bank has been burden with such multifarious functions, like, giving facilities to industry, promoting full employment opportunities, establishing price stability, establishing viable external payments position, etc.. etc., the objectives that you have stated to be those of the R.B.I. Is it not time that the R.B.I. concern itself more with monetary functions, namely, regulating money and credit supply in the country?

SHRI JATIN BHATTACHARYYA: I mentioned a particular view here. There was a symposium and a representative from Japan said that so far as development there is concerned, the main burden was upon the commercial banks. As the central Bank of the country, they have to look after that.

SHRI BABUBHAI M. CHINAI: I have mentioned only some of the functions of the Reserve Bank of India. Don't you think that the Reserve Bank of India has deviated from their main function of regulating money and credit supply which is the main function of the R.B.L.?

SHRI JATIN BHATTACHARYYA: There are some specified jobs that have got to be done by the central Bank of the country. Generally, two or three specified jobs are performed by the central Banks of all the advanced and developed countries. The whole difficulty here has been that our country has not a fully-developed economy. As we have not got sufficient funds for industrial development, we have to pump in funds and we have to create funds. All these things have got linked up with monetary policies, The Reserve Bank of India as the central Bank of the country has got to take the burden upon itself. At least, up till now I see whatever the Government of India has done is according to what I am saying here.

SHRI BABUBHAI M. CHINAI: You have stated in your Memorandum that the Reserve Bank of India has been able to perform the tasks entrusted to it in regard to industrial development, employment, etc. You have reiterated that in your reply to my question also. Do you really think that the institutions which are now under the control of the Reserve Bank of India have been able to fulfil the development needs of the country?

SHRI JATIN BHATTACHARYYA: At least I have not yet seen any statement from the Government of India that the Reserve Bank has failed in its duties and that the Reserve Bank of India's performance has been bad. Why should I presume that it is not so?

SHRI BABUBHAI M. CHINAI: It has fulfilled its duties according to your expectations.

SHRI JATIN BHATTACHARYYA: Yes.

SHRI BABUBHAI M. CHINAI: Will it not be more correct to say that if the financial institutions are made independent of the R.B.I., the Indian capital market will develop on more healthy lines?

SHRI JATIN BHATTACHARYYA: What is actually money market? Money market is a place where capital can be had. But today as there is no proper money market, the Government has got to provide budgetary provisions to help the industry to grow. Naturally, the money market will not come by that way. The money market will come if we can develop banking habits, if we can draw more deposits from the people. The theory that more investment will bring more employment and more industries, possibly that is applicable in an advanced country. So far as a country of our type is concerned, more investments sometimes create more inflation and some other difficulties, That is why I say that I do not think it is going to help. If you want any change or improvement, why can't the present system be able to do that? If you have some complaints against the bad performance of the Reserve Bank, how do you think that the taking away of these functions from the Reserve Bank will help you more?

SHRI BABUBHAI M. CHINAI: Now the Reserve Bank is holding some capital on behalf of the IDBI. Do you know that the Reserve Bank said that they are not interested in keeping this and wanted to give this away when the new institution is formed?

SHRI JATIN BHATTACHARYYA: If they have said like that, this is the only one case where the Reserve Bank have failed in their duty. They should not have said that. They should not shirk their responsibility.

SHRI BABUBHAI M. CHINAI: In your memorandum you have compared the functions of the Central bank here with that of some western countries. Do you think that the functions of the central bank depends upon the stage of development of the country?

SHRI JATIN BHATTACHARYYA: Definitely.

SHRI BABUBHAI M. CHINAI: Would it not be better if there is division of functions so that each can look after one facet of the economy?

SHRI JATIN BHATTACHARYYA: The whole point here is the division of labour. Now the Reserve Bank is getting this done through separate institutions. Possibly this Act is also doing the same thing, The only difference is that the IDBI is taken away from the Reserve Bank. But some other institutions are kept as they are under the control of the Reserve Bank. Unless you come to the conclusion that the Reserve Bank is inefficient, or its performance is bad, my point stands. There is no advantage in taking these institutions outside the purview of the Reserve Bank.

SHRI BABUBHAI M. CHINAI: If the IDBI and UTI had recruited their own and not taken men on deputation from the Reserve Bank, would there not have been problems of promotion prospects etc.?

SHRI JATIN BHATTACHARYYA: These are questions which are embarrassing because we come from the side of the employees. As a Federation we have come to plead before this body that IDBI should not go out of the control of the Reserve Bank.

SHRI BABUBHAI M. CHINAI: We do not want to embarrass you. Since you have come here as a witness, we want your views.

SHRI JATIN BHATTACHARYYA: I am giving my views.

SHRI BABUBHAI M. CHINAI: The Bill provides an arrangement for rationalisation of personnel structure in the RBI and other financial institutions. What specific difficulties do you envisage in this regard? Can this not be adequately met while dissociating IDBI from the Reserve Bank?

SHRI JATIN BHATTACHARYYA: On that particular score we have got no suggestion. Government is very kind enough to give this option. So far as the RBI employees are concerned, there are four organisations and each has got its own method of fighting this point out. Otherwise, the provisions are quite sufficient as they are. But because we are disputing the whole Bill, naturally we are disputing that point also.

SHRI BABUBHAI M. CHINAI: What specific difficulties do you envisage? Could they not be adequately tackled by the UTI, IDBI and RBI?

SHRI JATIN BHATTACHARYYA: These are good provisions. But as we are against the whole Bill, we are against this also, which is a part of the Bill.

SHRI YASHPAL KAPUR: The workers' representatives throughout their memorandum have tried to defend or preserve the present monolithic identity of the Reserve Bank. There is only one paragraph in the memorandum which deals with the staff problem. When this Committee decided to call certain people, the representatives of the various financial institutions that are going to be covered by this Bill and also the workers' representatives, I think the main idea in the minds of the members of this Committee was to know the views of the management of the financial institutions what they feel about having a new umbrella under the IDBI and also to know from the workers about the problems and difficulties that are going to crop up. Many of them may or may not go back to the Reserve Bank. It is not necessary that hundred per cent of them opt to go to the RBI. Many of them would like to continue in the institutions where they are at present working,

In this background and in the background of the replies given by the workers' representatives, I would like to ask some questions. When the Rererve Bank was originally formed and till our country became independent the limited functions were regulation of fiscal and monetary policy and expanding or limiting the currency. Then started the development of the country and industries started coming up. At that time there was not such a large quantum of work relating to developmental activity. So, the Reserve Bank was asked to look after this work. Then, ultimately, a body called the IDBI came into the picture, with a separate Board of Directors, and all that. The Reserve Bank directors, the same set, continued to run the IDBI by becoming directors of the IDBI and other institutions like UTI. Because the board of directors were more or less the same the Reserve Bank decided to pass on some staff to the IDBI.

Would the workers' representatives agree that the Reserve Bank was formed basically to direct the fiscal policy and advise Government in regard to that and the other institutions which are now proposed to be brought under the IDBI with a separate set of directors are more of an implementatory nature?

Secondly, there was some discussion about money market and all that. If the workers' representatives feel that the money market in this country is not developed to that extent that it can finance the various industrial and developmental work and, therefore, the Government has to come in to

provide finance through budgetary provision or otherwise, then I would point out to them that this Bill says specifically that whatever is invested in this institution will now be held by the Government and if further capital is required for the IDBI it will be provided by the Government. So, the answer given by the workers' representative, according to me, goes in support of the provision made in the Bill that Government will provide the finance for this institution.

Thirdly, would the workers' representatives, when they are trying to defend the monolithic structure of the Reserve Bank, agree to a combine of all the nationalised banks under the RBI or would they like them to be under a separate umbrella? Would they support the contention that all the 14 nationalised banks should be brought under one set of Directors?

Fourthly, would the workers' representatives be satisfied if the Government, while passing this Bill in Parliament, give an assurance that the interests of the workers presently and in the future will be safeguarded? Would they then have any objection to these financial institutions and others going under a separate umbrella? After hearing Mr. Jatin Bhattacharyya, I would put my last question.

SHRI JATIN BHATTACHARYYA: So far as bringing of the nationalised banks together is concerned, according to us it should have been done. In all other countries where nationalisation has taken place this has been done. Possibly because of the bitter experience of LIC Government had hesitated to bring all these banks together in one stroke. The Banking Commission has already given its report. They have favoured creation of two or three All India Banks and some regional banks.

As I have already submitted, I have no dispute about strengthening the IDBI, about coordinating industrial finance; on that aspect, I have no difference. If it is a question of streamlining or developing the sphere of long term finance, the IDBI is there. But my only point is what has prompted the Government to think that the time has come when the institution as a whole should be taken out and made into a separate body. If the Reserve Bank is overburdened with all these functions, then the IDBI also with so many of its institutions and with many more which might crop up will be overburdened and then Government will think in terms of having another body. This disposes of the first question that was raised. This also answers the second question so far as money market is concerned.

So far as the employees' interests are concerned, as I have said many times here, we are for safeguarding the rights of the employees and we will always welcome any assurance coming from the Government on the floor of Parliament that they will look into the interests of the employees. That will help us. There is no doubt about that.

Now I await the last question.

MR. CHAIRMAN: Should we relieve them now?

SHRI YASHPAL KAPUR: Yes, I have nothing more to ask.

MR, CHAIRMAN: Thank you very much, Mr. Jatin Bhattacharyya.

SHRI JATIN BHATTACHARYYA: I just want to make a submission. I only wanted to be precise in my replies. I am sorry if we had been harsh. You will appreciate that, when we talk about the workers, we cannot control our mood.

MR. CHAIRMAN: No. We have taken it sportingly.

(The Committee then adjourned)

RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973

Wednesday, the 25th September, 1974 *from* 10.00 *to* 13.15 *hours.*

PRESENT

Shri B. N. Kureel—*Chairman*

MEMBERS

Lok Sabha

2. Shri Dinen Bhattacharya
3. Shri Chandulal Chandrakar
4. Shri K. Chikkalingiah
5. Chaudhry Dalip Singh
6. Shri Jagdish Chandra Dixit
7. Shri K. R. Ganesh
8. Shri Indrajit Gupta
9. Shri Noorul Huda
10. Shri A. K. M. Ishaque
11. Shri Robin Kakoti
12. Shri N. S. Kamble
13. Shri Jagannath Mishra
14. Shri Shrikishan Modi
15. Shri Piloo Mody
16. Shri Pratap Singh Negi
17. Shri Rajaram Dadasaheb Nimbalkar
18. Dr. Laxminarayan Pandeya
19. Shri E. V. Vikhe Patil
20. Shri M. S. Purty
21. Ch. Ram Prakash
22. Shri Ram Swarup
23. Dr. Govind Das Richariya
24. Shri Babu Nath Singh
25. Shri Somchand Solanki
26. Shri K. Suryanarayana
27. Shri Sukhdeo Prasad Verma

28. Shri Bhupesh Gupta

29. Shri Yashpal Kapur

30. Shri A. G. Kulkarni

31. Shrimati Sumitra G. Kulkarni

32. Dr. K. Mathew Kurian

33. Shri B. N. Mandal

34. Shri Rishi Kumar Mishra

35. Shri Deorao S. Patil

36. Shrimati Saraswati Pradhan

37. Shri S. Rangnathan

38. Shri R. Narasimha Reddy

39. Shri Kameshwar Singh

40. Shrimati Maimoona Sultan.

LEGISLATIVE COUNSEL

1. Shri S. K. Maitra, *Joint Secretary and Legislative Counsel.*

2. Shri N. L. Vaidyanathan, *Additional Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE

1. Shri N. C. Sen Gupta, *Secretary.*

2. Shri M. G. Balasubramanian, *Additional Secretary.*

3. Shri M. K. Venkatachalam, *Joint Secretary.*

4. Shri D. K. Sen, *Deputy Secretary,*

SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

WITNESSES EXAMINED

I. Reserve Bank of India Officers' Association, Bombay

Spokesmen:

1. Shri C. V. Nair

2. Shri A. Raman

3. Shri L. S. Sarma

4. Shri A. G. Karkhanis

5. Shri K. P. Augustine

6. Shri C, V. Subbaraman

7. Shri O. P. Berry.

II. **Shri S. K. Basu**

I. Reserve Bank of India Officers' Association, Bombay

Spokesmen:

1. Shri C. V, Nair
2. Shri A. Raman
3. Shri L. S. Sarma
4. Shri A. G. Karkhanis
5. Shri K. P. Augustine
6. Shri C. V. Subbaraman
7. Shri O, P. Berry

(The witnesses were called in and they took their seats)

MR. CHAIRMAN: Before we start, I would like to remind you about the Direction of the Speaker, I will read it out to you.

"Your evidence may be treated as public and is liable to be made public unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. I may also add that even though you may desire the evidence to be treated as confidential, it is liable to be made available to the Members of Parliament."

Now, you may start with your general comment on the Bill. Of course, you have submitted a detailed Memorandum which we have circulated to the Members of the Committee.

SHRI C. V. NAIR: Sir, at the very outset, I, on behalf of the Reserve Bank of India Officers Association, wish to express our sincere gratitude to the Chairman and the hon. Members of this Committee for giving us this opportunity to tender evidence before this Committee, apart from submitting a written Memorandum. So far as our Association is concerned, which I and my colleagues on this side have the honour to belong, I may submit that we represent the officer category of the Staff in the Reserve Bank of India—from the staff officer Gr. II at the lowest rung to the heads of Department at the top. There are three other Associations also representing the other categories of staff in the R.B.I. They are: The All India Staff Officers' Association which represent the supervisory category of staff sometime ago re-designated as Staff Officers Grade II, the All India Reserve Bank of India Employees Association representing the Class III staff (clerical staff) of the R.B.I. and the Workers Federation representing the Class IV staff.

The latter two categories therefore belong to the workmen category of staff. Our Association represents all officers.

Before I proceed with our general observations on the Bill. I wish to draw your very kind attention to a letter which I had written, In that letter, we had requested you that at the time of taking oral evidence of the officials of the public financial institutional—whether they represent staff associations or managements—it may not perhaps be very appropriate for the officials of the administrative Minister (department) to be present on the occasion because we felt that it might, human nature being what it is, inhibit some of the officials—whether they represent staff associations or managements—from expressing their free views on some of the aspects of this Bill. This Bill is a unique one in the sense that it seeks to divest the Reserve Bank of certain of its responsibilities and to delink the Industrial Development Bank and certain other financial institutions from the Reserve Bank. If you kindly refer to the proceedings of the Lok Sabha in 1963 and 1964 when the Unit Trust Bill and the Industrial Development Bill were under conideration you will find it was stated by the Minister at that time, that the Bill itself was drafted in the Reserve Bank, It is these Bills which later became Acts of Parliament, that are being amended today so as to take these very financial institutions out of the Reserve Bank of India. Therefore, it is certainly desirable from the point of view of the usefulness of our evidence as well as the evidence of the other officials of these financing institutions that the officials of the concerned administrative Ministry are not present here. May I have your ruling, Sir?

MR. CHAIRMAN: I am told that this is a parliamentary practice that the concerned Minister has to be present here. Moreover, they are members of this Committee. But I can assure you that nobody can be victimised for free expression of his views. You are free to make your observations,

SHRI A. K. M, ISHAQUE: When you have made your comments in your memorandum, what is there to be afraid of?

DR. K. MATHEW KURIAN: I am not referring to a particular issue which has been raised. In the earlier discussions also, I had pointed out. For instance, in one of the discussions, one gentleman, who was the Chairman of the public financial institutions, had given evidence here in the presence of the Department of Banking Officers in such a way that it was favourable to the Department; but the same gentleman in an Audit Report, had gone entirely against them. Because these officials who are manning the public financial institutions may become one of the Chairman of the new holding companies, many of them are likely to be retired and perhaps they may be looking for jobs and therefore they are naturally inhibited from giving their free opinion or expressing their views.

MR. CHAIRMAN: We are not going to change this practice.

SHRI A. G. KULKARNI: Is there any provision under the rule that the officers should withdraw?

DR. K. MATHEW KURIAN: Mr. Kulkarni, you are not the Committee itself. I am making a suggestion to the Committee. There is no provision to the contrary also; there is no provision that the bank people should necessarily be there. This Committee have got the freedom to invite departmental people and various other people to help it.

MR. CHAIRMAN: I have made it quite clear.

SHRI C. V. NAIR: In the light of the discussion here, I owe an explanation to you as to the background in which this request was made by us. At the moment, I happen to be working in the public sector undertaking on deputation from the Reserve Bank. Recently, we had an experience of appearing before the Committee on Public Undertakings where this undertaking was giving evidence. The Committee did not entertain the request that the officials of the Ministry be present when we gave evidence nor did it entertain the request that the officials of the undertaking be present when the Ministry gave evidence. So, in this background of my personal experience, I thought, having regard to the propriety involved in the procedure adopted by that Committee, that it may be in the fitness of things that this is brought to your notice.

SHRI K. SURYANARAYANA: Is there any harm to oblige them? Because they are having this sort of feeling and they may not express their views freely. The Committee are independent and we can decide our policy matter. Anybody can withdraw just like a witness. Because their promotions and other things are dependent upon the Secretary. This is the main thing. Some bank people from outside also represented to us. The main point is that we are interested in the industrial development of the country. Four institutions are coming up in this Bill. So, my request to this Committee is that today or tomorrow or at any other time, we should decide this matter.

MR. CHAIRMAN: I have assured them that the Committee will help them. There is no trouble to them. You may proceed, Mr. Nair.

DR. K. MATHEW KURIAN: No trouble, now or in the future?

MR. CHAIRMAN: Even in the future, the Committee will come to their rescue.

SHRI K. SURYANARAYANA: We will discuss it ourselves.

SHRI G. V. NAIR: Sir, I have already introduced what our organisation is and who my colleagues are. I would make certain general observations to start with in regard to the Bill as a whole. In doing so. I would like to start with some of the major issues which we have raised in the memorandum, and not go over the memorandum as a whole. You would

have noticed that we have tried to make out, in our memorandum, in detail, whatever we felt we should bring to the notice of this Committee so that the Committee may have all the relevant data before it, which we felt would be relevant for a proper consideration of the main issue. Sir, as I mentioned earlier, the main issue before this Committee—the main theme of the Bill—is the question of delinking of the Industrial Development Bank of India, which is today a wholly owned subsidiary of the Reserve Bank of India, and through that delinking, taking the various other subsidiaries of the Industrial Development Bank of India, from out of the purview or control of the Reserve Bank of India and then placing them directly under the control of one of the Departments of the Government of India. This is sought to be achieved by the provisions made in the Bill for transfer of the RBI's shareholding in the IDBI to the Central Government, appointment of a separate Board of Management for the new Development Bank, transfer to the new IDBI, the supervisory functions which the Reserve Bank of India today exercises over the State Financial Corporations, etc. In other words, the Bill, in substance, seeks to take away from the Reserve Bank of India's control, the IDBI, UTI, etc., and through this, the other subsidiary organisations which they are now controlling—controlling essentially in the sense of giving them the benefit of the common pool of knowledge and expertise and experience which they (Reserve Bank of India) possess apart from providing resources.

Sir, explaining the reasons for this change, the Finance Minister while introducing the Bill in the Lok Sabha had said—I am relying on the reports which have appeared in the Press—that the functions of the financial institutions had become so complex and the volume of their work so large that it was necessary to separate them from the Reserve Bank of India, for more important functions of which was to promote agricultural development and to function as the Central Bank. He was also reported to have said that the new holding company for the financial institutions, as envisaged in the Bill, was in the interest of the integrated development of the country. In the Statement of Objects and Reasons, which has been circulated with the Bill, which forms part of the Bill, it has been stated:

> "It is proposed to restructure the Industrial Development Bank of India in certain respects, so as to enlarge its role as the principal financial institution financing industry and for co-ordinating the working of other financial institutions engaged in the financing or promotion or development of industry."

Then, it lists out which are the financial institutions in this context—the Life Insurance Corporation of India, Unit Trust of India, Industrial Reconstruction Corporation of India, State Financial Corporations, etc. etc. Now, Sir, this poses one simple, but, a major question. Today, is the Industrial Development Bank of India not a co-ordinating organisation coordinating the functions of these various institutions which are sought to be brought under the umbrella of the IDBI through this Bill. This question has been answered, in fact, when the Bill itself—I mean the IDBI Bill—itself was introduced in the Lok Sabha in 1964. While introducing the Bill in 1964 in Parliament, the then Finance Minister, who referred to the role which was to be played by the Industrial Development Bank of India, had this to say:

> "We envisage the IDBI as the Central co-ordinating agency which ultimately will be concerned directly or indirectly with all the problems and questions relating to long term and medium term financing of industry"

There was thus, no doubt in the mind of the Government, there was no doubt in the minds of the framers of

the Act, there was no doubt in the minds of the Members of Parliament at that time, that is to say, when the Bill was enacted and was placed on the statute book as to what should be the role of IDBI. Sir, this is further supported by the experience which we have had over the last ten years—whether it (IDBI) did or did not function as the co-ordinating body of all the financial institutions. I would not refor you, Sir, in this connection to the documents that we ourselves have produced, that is, the Industrial Development Bank of India's annual reports or the various other literature with IDBI under aegis of the Reserve Bank of India or the Reserve Bank of India itself have brought out. But, I would only make a reference or invite your attention to what somebody else has said, what a competent authority, an authoritative committee which was set up by the Government he said. I am referring to the Dutt Committee on Industrial Licensing Policy. In Volume IV of their report, which was presided over by Mr. Dutt, of which Dr. H. K. Paranjape and the late Mr. Mohan Kumaramangalam were members, the Committee had this to say about the Industrial Development Bank of India

> "The IDBI also provides assistance to industrial concerns directly, and especially in participation with other financial institutions. In fact, the Bank has been designed and empowered to function, not merely as a financing institution but also as a developmental agency...

I would like this to be specifically noted—

> "merely as a financing institution but also as a developmental agency for planning, promoting and developing industries to fill up gaps in the industrial structure of the country. While introducing the IDBI Bill in the Parliament, the then Finance Minister stated...."

They (the Dutt Committee) have also given the same quotation from the statement of the Minister, which I read out to you a minute ago. Later, in the same chapter, they have said:

> "The IDBI is the latest of the specialised financial institutions set up by Government to provide medium and long-term finance to industries in fulfilment of the basic policy to foster such institutions. The statutory provisions regarding the functions of the IDBI are considerably broader and more flexible than those of the other term-financing institutions in the country."

It was thus intended to be a lender of the last resort. It was intended to be an institution for promoting and planning long-term investment in the country. It was intended to be coordinating agency of all term-lending institutions, investment institutions, in the country. Then again, they have said, in Page 49—Volume IV—

> "The role of the IDBI as an apex institution in the field of industrial finance has been conceived as one of enlarging and augmenting the resources of existing term-lending institutions as well as the short-term credit agencies, viz., banks, for term-lending through loans or subscriptions to shares and bonds issued by other institutions or by refinancing of loans to industrial concerns granted by them or by rediscounting bills, etc., so as to achieve the investment targets in the private industrial sector."

The Bank is also empowered to function, not merely as a financial institution...

This is very important. It is the view of the Dutt Committee.

> but also a developmental agency for planning, promoting and developing industries to fill up gaps in the industrial structure of the country. The IDBI is thus, visualized as an agency to re-organize and integrate the structure of industrial financing institutions and act as an important financial instrument in the machinery of planned development.

If this has been the role envisaged for the IDBI by the original framers of the Act the question of re-structuring to achieve does not arise; the objectives now set out in the Bill, it is my submission, Sir, that does not have any relevance at all in our opinion. What we have to consider in this context is whether it (IDBI) has actually fulfilled this role or not. If it has not, there may be a ground for reviewing the position. Even a review need not necessarily lead to restructuring, unless it is found on such a review that it (IDBI) is inhibited from fulfilling this role, as a coordinating agency because of its structural relationship with the Reserve Bank. So long as the IDBI has lived up to the expectations of the framers of the Act in its operations during the last 10 years there would be no case for restructuring particularly in the manner now proposed. Even if there had been any shortcomings—I do not know if there had been any,—I would certainly consider that the IDBI has more than fulfilled its share in regard to the fulfilment of the objectives set for it, particularly keeping in mind the general level of achievement of the other Plan targets in the various other sectors of our economy. The question for consideration would be, even assuming that there were shortcomings, whether they were there because it (IDBI) was part of the Reserve Bank family and because of the structural relationship which existed between the IDBI and the Reserve Bank. A review itself would be necessary only if this can be established. We have gone into this in detail in our Memorandum; but on the point whether this coordinating role has been played well or not, I would like to refer to one of the statements, a statement made by no less a person than the Chairman of ICICI. ICICI is one of the institutions which is sought to be brought within the umbrella of the re-constituted IDBI. To-day, the ICICI is in the private sector. It is not, in the formal sense of the term, a part of the Reserve Bank family. It is not under any obligation to take instruction from the IDBI; nevertheless it has very willingly accepted the leadership of the IDBI. If it has accepted the leadership and the coordinating role of the IDBI, it amounts to their accepting that the latter has been able to deliver the goods. In his annual address last time, the Chairman, Mr. Parekh has said as follows:

> "Finance institutions under the able leadership of the IDBI have taken up an active programme of developing and financing new projects, promoting new entrepreneurs and joint-sector projects and financing projects in backward regions. Arrangements among the finance institutions for joint consultation have been working smoothly now for many years, under the leadership of the IDBI".

This is something which has been stated by one of those institutions which are to-day not under the umbrella of the Reserve Bank or IDBI, nor under its direct or indirect control; but it is one of those institutions which are sought to be brought under the umbrella of the re-constituted set-up of the IDBI.

SHRI RISHI KUMAR MISHRA: The assumption behind this bill is not that the IDBI has failed and, therefore, a new bill is necessary. Everybody concedes that it has functioned well. But do you think that the new arrangement will adversely affect the role envisaged for the IDBI? There is a view—one need not agreed with it—that the monetary and other functions of the Reserve Bank have become so complex that a stage has come when development financing should be under a separate holding company, under a separate specialist institution. How does this delinking from the Reserve Bank adversely affect the role of the IDBI? It will be more appropriate if you tell us something on this.

SHRI C. V. NAIR: My submission in the first instance is that the delinking of IDBI from the Reserve Bank, as envisaged in the bill now before the Select Committee, will adversely affect its proper and smooth functioning. To start with let me: go back to the preamble to the Reserve Bank Act itself. Firstly, there is a responsibility cast on that bank by the statute under which it functions—unless, of course, the Parliament desires that that Act may be changed and the Reserve Bank may not have that role at all to play, but so long as this Act is in force and on the Reserve Bank is cast this responsibi y and so long as under the statute by which that bank is bound, the primary function of the Reserve Bank is to

> "...regulate the issue of bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage",

It is the primary responsibility which the legislature, the Parliament has cast on the Reserve Bank of India—an obligation laid on it that it shall function in such a manner as will secure monetary stability and generally operate the currency and credit system of the country to the best advantage of the country. Credit system of the country. What is the credit system of the country, if the long-term credit structure is taken away from the purview of the credit system, which the R.B.I. to operate to the best advantage of the country. If the long-term investment finance is taken away from the purview of the credit system, how on earth, I do not know, the RBI is expected to fulfil its primary responsibility this objective as defined in the preamble to the Act has cast on it? That is so far as the RBI and its responsibilities are concerned.

The conventions and traditions of central banks in general and the responsibilities developing on them in developing the economies—they are different issues. I will come to that later.

SHRI A. G. KULKARNI: When you replied to Shri Sharma's query, you mentioned the credit system. Credit system is not only long-term investment but also the working capital, the short term investment. At present, the RBI is granting short term investment directly or through the nationalised banks. The nationalised banks are under the purview of the RBI. So the credit system of the country actually does not denote that the IDBI should be under the protection of the RBI. So how can your logic be explained?

SHRI C. V. NAIR: Now the RBI, in managing the credit system to the country's best advantage, in its relationship with the short term credit structure, operates in two or three different ways. Firstly the statute vest in the Reserve Bank certain regulatory functions. So far as the Bank term credit system is concerned the Bank as all Central Banks are the leader of the last resort and the Bank managers the credit control system by operating on the bank rate, though open market operations and by acting on the reserve requirements. Secondly, we have to the provisions in the Act in the context of 1943, when this Act was passed, when the entire credit system of the country was in private hands, the commercial banking structure as such was in private hands. So what was sought to be achieved was that the RB may be enabled to secure monetary stability and operate the currency and credit system to the best advantage of the country essentially through a regulatory process. These commercial banking (the organised short-term credit structure) had to be so re-

gulated that it worked to the best advantage of the country. Even so, where the structure, i.e., the short term credit structure was in the unorganized sector of the money market, that is, in the field of rural credit, (where the commercial banks did not play any role at all), the RBI took the leadership in order to build and foster a sound co-operative credit structure. Incidentally there is also among the primary responsibilities cast on it (RBI). Under Sec. 54 of the Act, the Reserve Bank is required to, the Act says it shall maintain an expert staff for fostering agricultural credit, etc. Over the years, it has so nursed it that its re-financing operations to the co-operative credit structure which was 0.50 crores in 1948 is today of the order of Rs. 600—700 crores. So where there was an unorganised money market, the RB took the initiative having regard to the responsibility cast on it to organise it. Where the credit structure was in the organised sector, i.e., commercial banks, but were in private hands, it (RBI), had more essentially a regulatory role to play and it has continued to do it.

Again coming to the question put by the hon. member, Shri Kulkarni. Take the case of the nationalisation of the Imperial Bank of India. The proposal was made in 1954 by the Rural Credit Survey Committee appointed by the Reserve Bank. The Committee itself was not headed by him, its reports was mainly authored by Shri Venkatappaia who later became Dy. Governor of the RBI, Chairman of the SBI, and member of the Planning Commission, I wish the Committee would have the occasion to have his evidence before it. The Rural Credit Survey Committee had recommended that in order that the RB as well as the Government may be enabled to play an effective role in direct commercial banking as a noted central banking expert has said—I refer to Prof. Iayers—a central bank in order to be a central bank had first to be a bank —the Imperial bank should be nationalised. And when the nationalisation actually took place—at that time, I believe Shri C. D. Deshmukh was the Finance Minister—a very wise decision was taken in consonance with the recommendation of the R.C.S. Committee, that the Imperial Bank when it was nationalised shall be made as a subsidiary of the RBI and that its shares would be held by the RBI on behalf of Government and not directly by Government, because if for Government's own banking operations, it was considered that a department of Government would not do and the community desired exercising a discretionary element in regard to its banking activities and therefore a separate monetary authority in the form of a central bank of the country called the Reserve Bank of India may be instituted, it was felt that it would only be appropriate that the Imperial Bank, when nationalised, should function under the professionalised management—control of the RBI. Today, for this reason, the SBI is not considered a less nationalised institution than the 14 other nationalised commercial banks. The shares on nationalisation were held by the RBI and it continues to hold them and it (SBI) has not in any way suffered on that account.

All that I want to emphasise is that so far as the short term credit structure is concerned, the RBI's role has been adequately recognised. Nobody has disputed it. The hon. Minister has himself stated this in Parliament and outside umpteen times. In fact it is his case that because the normal functions of the RB as the central bank of the country are more in the area of controlling short term credit and short term lending rates, etc., and long term lending has become so complex and the appraisal of methods and techniques so sophisticated that a specialised institution separate from

the Reserve Bank is necessary. I hope this settles the question raised by Shri Kulkarni on Reserve Bank and the short term credit aspect.

My answer to the main question however is still that, firstly, the RBI will not be enabled to discharge its primary responsibility if a major part of the credit system that is long term credit/investment structure finance is taken out of its (RBI's) control. Now, suppose like the ICICI in the field of long term credit/investment finance a large number of long term credit institutions in the private sector like the commercial banks had come in short term credit operation in a substantial way and RBI's regulatory control was there over them, it was a different matter altogether. I will come to this later. But to answer your question as far as RBI is concerned, in the present context, if the long term credit aspect is taken out of its purview, I would say, you would be making the RB fail even in its responsibility.

So far as the IDBI itself is concerned. Let me now tell you how its functions will be affected. The IDBI has firstly, the problem of resources. As you would find from the annual reports, its capital of Rs. 50 crores has been provided by the RBI, which if this Bill is passed and placed on the statute book, would be transferred to the Government of India. From 1964 to 1969, there were no doubt large budgetary allocations for the operations of the IDBI. But from 1960-70, what is the position? I am quoting from the annual report of the IDBI for 1971-72—probably this will be in the later reports also: "As a result of the discontinuance by the Government of the flow of funds to the RBI since 1969-70, the main source of funds for the IDBI in the last three years has been (1) repayment of instalments by borrowers, (2) borrowings from the RBI out of the industrial credit long-term operations fund, and increase in paid-up capital, which is wholly contributed by that bank. Borrowings from the LTO fund have been on an increasing scale during the last three years." Now, having regard to the budgetary position, the present position being what it is, about which the hon. Members of this Committee more than any one of us would be aware—the resources problem of the IDBI can well be imagined.

I will now give you certain figures which speak for themselves. From 1969-70 onwards, when the budgetary allocations from the Government of India were discontinued, the IDBI has increasingly depended for its resources over the years since 1969-70 though increases in the paid-up share capital and borrowing from the Reserve Bank. In 1969-70 there was no increase in paid up capital by the Reserve Bank, though it (IDBI) had its own reserves to the extent of Rs. 4.3 crores, borrowings from the LTO fund were of the order of Rs. 20 crores. In 1971-72, the Reserve Bank contributed an additional Rs. 10 crores to the paid-up capital and then LTO borrowings from RBI were to the extent of Rs. 28.8 crores while reserves accounted for Rs. 3.6 crores. In 1971-72, the additional contribution to the share capital by RBI was again another Rs. 10 crores and the LTO borrowings from the RBI Rs. 37.8 crores while reserve were of the order of Rs. 3.2 crores. In 1972-73, the borrowings from the Reserve Banks LTO fund was Rs. 36.3 crores while reserves were Rs. 3.6 crores. In 1973-74, there was again an additional contribution of Rs. 10 crores by R.B. towards the share capital and borrowings from the LTO fund was Rs. 49.3 crores the reserves accounting for Rs. 4.5 crores. You will thus see that the position of increasing dependence on Reserve Bank has not changed since 1969-70. Of course the enabling provision for the IDBI to borrow from the Reserve Bank does not change even under the new set up.

One may therefore take up the argument that the Reserve Bank is obliged to give money to the IDBI under its new set-up as well. But my submission is that ultimately the IDBI would have to depend increasingly on the Reserve Bank of India for its resources, for its day-to-day operations. If this is so, is it not then specifically advantageous that it (IDBI) remains part of the Reserve Bank? The one obvious disadvantage arising from delinking it from the Reserve Bank would be that the relationship takes the form of a formal borrower-creditor relationship. When it is a formal borrower-creditor relationship, then all the attendant red-tape is involved; one more tier or layer is introduced in the whole structure and all kinds of difficulties crop up in this process. Once it takes the form of a formal relationship of the IDBI being an outsider borrower from the Reserve Bank of India the later will have to treat the IDBI. (Secondly increasingly, the IDBI is going to the market for its market borrowings: where IDBI entered the market for the first time in 1972 with a bond-issue of Rs. 11.5 crores, it was over subscribed within hours and all market borrowings is the as you know, specific responsibility of the Reserve Bank of India for it is RBI's specific responsibility to manage the finances of the country the public debt. Therefore, if it (IDBI) is part of the Reserve Bank of India family and remains so, the Reserve Bank would be in a position to take a view of the credit requirements of IDBI in the context of over all credit requirements of the country and to ensure that resources available with the IDBI are directed in the most desirable channels namely of increasing production and that its headings do not result in infructuous investment.

I am not casting any slur on anyone, but take the experience of other institutions. We have mentioned about the National Small Industries Corporation in our memorandum. This is a public sector corporation which has been in existence for 18 years now. It is more or less a financial institution outside the umbrella of the RBI. The speech of its Chairman on the last occasion makes very sad reading. I will not be mistaken, and I may be excused for saying this—probably the fate of the IDBI may not be any different if this Bill is unfortunately placed on the Statute-Book.

MR. CHAIRMAN: According to your statement, the IDBI has been successful.

SHRI C. V. NAIR: Yes, Sir.

MR. CHAIRMAN: Then, why should there be any apprehension about it?

SHRI C. V. NAIR: Because it had so far the good fortune of the cover or the umbrella of the Reserve Bank of India and because when this function is taken away and a non-professional management comes in, its functioning may not perhaps be different from that of the National Small Industries Corporation which has been now functioning for 18 years or so. What has happened to it (the NSIC) after 18 years of its functioning? I am not making any astrological prediction, but as a student of economics and public affairs, having known the way in which our development programmes are functioning. I am naturally becoming apprehensive about the future of IDBI, if it goes of RBI family. Let me quote only one instance. In the first three Plans, we heard so much about community development and national extension. I think about Rs. 600 crores to Rs. 700 crores were spent. Again only the other day we read in the papers about the Auditor-General's statement on the Rs. 175—crores agriculture crash programme placed before both the Houses of Parliament. The structures which came up, namely, schools, hospitals or such other structures raised as part of the

welfare activities during the community development days with no supporting institutional arrangement for their proper maintenance and the unfinished works under the crash programme, the wells either not sunk at all or half-sunk all these are a standing monument to infructuous investment. This is what precisely happens with a nonprofessional approach to investment decision. But if you say, "let me commit suicide." and if you are bent on doing it, we cannot help.

All that I say is, to the extent our counsels have any weight, to the extent our experience has any value.

SHRI A. G. KULKARNI: I want again to interrupt you to get some clarification. You could go on giving views, whatever they are, and the Committee is competent to consider them. But the point is, you are taking into consideration the position that the Reserve Bank of India itself is just like a monster, an independent organisation of the Government of India, and the Reserve Bank of India has got a lot of funds and it can spend them anywhere it likes. That is not the case. It is wholly the Government of India which directs to what extent and to what sector the credit should flow. If you divest or leave away this thinking that the Reserve Bank of India has got umpteen sources of funds in isolation of the Government of India, your talk would have been relevant and logical. But my difficulty is this. Take the example you gave; that is, the Small Industries Corporation. Perhaps you are not aware, though you represent the officers cadre of the Reserve Bank of India, that the IDBI or the IFC or the ICICI ultimately are getting the funds or getting permission from the Government of India either to float debentures or to create credit channels with the World Bank or other organisations. The IDBI has got a long term development fund, because in the Act it has been provided. In the IFC Act it has not been provided. But what we feel is that having this new organisation, the credit flow to the industry will be well-directed. There has been a lopsided investment either regionwise or industry-wise, and what has been mentioned by the Dutt Committee and various other committees is that the IDBI is also partly to be blamed for having done this. For Heaven's sake, do not take the view that the Government of India is something different and the Reserve Bank of India is something different and that they have got umpteen sources to grant anything to anybody they like.

SHRI C. V. NAIR: I am sorry I have been misunderstood.

DR. MATHEW KURIAN: Sir, on a point of procedure. I think the witnesses should be allowed to complete their statement, and then there could be a regulated discussion.

MR. CHAIRMAN: Yes; now, be brief. You have taken too long a time.

SHRI C. V. NAIR: I am sorry I have been somewhat misunderstood. I never questioned the sovereignty.

SHRI A. G. KULKARNI: What Mr. Sharma made was a relevent point. You will please speak on that.

MR. CHAIRMAN: First let him finish with his submission.

SHRI C. V. NAIR: I never said that the Reserve Bank of India is more sovereign than the Government of India. I only said that the Government of India, in fact the Parliament which is sovereign, has in its wisdom thought that this (management of the credit system) is a part of the governmental function which should be entrusted to a separate monetary authority—the RBI and that the Government of India may look to this expertise body—the Central Monetary Authority—for advice in regard to this matter. I do concern that what-

ever advice is given by it, it is for the Government to accept or not to accept. It is for the Government to ask or not to ask for the advice. All that I said was that the responsibility in this sphere is cast on the Reserve Bank of India and that it would therefore, be better that, in the interests of the institutions concerned, the Government of India itself hands over this part of the responsibility to the Reserve Bank of India. While saying this I would only like to urge you not to consider the Reserve Bank of India as a monolythic organisation or monopolistic organisation as stated by Shri Kulkarni in fact, he linked the Reserve Bank, to a Monster. I could do no better to answer this criticism than restating what Shri T. T. Krishnamachari had himself said in the Lok Sabha on this question while introducing the Unit Trust of India Bill in support of my contention. In 1963 while introducing the Unit Truts Bill in the Lok Sabha Shri T. T. Krishnamachari said the following:—

> "The idea of a monolythic or monopolistic institution and big institution can be ridden to death".

This was what Shri T. T. K. said when there was a criticism made in the House that the Reserve Bank of India had become a monolythic and monopolistic institution when the Unit Trust Bill was under consideration. He said then thesis could be ridden to death. He further said:

> "The country is big; the national income must grow bigger than what it is now. It should grow faster. Naturally, the institutions that are exercising control and this Parliament that control them have a bigger responsibility. The Reserve Bank was a small institution earlier but it is not so now."

He went on by saying that:

> "It is not a bad idea that it should be given higher powers. It is a good idea that it should be given powers."

I shall come to this at a later stage.

About the rationale of IDBI as part of the Reserve Bank, the Finance Minister, at that time, had stated as follows:—

> "The House will appreciate that the responsibilities which are proposed to be entrusted to the new institution will be onerous and heavy. It is in a sense, a lender of the last resort, for all periods other then purely about term periods and for all or practically, for all purposes, as far as industrial enterprises are concerned. We have considered it desirable in these circumstances to provide for the ownership and management of the new institution being vested in the Reserve Bank of India. We have a precedent for doing this. The Canadian Industrial Development Bank I understand, is a wholly subsidiary of the Canadian Central Bank. Apart from this precedent, however, the Reserve Bank, I think, is to-day the institution which can most appropriately guide a development bank of this kind. The Reserve Bank, is and, I hope, will continue to be free from the pressure of political or other influences. It is a position to take a purely objective view of our needs".

This was not said by the Reserve Bank of India Officers but this was said by the late Shri T. T. K. I again quote:

> "I have no doubt that under the auspices and with the assistance of the Reserve Bank a Development Bank will be able to discharge its fairly onerous burdens satisfactorily."

Now, the question is: whether this has been done or not. I can only say that it has done its responsibility commendably well and admirably well. Coming to the other aspect Mr. Mishra referred to this apart from the responsibility of the Reserve Bank and the rationale of IDBI being a part of RBI, I have already mentioned about the disadvantages of delinking; among other things, the red-tape that will be involved as a result of the formal borrower-creditor relationship between the two institutions if the existing set up is distrubed what does the IDBI handle? It handles a longterm investment credit with which a lot of problems are connected. There is: what is called, expert handling of finances involving a lot of problems connected with the private and public sector industries. So long as, this (IDBI) functions as apart of the Reserve Bank of India family; there is a common pool of knowledge and common pool of expertise with the Reserve Bank readly available in regard to banking operation exchange control etc., which it (IDBI) can draw upon. Let me site an example. In the initial stages, that is prior to 1972 or 1973, when the backward areas needing special attention, were not identified and potential entrepreneurs located. These became available only after a detailed study was made in all states. The IDBI was able to conduct an industrial survey of the backward regions in the country and were able to identify the potentially viable entrepreneures etc. in a period of four years. What I mean to say is that the active assistance from the Reserve Bank, the IDBI would not have been able to do it in such a short period. I doubt if it (IDBI) will ever be able to build up an expertise organisation economic research covering the entire gamut of economic activities such as the one which RBI possess. Even it does in future, it will be a duplication of services and expenditure.

Only recently we have evolved a number of economy measures. Under the directives from the Finance Ministry in past, under the directions of the Prime Minister, the economy measures introduced cover from paper and pins to guest houses and hiring of accommodation and the telephones and what not. Under these directions, utmost economy is required to be exercised. Is this therefore, the time, I am asking to spend more time and more money on building up new organisations when already an appropriate machinery with a fund of knowledge and experience is in existence? Is this the time to consider this question of delinking (IDBI) from RBI which involves considerable duplication of service and a lot of wasteful expenditure?

Another submission that I have to make is in regard to certain things which are settled by mutual consultations, when this bank (IDBI) is a part of the Reserve Bank, certain things which otherwise would not be available are made available to it (IDBI). For instance, the Department of Banking operations and development takes up the inspections of commercial banks and data is available with them. This is a privileged document. So long as the IDBI is a part of the Reserve Bank of India's family, it can be easily made available to it. What could happen otherwise, we are seeing under our very nose. Whenever two independent institutions are involved, we see that there is a lot of red-tape involved between the two; why even between two dependents of Government. The position will be no different if IDBI and Reserve Bank are separated. So, my submission briefly is that it would be a disastrous step—excuse me for using this term 'disastrous'.

Now comes the question of an integrated credit structure and the monetary system which is what exists today with RBI controlling both long term and short term credit—I can assure you this much. And it is this

integrated structure—you know better than us—that is being cut as under through this Bill. As for what unites for an appropriate and will integrated credit structure and monetary management system, I can do no better than explaining what was visualised by one of the eminent economists of our country, Dr. K. N. Raj. Dr. Raj had explained as early as in 1948 when the Reserve Bank of India Nationalisation Bill itself was on the anvil as to what would be an appropriate monetary structure for this country. He had in his thesis, visualised firstly the immediate nationalisation of the Imperial Bank of India and bringing it under the agies of the RBI which, of course, was done six or seven years later. Then he said that a logical conclusion of this process would be to see that in the residuary commercial banking sector, all the commercial banks in this country should be nationalised and should be brought within the umbrella of the Reserve Bank of India. The Reserve Bank of India, as a monetary authority, should also be said, start as a term lending institution for providing investment finance for industry and that it (RBI) should also foster and, nurture the cooperative credit structure so far as the rural side is concerned. This was visualised by him long ago and today we have done part of it though partly its undoing has also started with this Bill. Already when the nationalisation of banks came, the Department of Banking came into existence to take over the control and management of the nationalised banks which was not necessary at all, because the Reserve Bank could have done the job.

MR. CHAIRMAN: Now you should conclude.

SHRI C. V. NAIR: Though I have a number of submissions to make, since you feel that I have taken a lot of time, I would conclude now. I and my colleagues would be happy to answer any questions which the members may like to ask.

SHRI A. K. M. ISHAQUE: Shri Nair quoted from the Dutt Committee Report and the Finance Minister's speech to establish conclusively that the IDBI functioned well up till now. If it has functioned very well till now and if, at the moment, a specific duty is entrusted to the IDBI, what is the logic by which you say that it will fail to achieve that objective? The crux of your argument is that IDBI will be delinked from the Reserve Bank and that it will not be in the interest of IDBI. When the Reserve Bank is already entrusted with some functions, will it be wise to entrust it with specialised duties like rapid industrialisation of the country. I would like you to give parallel examples from other countries where the central bank of the country attends to the industrial development of the country. Then you say that the IDBI will be deprived of the expertise when it is delinked from the Reserve Bank. Does it mean that there is dearth of expertise in the country?

SHRI C. V. NAIR: If I have understood the questions correctly, one was whether there would be a dearth of expertise of the type needed by the IDBI, once it is delinked from the Reserve Bank. The second question was whether in any other country the central bank is closely associated with the work of rapid industrialisation and the third, what is the developmental work which the Reserve Bank has done up till now.

Taking the last question first, namely, what the Reserve Bank has done in the field of development promotion, I may say that right from 1948 the Reserve Bank has been taking initiative on its own which normally a central bank steeped in the conventions and traditions of the British orthodox central banking may not have done. They (RBI) have taken the initiative in all the facts of development in the country. I have already mentioned its activities in fostering and nurturing the cooperative credit system in the country and the

extent of its involvement. From a mere Rs. 50 lakhs it has now gone up to Rs 600 to 700 crores. It took initiative in the organisation of the Industrial Finance Corporation. If you go through the back volumes of the proceedings of Parliament ,you will find that the Government have always in the past advisedly thought that the Reserve Bank should play a role in the establishment and management of the various financial institutions like the Industrial Finance Corporation, Industrial Credit and Investment Corporation, Unit Trust of India. Agricultural Re-finance Corporation and the IDBI itself. These are all developmental activities which a central bank steeped in the British orthodox traditions would not have undertaken at all. It goes to the credit of the Reserve Bank that in this country the central bank has given a broader interpretation to the responsibility cast on it and taken on itself developmental functions of an order which would be the envy of a central bank in any country. "It (RBI)", to quote T. T. K. again, "is an institution which today in the eyes of the world is considered one of the model institution." That is why today the developing countries in Africa and other continents are looking forward to the experience of India to emulate. At such a time if we go back on this, it would be a retrograde step.

Coming to the question of expertise, it is not my point that there is dearth of expertise in the country. If there was dearth of expertise and talent, the Reserve Bank would not have been able to mobilise the expertise and talent which if posses today and place it for the IDBI to use. I am not also saying that talent or expertise would be stifled once IDBI is delinked. That is not my position. But, if we want the IDBI to function effectively and efficiently, the expertise should not be a highly compartmentalised one; it should not be an expertise purely in project appraisal techniques long term lending activities. it has to be combined with knowledge of other sectors of banking, monetary activity and all other activities of banking which any central bank posses. A person who is going to be posted in the IDBI, which is going to deal with the problems of fast industrialisation, if he cannot have an opportunity within the institutional arrangement itself in which he functions to share the knowledge available in their various other facets of credit operations and monetary management say in relation to commercial banking operations, agricultural credit operations, investment activities through the UTI and so on, which is possible only when the Development Bank is part of the central Banking activity his expertise is not going to be of much use. In other words what I mean is that over, expertise must get an opportunity to flower itself fuly so as to enable the institution (IDBI) to fulfil its legitimate role. That is the point. If it grows in an isolated rather insolated compartment, it will develop a narrow outlook.

As to whether there are other countries where the central bank plays this role that is to say, in relation to the development bank for industrial finance, I have already quoted the Canadian example. There, not only the Development Bank is a subsidiary of the central bank but there is also a common Board as it is here. I do not however hold any brief for a common Board. I have not been asked that question. The ex-Governor of the Reserve Bank of India took the view, when the A. R. C. Study Group went to him for discussions, that it was a different question, whether other countries have done it one way or the other. We have to look to our needs and decide. Now if you look to other countries, say in Asia, both in Malaysia and Phillipines, the central Bank has a share-holdings in the Development Bank. Of course, they should follow us; we should not follow them. But if you take an example of Burma, the position is that they have the Union Bank of Burma—the country's Central Bank which combines in itself

the operations of agricultural credit, commercial banking and industrial credit, etc.—was Government pawn shops. All nationalised banks are under the administrative control of the Union Bank of Burma. The Industrial Development Bank is also under the control of the Union Bank of Burma. What is more, the L. I. C. is also a wing of the Union Bank of Burma.

At the time of the introduction of the I. D. B. I. Bill in the Parliament, this *viz.* the need to invest in RBI the control over LIC investments, was in fact referred to the late Mr. T. T. Krishnamachari. An hon. Member from the Opposition, I think, Shri Indrajit Gupta—I believe, he is a Member of this Committee—raised a doubt as to whether the LIC investments were not going larger to monopoly houses and all that. Late Mr. T. T. Krishnamachari made a reference to this—I am quoting from memory.—He said:

> "But for my unfortunate experience with the LIC—Mr. Indrajit Gupta's fears could be remedied/allayed—I would have made for RBI to have a control over the LIC investment portfolio."

I think, it is something to this effect he said.

I am just saying that there is an experience to go by. As Mr. L. K. Jha has rightly said, this Committee will have the benefit of his evidence as a witness—it is not necessary to look to other countries; we have to develop our own system to meet our needs.

SHRI A. K. M. ISHAQUE: The Reserve Bank of India has some appointed functions, namely, to regulate credit, to operate currency, etc. If it has to discharge the functions of the I. D. B. I., what about the attainment of their objectives? Whether that will be better for the country and that will yield better results.

SHRI C. V. NAIR: As I have already explained, it will not be. A Development Bank in the context in which we are placed needs the guidance, protection and support of the Central Bank. Similarly, the Central Bank on its part which is to operate credit system to the best advantage of the country divested of its development functions cannot fulfil its legitimate role either effectively. You need to have to view the credit structure as a whole. You can borrow, on short-term basis and lend on long-term basis and *vice versa*. But this is possible only when a central authority does all these things and there is an integrated structure, because only then it can have (here RBI) adequate elbow room to regulate the credit structure in such a manner as to direct investments in desired channels.

About the development role again, I would like to quote what one of most eminent authorities/on Central Bank in the less development countries, in under-developed countries, Lady Ursula Hicks of the Oxford University has said. This is what she says:

> "I think, in all these less developed countries, the banks have been a stabilising element and a development promoting element. It has become obvious from the experience of these less developed countries that central banks must exercise and can largely exercise a dual role, they must exercise the development promotion as well as their traditional function of stability". You cannot divorce today the development promotion from stability because stability is essentially a function of development. A static economy is not what is meant by stability. It must be dynamic, Mrs. Hicks goes on to say:—

"The promotion of development, of course, will probably be carried out through subsidiaries, such as development banks, development corporations, and so on. The central bank itself exercising control and guidance over the subsidiaries and supporting them is necessary. This, I understand, is very much the set up you have here—that is, in India—and there is much that a modern central bank can do for development, for instance, by way of promoting exports and sponsoring new projects that have real economic promise. This is difficult for the Planning Commission or the Government to do, but....."

MR. CHAIRMAN: You can just refer to the page; you need not read all that.

Shri Dixit.

SHRI JAGDISH CHANDRA DIXIT: Will not the continuation of the present way of functioning of the Reserve Bank, along with the increasing resopnsibility—the responsibilities are bound to increase because of its rising role in the developmental planning—lead to stresses and strains on its human resources? Secondly, will not deployment of human resources from one kind of functions to another lead to dilution of the much-advertised and claimed expertise? Thirdly, will it not raise the cost of operation? Because, when they are deployed, they would have to be paid deputation allowance, 30 per cent or so, over and above the salary that they get.

SHRI C. V. NAIR: The questions which the hon. Member has asked assume that, with the new responsibilities developing on the Reserve Bank of India, its personnel—I mean in number—will remain static, that it will not take new personnel and, therefore, there will be stresses and strains and also because of this there will be dilution of expertise and all that when they are deployed in different fields. Traditionally, what was the role of the State? It was responsible only for law and order, defence and external relations. But now all welfare activities are being increasingly taken over both by the developed and also developing countries. When you take up new responsibilities, new spheres of activities, you develop your personnel to meet those requirements. The question of the same body of personnel remaining static does not arise. There cannot be and there is not any statutory limit on the number of personnel that the Reserve Bank of India can have—only this much say, 1,000 officers and no more or something like that. With increasing responsibilities, usually, people with that expertise, people with the necessary background, are taken in, trained and put on those jobs. As a matter of fact, when the Industrial Development Bank was made a subsidiary of the Reserve Bank in 1964 it was said:

"It was not be necessary to provide that the IDBI should be a part of the Reserve Bank of India if its volume of operations were to remain meagre, as it was bound to be in the initial stage, but it was felt that there will be a time when the volume of operations of IDBI will be so large that at that time it will be necessary for the Reserve Bank of India to harmonise the policies of IDBI to fit them in with the overall national credit policy."

Thus it was precisely because that the volume of operations of the IDBI was expected to increase, it was precisely because that its area of responsibility was expected to increase, that

it was made a part of the Reserve Bank of India. It therefore, follows that if a large chunk of investment finance goes out of the control of the Reserve Bank, it (RBI) will not be able to fulfil its responsibility

DR. K. MATHEW KURIAN: I would like to ask about five or six short questions. According to you, the role of the Central Bank in a developing economy should be different, and you have quoted Mrs. Ursula Hicks to support your case I would like to know specifically, in terms of the problem of dichotomy between long term and short term finance about which you have referred in your Memorandum, whether the new arrangement under the Bill will increase or decrease the present level of integration between short term and long term finance.

SHRI C. V. NAIR: We have stated that one of the immediate results of the separation of the IDBI will be that there will be this dichotomy, that is, the divergence between the short term credit policy and the long term credit policy will go on widening; it will affect the entire credit control system.

DR. MATHEW KURIAN: That means, the new arrangement will decrease even the existing level of integration.

Secondly, the Bill does not propose to take over the agricultural long-term financing functions. Only industrial finance is being delinked from the Reserve Bank while the agricultural finance will continue to be with the Reserve Bank—the Reserve Bank will continue to nurture and nourish the agricultural finance. Therefore, there seems to be an asymmetry in the logic of delinking.

SHRI C. V. NAIR: According to us, the whole Bill is illogical.

DR. MATHEW KURIAN: On page 88 of your Memorandum you have stated that there was an one-man Working Group under Shri Manubhai Shah which had recommended delinking but the Administrative Reforms Commission, in their wisdom, has rejected the proposal of delinking. I would like you to elaborate on that, to give us the reasons why the Administrative Reforms Commission found it proper to reject the one man Working Group's recommendation for delinking.

SHRI C. V. NAIR: The Administrative Reforms Commission, in rejecting the one-man Working Group's recommendation that the development function should be delinked with the Reserve Bank, had said:

> "We feel that their separation from the Reserve Bank of India is likely to import into their functioning a departmental outlook which is by no means desirable in a field like developmental banking which has to be enterprising and bold rather than cautious, whether in industry or in agriculture."

Then they have said:

> "Therefore, while the need for greater and more pointed attention to agricultural financing is irrefutable, in our view, any suggestion to establish an agency for this purpose without a direct link with the central bank of the country is open to very serious objection...."

This is about agricultural finance. Then they have said:

> "Much the same kind of objection would apply to independent agencies in respect of the industrial sector."

Again on page 92 of the Memorandum, we have said:

"In our view.. ." That means, in the view of the Administrative Reforms Commission. We have quoted them.

"In our view, the necessary co-ordination in the field of credit is best done by the Reserve Bank of India itself. We, therefore, feel that it would be a far better arrangement to set up the banks and organisation suggested in the report as subsidiaries of the Reserve Bank."

This is the definite conclusion of the Administrative Reforms Commission after considering the recommendation of the Working Group which recommended delinking They had before them the views of both the sides and they have come to the conclusion that the necessary coordination in the field of credit is best done by the Reserve Bank of India itself, that it would be a far better arrangement to set up the banks and organisation suggested in the report as subsidiaries of the Reserve Bank.

Again, in the next page:

"It is essential that they function under the general supervision direction and co-ordination of the Reserve Bank."

DR. MATHEW KURIAN: I have two more questions.

Normally, a new arrangement for restructuring must mean something better for industrial finance. I can think of a better industrial financing institution in terms of increasing the volume of credit and decreasing the cost of credit. These are the two major elements. My question is: will the new arrangement increase the volume of credit?

SHRI C. V. NAIR: By itself, it will not.

DR. MATHEW KURIAN: The new Bill as such will not increase the volume of credit.

SHRI C. V. NAIR: If anything, it will decrease.

DR. MATHEW KURIAN: In any case, it cannot increase. Will the cost of credit decrease because of this new change? Is there any relationship between this new Bill and the cost of credit?

DR. C. V. NAIR: By itself, it will not lead to a decrease.

DR. MATHEW KURIAN: So, this Bill has no direct bearing either in increasing the volume of credit or decreasing the cost of credit. So, there is no economic reasoning for this new restructuring and this delinking of IDBI from the Reserve Bank of India has no economic reasoning. So, they must have other non-economic reasoning.

SHRI C. V. NAIR: It will have one impact. It may increase the overhead costs and lead to an increase in expenditure.

DR. MATHEW KURIAN: That is a negative aspect. I am looking for a positive aspect.

You have said in page 86 of your memorandum and you have referred to extraneous considerations. I do not know what you have in mind and you have, of course, referred to bureaucratic management. Here, I have the view or some individuals have the view that since there is no economic reasoning behind this proposed new arrangement, naturally there must be some extraneous non-economic considerations. One thing which has been alleged—I do not know whether it is true and in any case, some people feel and I have the suspicion that it is true that the bureaucrats in the Department of Banking want to have a deck in a new holding company where a new empire can be created in the hold of the Banking Department. That is the reason why the monopoly houses have a stronghold in the ICICI. Through this new institution they will have a larger share of public funds and industrial

finance will be available to monopoly houses in a larger quantum and in easier situations compared to the present dispensation where the Reserve Bank is relatively more independent than the Banking Department. Nobody can argue that the Banking Department is more independent than the Reserve Bank which has relative autonomy and relative expertise. Even on the recent anti-inflationary measures, the Reserve Bank has come out forthright saying that these anti-inflationary measures alone cannot help and that a certain restructuring is required. You find again and again the Reserve Bank coming out and sometimes possibly taking a relatively more independent position. Therefore, compared to the present situation, where the Reserve Bank is relatively more independent, the new arrangement will give more control to the Banking Department and through them, the monopoly houses. These are the two extraneous considerations that I can think of. How will you react to this?

SHRI A. K. M. ISHAQUE: Members are required to put questions only, to elicit information from the witness so that we can discuss it amongst ourselves and come to a right conclusion. If we make our own opinions known, then the very purpose of sitting in this committee is frustrated.

DR. MATHEW KURIAN: I have put a specific question.

MR. CHAIRMAN: The witness is replying. Mr. Nair, please be brief.

SHRI C. V. NAIR: If I may answer briefly, my answer to the first question would be, yes, there will be a higher degree of bureaucratisation and a higher degree of non-professionalised management controlling the new IDBI if it is separated from the Reserve Bank of India.

So far as a larger quantum of finance going to monopoly houses, I am not competent to comment on it but the possibility cannot be ruled out.

DR. MATHEW KURIAN: Suppose an amendment is made—I want to know your reactions—to this Bill, namely, that the existing majority share-holding of the Reserve Bank will continue The Reserve Bank will continue to have a majority shareholding of the IDBI, but unlike the present situation where the Board of Directors of IDBI is the same as that of Reserve Bank, we enlarge the Board of Directors to include some experts, then the present linkage remains but, in order to get some more experts in the Board of Directors, it is slightly widened.

SHRI C. V. NAIR: On this, I have one or two observations to make. The first part of the question is I think, about share-holding. About that, I may say that the essential characteristic of state ownership is not at all impaired by the Reserve Bank holding the shares, just as, I explained a moment ago the Reserve Bank holding 90 per cent shares of the State Bank of India has not made it a less nationalised bank than the 14 other nationalised banks. Whether the share-holding of IDBI is with the Reserve Bank or with the Government, it is a nationalised institution. Therefore, I do not find the logic for the provision of the transfer of the share capital from the Reserve Bank to the Government of India and making a consequential provision in the Bill that the Government of India will pay to the Reserve Bank in cash an amount equal to the amount of the share-holding held by the Reserve Bank of India and then you definitely have to make budgetary appropriations. This is noxious, when we are talking of budgetary squezes cuts everywhere. In the fifth five year plan the current year's allocation does not exceed 14 per cent of the total plan outlay, so that the whole-substantial part of work will have to be done in the last three years.

So, the budgetary position remaining what it is, and when the essential characteristic of state ownership is not impaired by the Reserve Bank holding the shares. I do not find any logic at all for the transfer of the share capital from the Reserve Bank to the Government of India.

So far as the Board of Directors is concerned, we hold no brief for the present arrangement for a common board (the same) for the Reserve Bank and IDBI. As a matter of fact, there are associate institutions with the Reserve Bank of India to-day which have separate Boards. Take for example, the Unit Trust of India and the Agriculture Refinance Corporation. But the essential link with the Reserve Bank of India to enable the Reserve Bank to view the credit structure in the total perspective is maintained and similarly that professional guidance and management from the Reserve Bank as is necessary is also ensured even with a separate Board. Illustratively in ARC the common link is though the Chairman being a whole-time functionary of the Reserve Bank and the Managing Director and staff are also from the RB. If you are asking our specific suggestions, then the Board which has been proposed in the Bill, even if you have under the existing set up, a separate Board, this Board, I think, needs to be considerably changed because while it is no doubt broad-based in the sense that it gives representation to constituent units and all that, to-day the talk is of higher and higher professionalisation of management and higher and higher professionalisation of management means that there should be more of functional directors looking after different functional areas within the bank and this business of part-time Directors sitting on the Board of Directors....

MR. CHAIRMAN: Now, please conclude.

SHRI C. V. NAIR: In the present Bill you say five Directors will represent financial institutions. But who will be the five directors? Why can't you have constituency of financial institutions?. It can be five directors elected from among them. They would then need not have the patronage of somebody in the Government to come on the Board or to continue on the Board. This is the point. What I suggest is that the ARC pattern may be followed. If there has to be five directors to represent financial institutions let them be elected from among the concerned institutions on the same bodies as they are elected from among State Cooperatives, Land Development Banks etc. in ARC.

SHRI RISHI KUMAR MISHRA: Development Bank characteristics have changed the IDBI into having resort to financial consortium so that some amount of coordination is achieved. Government has taken regarding convertibility of loan into equity. Some expertise has to be built, by financial institutions for taking advantage of this decision Government to convert loan into equity and so on. Experience so far is this. They did not take advantage of this. Development finance has changed in character. You should provide continuous services, research and development activities and so on. Take the apex institutions. Don't you think that there is need for greater efficiency and also in respect of building up the necessary expertise which is needed in all these matters in future? When IDBI was established there was no other source. Now it is a complex situation and therefore I am asking this question. What about interchangeability of staff between Reserve Bank and the new holding company? Mr. Kurian suggested some sort of greater reservation on the Board of Directors. Suppose some such provision is written into the Bill will that help? Have you come across the suggestion made by Mr. H. M. Patel regarding creation of holding company under IDBI, various financial institutions under IDBI. If you have come across such suggestion, have you examined it? What are its implications?

SHRI C. V. NAIR: The idea of separation of IDBI from Reserve Bank was a later thought. Initially when discussions were held between the Government of India in the Department of Banking, Industrial Development etc. and the Reserve Bank of India and other financial institution on the question of there various public financial institutions holding large number of shares but no concerted effort being made to take advantage of these holdings to have an effective control over or even a uniform approach for an effective say in the management of these private sector institutions, it was felt that some suitable machinery had to be thought of. LIC, UTI etc. are there and by their very nature they are different and their interest/holdings will not be remaining constant all the time. The discussion held therefore was on a proposal made and agreed to between the Government, in the Departmemnt of Banking, Industry, etc., and various financial institutions concerned to form a new company called the National Investment Management Corporation, which will be owned and operated jointly by all the financial institutions which will send representatives on behalf of various financial institutions who hold equity shares and things like that. This proposal was agreed to from all sides. For several reasons the original proposal which was a sound proposal was however lost sight of—you know, what happens when nothing goes from one side to the other and so on. I don't know how the problem which you posed could be solved, by separation of IDBI from Reserve Bank of India.

SHRI RISHI KUMAR MISHRA: Forget the new name; forget that for the present. It can be x or y or z. They can take advantage of the Government's policy decision. Do you agree that there is need for such a holding company?

SHRI C. V. NAIR: I think what I said was about the National Investment Management Corporation owned and operated jointly by all the financial institutions including the RBI and the Government. This was the original idea. In the middle of notings from one end to the other the proposal sometimes loses its original purpose, shape and direction. This is what has happened in this case.

SHRI RISHI KUMAR MISHRA: I said, holding company under IDBI. Have you come across such suggestion?

SHRI C. V. NAIR: It is NIMCO as I said not entirely under IDBI, but a joint venture of all the financial institutions IDBI, having a large share in its management.

SHRI RISHI KUMAR MISHRA: What about interchangeability of staff?

SHRI C. V. NAIR: That goes with it. It is not merely a question only of interchangeability of staff alone; we have got to view it in the context of the total credit structure. The question is how effectively it can be tackled. The Reserve Bank has certain expertise. That has to be made use of to the extent possible and could be useful. But that by itself is not a solution to all problems created by separation of IDBI from Reserve Bank. That could to some extent solve some of the problems but not all. What we need is to look at the problem of an integrated credit structure, so as to give proper direction to investments and so on which we are envisaging.

SHRI A. G. KULKARNI: You said this Bill will encourage the monopolist hold on the credit etc. Do you know the present investment by IDBI has also gone to the monopoly houses, when the IDBI was under the control of Reserve Bank? You are harping on the expertise supplied by the Reserve Bank. This expertise comes from Indians only and the same can be available or how expertise created. I think this country has got enough talent to create any amount of expertise. In relation to short-term and long-term credit, you were referring to the invincibility of IDBI providing the funds. You are an officer of Re-

serve Bank and not a professional advocate. You know at present neither the IDEI nor LIC nor IFC can really finance one project independently. At present they are linking the finance between two or three of them according to their policies and the credit required. So, the argument that IDBI has got any amount of credit facilities in isolation of other institutions is not true. Even for a paltry loan of Rs. 2 crores, the cooperatives are being asked to apply to four institutions thereby creating more hurdles and consuming more credit. The cooperators will appreciate if one agency can cater to a loan of sums like Rs. 2 crores. We are wasting about 1 year in applying to various agencies. Do you feel that the new agency will at least avoid the waste of time and waste of talent on behalf of the loanees in getting the loans sanctioned?

You said that Rs. 700 crores of agricultural credit was made available because of the laudable supervision and control of the Reserve Bank. Out of that, about 200 or 300 crores are coming from commercial banks and 400 to 500 crores are coming from the cooperative sector. The cooperatives are languishing and complaining to the Government and the Reserve Bank, "For heaven's sake, divest the agricultural portfolio from the Reserve Bank. It is affecting the credit development in the agricultural sector." That is the view of the cooperators. The Reserve Bank has got a straitjacket approach, not an development approach.

Lastly, my advice to you is, don't have a trade union approach. It should be an objective approach. If the Government is pragmatic enough, agricultural credit must be separated from the Reserve Bank. The Reserve Bank must be only controlling the monetary aspects of the Government of India's finance. Then only this country can develop in an integrated manner.

SHRI C. V. NAIR: About the question whether the IDBI, as reconstituted will reduce on the part of the prospective borrowers, their running from place to place, I do not think that this is going to solve the problem. An effort has been made to solve it by constituting inter-institutional meetings of all the term-lending institutions under the chairmanship of the Governor of Reserve Bank, who is the Chairman of IDBI. But I do not claim the arrangements made so far are perfect. There is scope for improvement. That can be done in the existing set-up itself, without creating more problems by disturbing the existing set-up. The reconstitution of IDBI as envisaged in the Bill does not solve it.

About the cooperative credit structure, when I said 600 to 700 crores, it is the extent of refinance facilities provided and not the outstandings of sanctions made by various institutions. About the complaints from the cooperative credit structure regarding the manner in which the credit control is exercised by the Reserve Bank normally any regulatory organisation comes in for a certain amount of criticism. It is the natural human tendency to be left free. Even the smugglers would like to be left free and will say, MISA should not have been applied against them.

SHRI K. R. GANESH: I do not think this is an answer to his question. He raised the basic question about agricultural credit.

SHRI C. V. NAIR: Cooperative organisations come under the State List and their management are the responsibility of the State Governments and Registrars of Cooperative Societies in the States. The Reserve Bank of India comes in as the lender of the last resort to provide refinancing facilities, where mobilization of savings by the cooperative credit structure is not adequate. But never-

theless, for the development of agriculture and for the promotion of agricultural production, more resources than what the structure can mobilise through its savings are needed. It is filling that gap that is the responsibility of the Reserve Bank. For any deficiency in the administration of the cooperatives themselves, whether they may be credit societies or marketing, societies, the blame should lie elsewhere.

SHRI A. G. KULKARNI: You are not an authority to comment on that. I referred to the inadequacy of the Reserve Bank itself in providing finances to the agricultural cooperatives.

SHRI C. V. NAIR: I know I am treading on very dangerous ground. I do not however feel that the Reserve Bank has failed in that respect *i.e.*, in regard to cooperations; on the other hand, it has done laudably well. Today, there are large number of credit cooperatives in the country—I mean the Central Cooperative Banks—which are not able to absorb for the credit limits sanctioned to them by the Reserve Bank of India.

SHRI INDRAJIT GUPTA: I have been listening very carefully to your observations, Mr. Nair. I want to ask a general question. I am sure, you are familiar with the observations made by the Dutt Committee regarding the shortcomings or the distortion of the pattern of industrial development which has taken place in this country and which is financed to a large extent by the long-term institutional credit which has resulted in an overwhelming preponderance of this credit going to the large business houses.

Secondly, although it has grown commendably in absolute physical terms, it has neglected important and priority sectors and it has tended to neglect the development of the backward areas. It has not been characterised by the use of statutory powers given to these institutions to acquire a bigger say or voice in the management of private sector institutions in which they hold equity and so on. And all this has taken place under the umbrella of Reserve Bank. In view of this, do you feel that maintaining the organisational *status quo* as it is, or changing it as proposed in this Bill—either of these—has any bearing or can have any implication—good or bad—for either strengthening or checking this trend which has been pointed out by the Dutt Committee? Do you think that it is only a question of structural changes which has nothing to do one way or the other with the actual draft policy directions and guidelines by which national credit should be channelised commensurate with the aims and objectives declared by the Parliament and the Planners?

SHRI C. V. NAIR: The Dutt Committee reported in 1969. They reported about concentration of advances to larger houses and the need to control it and to bring it down. The position is that one aspect of that question does not lie within the power of the Reserve Bank or IDBI or for that matter any lending institution to solve. It concerns the licensing policy of the Government. Once a project has been sanctioned or a licence has been given in a backward area or in the core sector, under the policy directive, the lending institution, say IDBI, has necessary to give assistance to it.

As a matter of conscious policy, the IDBI, after the report, has however attempted to reduce its lending in respect of these larger houses and the position today is that the share of larger houses in project assistance has gone down from 44.2 per cent in the period 1964—69 to 22 per cent in 1967—74. If you analyse this

figure further, it will be seen that perhaps a further reduction was not possible because the projects that have financed were in the backward areas and in the core sector. They were given priority. That has to be taken care of as you know.

SHRI INDRAJIT GUPTA: Do you think that delinking might again enable them to get a bigger share?

SHRI C. V. NAIR: It can take place.

SHRI INDRAJIT GUPTA: Are you opposed to that?

SHRI C. V. NAIR: I would not try to hazard an answer to that.

SHRI K. SURYANARAYANA: On the cooperative credit side also, financial control is there by the Reserve Bank. But it is not under the Central Government; it is not controlled by the Government of India; it is State controlled, in spite of all the things that have happened in the last forty to fifty years. You should also give satisfaction to the farmers. How far have you done this? Whatever has been done is in fact only due to the credit of the agricultural farmers because even if the Reserve Bank or the Commercial Banks give 30 or 40 per cent, the remaining 60 to 70 per cent has to come from outside. So, what is your suggestion now to streamline the cooperatives also, because they are controlled by you now. Do you suggest to the Government an amendment to the Co-operatives Act also in the States? Since you are controlling all credit now, why can't you suggest to the State Government also to amend the Cooperatives Act to suit your policy, in the interests of the small farmer. We are now going from door to door and the cost of machinery has also gond up. If we plan for four years, what was Rs. 250 lakhs four years ago now costs Rs. 3 crores.

I was told recently that the Reserve Bank also come into the picture and instruct the Cooperative Banks not to give any finance; such instructions are being received by them. I want to know what is the role of the Reserve Bank now since the giving of credit has come to you. The development of the country is in your hands. What is your suggestion to streamline the Cooperative Societies also in the interest of the small farmers and the development of the rural sector and agro industries? Unless the rural sector is developed and unless even the small farmer is given full credit, how can you develop small industries in the country and how can you satisfy the public? How can the Government's policies be implemented unless this is done? Although there are so many other Acts, we are concerned only with development and it is for that purpose that we go on amending various Acts and not for any other purpose.

SHRI C. V. NAIR: To briefly answer the question, the problems relating to cooperative credit and the development of agricultural credit constantly engage the attention of the Reserve Bank and there is a special Advisory Board for that. Firstly, the Reserve Bank is pumping in more credit in fields where the requirement is going on increasing. Secondly, so far as the small industrialists are concerned, we have included now in the Reserve Bank twenty-two groups of industries covering the entire gamut of small

industries for concessional finance—that is, refinancing facilities on concessional terms.

Now, regarding the structural defects of the cooperatives, it is the very structure which should be streamlined so that the cooperative credit structure can absorb more and more of the refinancing facilities that are offered by the Reserve Bank. Even recently, the State-wise problems have been studied by various expert Groups and discussions are at the moment going on with every State Government involved, in regard to the streamlining of the procedures.

So far as the small farmer is concerned, where there is Small Farmers' Development Agency or where such other development agencies exist and where, therefore, there is concerted effort to direct investments calculated to benefit the small farmer the Reserve Bank of India has agreed that the normal terms of lending can be considerably relaxed to conform to the needs and requirements of the small farmers in those areas where specific earmarked investments are going for the benefit of the small farmer and for the small industrialists.

SHRI K. SURYANARAYANA: I am asking about the Act. Do you agree that the Cooperative Act should also be centralised? Now every State has got its own Cooperativa Act and somewhere it is five years, somewhere it is three years and somewhere it is an indefinite period. So I wanted to know from the Reserve Bank if you could suggest to the Government that the Cooperatives Act should also be amended.

SHRI C. V. NAIR: One thing is that under the Constitution Co-operative is a State subject.

SHRI K. SURYANARAYANA: The Constitution can be amended.

SHRI C. V. NAIR: That is for the Parliament to do.

MR. CHAIRMAN: We will discuss that among ourselves.

SHRI K. SURYANARAYANA: I wanted to take the opinion of the witness whether the Cooperatives Act can also be centralised as the Banking Act was done. The Cooperatives Act is also meant for the benefit of the country; why should it not be centralised too?

SHRI C. V. NAIR: That would be a good idea.

Now, if our time is up, before we close we have one or two submissions to make.

SHRI DEORAO S. PATIL: According to the Bill, it is not going to amend the Agricultural Refinance Corporation, and I think you are of the opinion that the Agricultural Refinance Corporation should not be amended. The Agricultural Refinance Corporation was established as an associate body of the Reserve Bank or providing investment finance to agriculture from the Co-operative and Commercial Banks. Are you satisfied with the working of the Agricultural Refinance Corporation?

Secondly, taking note of the development in the field of agriculture, do you suggest any amendment or would you suggest any steps to be taken by the Central Government so that the refinance will be there?

SHRI C. V. NAIR: So far as the Agricultural Refinance Corporation is concerned, it is essentially—as you have rightly pointed out—a refinancing organisation. So far as the volume of its lendings and its operations are concerned, today the level of sanctions have gone up to Rs. 600 crores and the level of disbursements have gone up to about Rs. 400 crores —and this institution as you know was set up only about ten years ago, in 1964. Now, a refinancing organisation no doubt takes up a lot of promotional activities, but essentially, it is project-wise financing that is concerned with. Normally, the World Bank comes in where foreign exchange is involved, but in the case of the Agricultural Finance Corporations, because the appraisal methods and appraisal techniques have been found to be sound enough, the World Bank has agreed that it will not in every case further appraise each individual project. Now, whether instead of 700 crores it should be 1,000 crores etc. is a matter of detail and how best the refinancing organisations can channelise this credit is another aspect of the question.

To my mind no structural change seems necessary in order to improve its working. But there could be a lot of room for improvement in any Institution or any Organisation. Here on the Board, there are elected representatives working in the co-operative banking sector. There is representation given to them. So, they are as much involved in the policies framed by the Refinance Corporation, and in the lending operations of the Refinance Corporation, etc.

SHRI DEORAO S. PATIL: Do you think that agriculture should be treated as an industry?

SHRI C. V. NAIR: It is a primary industry.

SHRI K. R. GANESH: After listening to you, it appears to me that you have analysed the whole position from a narrow angle. Secondly, all your arguments lead to one conclusion that the R.B.I. is a better vehicle to achieve the objective of the IDBI. Now, you know that both the State Bank of India and the nationalised Banks do not have necessary expertise to run the IDBI so that the desired objectives could be achieved. Since yours is such an organisation, I would like you to keep one thing in mind that all your arguments lead to only one conclusion, that is, the RBI will be a better vehicle of achieving certain objectives of the IDBI. The other objective is the credit facility. That is the national objective. It means that the credit should go to the backward areas, the credit should go to the agricultural sector in a very large measure and

it should go to the priority sector. But the credit should be reduced as far as monopoly sector is concerned. Now, do you think that this national objective can be achieved through an approach which you are trying to adopt between the RBI and other institutions which might be set up. That may be within this framework but we may not be able to achieve the objectives. R.B.I. will be there and it will certainly be responsible to achieve its whole objective. R.B.I. may be a very expert body and this act might give them certain regularity and other functions. But discussing this problem in a narrow angle—you have said that the RBI would be a better vehicle to achieve the objectives of the IDBI—is not going to help the IDBI when it is restructured, unless we look into the problem of credits in a very broader perspective for which probably institutional arrangements will have to be made by the State, not the R.B.I.

SHRI C. V. NAIR: What we have said is that so far as credit structure is concerned, to achieve the national objective which the Government have in view, which the States have in view, I would submit, that a Central Monetary Authority would be a better vehicle. In so far as the broader aspect of credit to agriculture industry, etc., is concerned—like short-term, medium term, long-term and then credit to backward areas, and for priority sectors etc. All that I have said is that they should be brought under one umbrella. We are not saying that the R.B.I. is a sovereign body but the fact is that it is a vehicle of the Government and it is an expert body of the Government to carry out the national objectives. The policy objective is laid down by the Government; it is itself not a sovereign body. The sovereign body is the Parliament and the government (The Executive) is answerable to the Parliament but within the policy framework laid down by Governmnt/Parliament for taking an overall view of the credit—not a sectoral or narrow view of one type of credit alone or one aspect of the monetary problem only—this body the RBI is certainly a better vehicle—this is precisely our case.

Now, Sir, we have one or two submissions to make. Sir, we are not very sure whether or not some technical experts would be called upon to give their views as evidence before this Committee. We would like to make a request that those expert bodies which have had an opportunity to go into this question, in different context, may be invited to give evidence say, for instance, the Rural Credit Review Committee have made recommendations in this regard and then the Banking Commission have gone into this question. The Chairman and the Members of these two bodies are experts in this field. You may like to call at least some of these experts to give evidence before this Committee. My second submission is that this Committee might take an opportunity of visiting this Institution in Bombay and see for itself how it works.

We are grateful to you for the patient hearing you gave us. We thank you very much.

MR. CHAIRMAN: Now you can withdraw.

(The witnesses then withdrew)

II. Shri S. K. Basu, Calcutta

(The witness was called in and he took his seat).

MR. CHAIRMAN: Mr. Basu, before we proceed, I want to bring to your notice the Direction of the Speaker of the Lok Sabha regarding the evidence before this Committee. The witnesses may kindly note that the evidence they give would be treated as public and is liable to be published, unless they specifically desire that all or any part of the evidence tendered by them is to be treated as confidential. Even though they might desire their evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament. Now you can start briefly with your observations on the Bill.

SHRI S. K. BASU: I thank you for inviting me to give oral evidence before this Committee. I support the objectives for short term and long term financing. My first point is that it is necessary that this distribution should also become a part of the functions of this body. As a consequence, I have stated certain consequential amendments.

My second point is that having regard to the other apex bodies or holding companies, it is very necessary to have more than one whole-time Director.

My third point is that the Bill, as it is provided for a Board and only one executive committee. This number of members of the Board appear to me to be very large even if the day-to-day functions are entrusted to the Executive Committees. In the light of my suggestion that there should be more whole-time Directors, the number of members of the Board must be small and they must be available readily at short notice.

SHRI INDRAJIT GUPTA: Kindly see page 7 of your memorandum. In view of this, what is the use of having a Board?

SHRI S. K. BASU: What I suggested was that if there is a large Board and if there are sectional interests, then they cannot take a unanimous decision. In this way, their work could be hampered. Therefore, he should be empowered to consult the Central Government.

SHRI K. SURYANARAYANA: Then what is the necessity of having it?

SHRI INDRAJIT GUPTA: You kindly clarify it further.

SHRI S. K. BASU: There may be occasions when he is in a total minority, in that case, I would assume that Government would step in. It could also happen that he is obstructed in the Board meeting, then he should have the authority or the power to approach the Government.

DR. K. MATHEW KURIAN: Mr. Basu, why do you assume that the Chairman would always be in the majority. A Board democratically may take an appropriate view in social interest and take a decision in which the Chairman may be out

voted. What is the harm? What is the principle involved? Are you suggesting that the Chairman's wishes should under any circumstances be carried out whether he is in minority or majority? Then, the democratic processes can be completely overruled and by implication you are asking for a dictator.

SHRI S. K. BASU: I would say this that in an organisation like this, whether too much of democracy is better or not....

DR. MATHEW KURIAN: You may not like to use the word 'dictator'. But by implication, it amounts to that.

SHRI S. K. BASU: It is not that. I am only suggesting this for smooth functioning. The Chairman is appointed for a period of five years in the first instance. When he is appointed for a five year period, he should be allowed to work, to carry out the policy and not....

DR. MATHEW KURIAN: I have another question. On this, we understand him.

SHRI RISHI KUMAR MISHRA: You have made a basic point. Of course, the other things are consequential. You want the Industrial Development Bank to finance distribution also. This is the basic point you have made. Now, are you aware of any development bank in any country in the world financing distribution? Secondly, financing the distribution system is essentially a short term operation. Short term financing is being done by the nationalised banks. IDBI is going to be a holding company which will undertake long term and medium term financing Why do you want the IDBI to do this work also? I would like to know, whether it is being done anywhere. Nationalised banks are already playing that role. Why is there this suggestion?

SHRI S. K. BASU: In various countries, distribution also has come under such apex bodies.

SHRI RISHI KUMAR MISHRA: Where?

SHRI S. K. BASU: Well, this has happened under Marshal Plan. I also consider that distribution in the wides sense should always be a short term operation. For instance, storage or lifting of goods. It can very well be a medium term or long term finance requirement. You have, in the Bill, provided for carriage of goods. Is it a long term process? In other words, is buying of a few lorries a long term process. It is not. You have provided for construction of godowns. Is it a long term process? You have also provided for services in relation to that. Is it necessarily a long term process? First of all I am not suggesting that distribution as we understand normally, in the trade, is a long term arrangement. But, one cannot rule out the possibility that their main feature is a long term requirement. Secondly, the Bill nowhere suggests that the funds are intended for the private sector only. Nothing precludes IDBI from giving funds for the public sector. Government might change their policy. Government might consider that for a particular reason, they will have to stockpile. If stockpiling is necessary, may be in regard to strategic materials, may be in regard to metals, that by itself is not short term financing.

SHRI RISHI KUMAR MISHRA: That means, you are not suggesting financing of, distribution. You are suggesting financing of building up of inventories.

SHRI S. K. BASU: I have used these three terms, production, carriage and distribution, in the wider sense.

DR. MATHEW KURIAN: I have three question. One is by way of clarification because I feel that there is some self-contradiction in the position that you have taken in your memorandum. On the one hand, you are supporting this Bill which involves delinking of the financial institutions and the IDBI from the Reserve Bank which, therefore, means a dichotomy between short term and long term financing. That dichotomy is going to take place. Instead of the Reserve Bank functioning as a Central Bank in a developing country like India, which is ideally suited to coordinate these two aspects of financing, short term and long term financing, you are supporting the move now that it should be delinked from one another. At the same time you want financing of distribution which is, at least in major shares, a short term operation. Even assuming for a moment that the system of distribution finance is a medium term or long term operation, that it partakes the character of a long term operation, if it is building up of inventories over a long period, nonetheless, you will agree with me that the major share of distribution finance is a short term function. By its very nature, a large part of it is a short term operation. Thherefore, you would like some agency to handle both short term and long term financing. There comes the contradiction. You would like to have a dichotomy between short term and long term financing by supporting the Bill. But, in the new dispensation, you really want both to be taken together under this holding company in which the Chairman and the Government will be all powerful. It really means, you are taking away both the functions of long term and short term financing from the Reserve Bank of India, and handing over them to a body which will be a dictatorial body and which will be very amenable to control by industrialists, distributors and businessmen. My suspicion is supported by your statement in page 2 of your memorandum, where, you would like one nominee of ICICI to be specifically included. Out of the 5 Directors, elected commonly from all the financial institutions, you would like one nominee of ICICI to be specifically included and your argument is, it is distinct from the rest of the financial institutions. I would like to seek a clarification here. What is the distinct nature of ICICI? If my understanding is correct, ICICI is distinct from other public financial institutions in one respect. It is nearer to the large monopoly houses. It is controlled by private industry and trade in a much more intimate manner compared to other institutions. ICICI is completely a house or a Corporation of the big business. Again, on page 3 of your memorandum you have said 'it is not understood why instead of the State Government and the Development Bank, the Reserve Bank has also to be brought in specially'. You would like the Reserve Bank to be totally eliminated and ICICI to be specifically included which gives me ample conclusion that you would like this new institution to be, by and large, controlled by private industry and trade, with profit motives rather than for social good. I do not know whether I am correct in drawing this conclusion. If I am not, please correct me.

SHRI S K. BASU: You have asked several questions. I shall try to clerify my thinking. First of all, I consider that the apex body for medium and long term financing should definitely be responsible

directly to the State, because State determines the State policy.

DR. MATHEW KURIAN: Then, why have a Reserve Bank?

SHRI S. K. BASU: I will come to that. State finds out the resources and State determines the allocation of the resources. Now, the Reserve Bank of India is an intermediary. Even though it may be a part of the State, it is an intermediary. It is better for every purpose that the State directs the organisation which will have full time people to do just that. This is the first thing. Some years ago, Refinance Corporation for Industry was taken over by the IDBI. Development is a process. Things which are true today may possibly, be not true tomorrow. Therefore, on that ground, I consider very definitely that the creation of an apex body which is directly responsible to the people, is a very welcome and right step because it cuts out one intermediary. It may be Reserve Bank, it may be any other body, but it is an intermediary. This is one question. Secondly, the reason why I mentioned ICICI is this. ICICI borrows funds from abroad and it may be difficult to do so, if it is not properly represented. If my information is incorrect, then, I am subject to correction. You have raised another question, Sir....

DR. MATHEW KURIAN: You want the ICICI nominee to be specifically included in the Board, but, you want the Reserve Bank to be kept out. That means, Reserve Bank, as a Central Bank, has no function.

SHRI S. K. BASU: Again, because, it is an intermediary. If the Central Government directs a policy through this company, through this organisation, is it necessary to have consultation with a third party. This can be done by procedural regulations etc.

Is it necessary for this to be incorporated in the bill or Act itself? It is for the hon. Members to consider.

DR. MATHEW KURIAN: I was talking about this implied self-contradiction. If the Reserve Bank comes into the picture of short-term finance in any manner why do you want to stand in its way?

SHRI S. K. BASU: I certainly do agree that the major part of distribution finance, as received to-day, consists of short term finances. We are going to enact a bill obviously from the point of view of long term objectives. The long term objective is that one cannot rule out the possibility of there being a need for medium and long term finances at some future date. If there is no enabling provision, it will be difficult to have a governmental policy at short notice. It may well be that if the suggestion is accepted, IDBI might get a new organization. It might not even implement the policy just now; but it will be an enabling measure. This measure should remain.

SHRI N. S. KAMBLE: You have mentioned in your Memo. that the name of the IDBI should be changed and that some more words should be added to it. Under the present set-up, the Reserve Bank is controlling all financial institutions; and industrial development is proceeding under this arrangement. Now, this subsidiary industrial bank is being made independent and all other financial institutions are made subordinate to it. Do you like this idea or do you prefer the present set-up of the Reserve Bank?

SHRI S. K. BASU: I am not fully conversant with the total functions of the Reserve Bank; but I should imagine that apart from the normal functions which a central bank in any country performs, various other functions have been added to the Reserve Bank as a matter of expediency. If that is accepted, I would consider that the provision of long-term and medium-term loans through IDBI is also an expediency on the basis of

which it was found easier by the Government to tag it on to the Reserve Bank's role. Since we have developed a great deal since the institution of IDBI under the aegis of the Reserve Bank, it is but natural that we should think of separating that role and placing it under a proper organization, away from the Reserve Bank, primary because, as I had stated, I do not think that this could necessarily be the intention of the State bank in any country.

SHRI N. S. KAMBLE: The finances provided at present by all financial institutions for development, go towards the development of industries: but in the inflationary situation prevailing in India to-day the major feature is the shortage of essential agricultural commodities as well as items of mass cosumption. Don't you think that by this bill, the major part of finances will go towards developing big industries of the country and that the agricultural and small-scale sectors which produce items for mass consumption will be neglected?

SHRI S. K. BASU: I do not understand what connection could there be between the setting up of IDBI and agricultural production. Can you be more specific?

SHRI N. S. KAMBLE: I do not think it will be necessary for me to ask you any further question, unless and until you have before you the picture of the whole country, the function of the Reserve Bank and the provisions of this bill. All these things should be considered together, and from that point of view you should consider the advisibility of enacting this bill. I think it is a positive mischief. It will hamper the growth of agriculture and all other small industries which contribute to the production of goods of mass consumption. I therefore think that it is against the interests of the country.

MR. CHAIRMAN: Mr. Kamble, the witness does not agree with you. Anyway, we will discuss these things amongst ourselves. We now adjourn. Thank you, Mr. Basu.

SHRI BASU: Thank you, Sir.

(The meeting then adjourned)

RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973

Thursday, the 26th September, 1974 *from* 10.00 *to* 13.15 *hours*

PRESENT

Shri B. N. Kureel—*Chairman*

MEMBERS

LOK SABHA

2. Shri Dinen Bhattacharya
3. Shri Chandulal Chandrakar
4. Chaudhry Dalip Singh
5. Shri Anadi Charan Das
6. Shri Jagdish Chandra Dixit
7. Shri K. R. Ganesh
8. Shri Indrajit Gupta
9. Shri Noorul Huda
10. Shri A. K. M. Ishaque
11. Shri Ramachandran Kadannappalli
12. Shri Robin Kakoti
13. Shri N. S. Kamble
14. Shri Madhu Limaye
15. Shri Jagannath Mishra
16. Shri Shrikishan Modi
17. Shri Pratap Singh Negi
18. Shri Rajaram Dadasaheb Nimbalkar
19. Dr. Laxminarayan Pandeya
20. Shri E. V. Vikhe Patil
21. Shri M. S. Purty
22. Ch. Ram Prakash
23. Shri Ram Swarup
24. Shri M. Ram Gopal Reddy
25. Dr. Govind Das Richariya
26. Shri Somchand Solanki

27. Shri K. Suryanarayana

28. Shri Sukhdeo Prasad Verma

Rajya Sabha

29. Shri K. B. Chettri

30. Shri Bhupesh Gupta

31. Shri A. G. Kulkarni

32. Shrimati Sumitra G. Kulkarni

33. Dr. K. Mathew Kurian

34. Shri B. N. Mandal

35. Shri Rishi Kumar Mishra

36. Shri Lokanath Misra

37. Shri Deorao S. Patil

38. Shrimati Saraswati Pradhan

39. Shri S. Ranganathan

40. Shri R. Narasimha Reddy

LEGISLATIVE COUNSEL

1. Shri S. K. Maitra—*Joint Secretary and Legislative Counsel*

2. Shri N. L. Vaidyanathan—*Additional Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE

1. Shri N. C. Sen Gupta—*Secretary.*

2. Shri M. K. Venkatachalam—*Joint Secretary.*

3. Shri D. K. Sen—*Deputy Secretary.*

4. Shri V. K. Shunglu—*Deputy Secretary.*

SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

WITNESSES EXAMINED

I, Dr. H. K. Paranjape, Member. Monopolies and Restrictive Trade Practices Commission, New Delhi.

II. All India Reserve Bank Employees' Association, Calcutta.

Spokesmen:

1. Shri T. K. Ghosh—*Vice-President.*

2. Shri A. K. Sen—*General Secretary.*

3. Shri N. C. Das—*Secretary.*

4. Shri G. K. Bhardwaj—*Secretary.*

5. Shri D. T. Taide—*Secretary.*

6. Shri B. K. Sen—*Member Executive Committee.*

7. Shri H. C. Sharma—*Member Executive Committee.*

8. Shri Chander Shekar—*Member.*

I, Dr. H. K. Paranjape, Member, Monopolies and Restrictive Trade Practices Commission, New Delhi.

(The witness was called in and he took his seat)

MR. CHAIRMAN: Before we proceed, I want to bring to your notice the Directions of the Speaker, Lok Sabha regarding evidence tendered before this Committee.

The witness may please note that the evidence you give would be treated as public and is liable to be published unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you may desire your evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

Now, you may proceed. You may give a background of your memorandum to the Members. You may give your views regarding the Bill in general and particular clauses, if any.

DR. H. K. PARANJAPE: I am grateful to the committee for the opportunity given to me to put forth my views for their consideration.

As the Memorandum has already been circulated, I shall just put forth my main points briefly and explain a few aspects rather specifically.

The first point that I would like to emphasize is that the purpose of bringing about co-ordination in the working of different institutions needs to be stated explicitly in the preamble. To some extent, the Bill has been criticised in the Press as having no clear objectives. At the same time, there is no doubt that certain important purposes have to be achieved by co-ordinating the activities of these institutions. In my view, the most important purposes of co-ordination would be as follows: (1) to ensure that no worthwhile projects suffer for want of finance, (2) to ensure at the same time that financing of projects does not add to the concentration of economic power to common detriment and (3) for this purpose, to bring about the development of a joint sector in our economy.

Secondly, the future role of the IDBI should be more clearly defined. Is it to be merely an apex body of all the financial institutions carrying out the overall functions of co-ordination and supervision, or is it also to continue its present other functions like term-lending, underwriting, etc., which would be similar to those carried out by other institutions like the Industrial Finance Corporation or the ICICI? It is not quite clear why when the IDBI was set up it was also given functions which overlap with those of IFCI. Whatever the historical reasons, it is in my view necessary that the functions of these two bodies should at least be clearly defined. If their functions are going to overlap, and this may well be thought necessary in view of the actual development of these institutions as it has taken place uptill now, probably it will not be appropriate that one institution should be a subsidiary of another which, in some respect, is a similar

institution. The Central Government in that case should be the owner of the equity in all Central financial institutions. On the other hand, of course, if it is decided that the IDBI should withdraw from term-lending and other related functions and should operate merely and specifically as an apex body, then it would be only appropriate that it holds equity of institutions like IFCI, UTI, etc. Clarifying the functions of the IDBI, in my view, is specially important in view of the particular suggestion I am clarifying the functions of the IDBI is specially important in view of the suggestion that I am making regarding IDBI's role in respect of the equity holdings of public financial institutions in various business undertakings. As I have pointed out in my memorandum, to carry out this role effectively a specialised agency will be required. This can be set up as a wing of the IDBI or in the form of a subsidiary. This function being quite different from the functions of term lending, underwriting, etc., a clearly separate organisation whether in the form of a wing or a subsidiary would be certainly required.

In view of the analysis made by the Dutt Committee of the working of financial institutions, it is important to ensure that the working of public sector financial institutions does not result in permitting further accretion of economic power to Larger Houses. If this is to be ensured, the IDBI should have a Board of Directors which is sufficiently high powered and independent to be able to keep watch over the working of the other financial institutions with a view to ensuring that this objective is not lost sight of. At the same time it should be sufficiently expert to be able to make sure that the requirements of industrial growth as well as social justice are properly safeguarded. To do justice to these functions, the Board of Directors should contain a large functional element. From this point of view the proposal in the Bill to separate the Board of the IDBI from that of the Reserve Bank must be welcome. At the same time, I would like to submit that a larger functional element than what is contemplated in the Bill would be appropriate in the case of the IDBI. Representation from private industry has to be kept to the minimum in view of the key function of looking after other financial institutions as well as other undertakings which will devolve on the IDBI under the contemplated scheme.

Sometimes, coordination can mean undue centralisation. It has sometimes been suggested, for example, that technical appraisal of all projects which come up for financing from different financial institutions may be entrusted to an expert appraisal organisation to be set up under the IDBI, I am not sure that this would be a desirable approach. It is much better that each of the institutions builds up its own appraisal agency in as competent a manner as it can. There would be enough work for all the appraising teams and, what is far more important, appraisal would not then become a bottleneck in the decisions about financing. Moreover it should not happen that the fate of a project sholdr be decided by a single agency. An important merit of having a number of financial institutions with some overlapping functions is that an entrepreneur would have a certain degree of choice. If one institution does not like the project, it may well be that another institution with its own independent appraisal may take a different view. The possibility of securing a fair deal for an entrepreneur would be better under such a dispensational.

As the Dutt Committee had pointed out, coordination in the sense of a number of institutions financing the same project may not always be desirable. Financing of a project by many institutions is usually thought necessary for two reasons: (i) that it helps spread the risk and (ii) that it helps financing of a large project. It is not quite clear whether these factors are relevant in our context

where all the institutions are wholly or largely publicly owned. In the case of middle sized projects sponsored by State financial institutions there may be some justification for a part of the finance being provided by a larger central institution like the IFCI. This may also be useful as the IFCI may be in a better position to appraise certain types of projects as compared to a State financial institution. But this reason losses its validity when we think of institutions like the IDBI, IFCI and ICICI. Their resources ultimately come from the same or similar sources. It would not therefore be in appropriate to decide that not more than one of these institutions should be provided in the financing of a single project. At the very least only for very large projects, say, above Rs. five crores, should more than one of these three institutions participate in financing a project. The sources of funds provided by LIC and UTI being different, there should be no objection to their coming in together with any of these institutions.

The reason for emphasising this point is that mulptiple institutions financing a project can mean not merely sharing the risk but also distributing the responsibility. The extent to which a project is being financed by institutions may also be to some extent concealed if a number of institutions are participating in financing the project. The convertibility clause may also be operated more effectively if term lending in the case of a particular project is largely undertaken by a single term lending institution.

As I have indicated in my memorandum, the most important point that I would like to emphasise is the promotion of the Joint Sector concept through the public financial institutions. While it is not necessary to go into the details of the Joint Sector concept, a few points may be emphasised. Firstly, the approach that was taken at the time of the nationalisation of life insurance, that the shares held by the LIC in many private sector concerns will not be used for participating in the management of those concerns, must be firmly set aside. Unless there has been a change recently I think a letter that was issued by the Finance Ministry in 1958 or 1959 to this effect still stands. That instruction will have to be formally withdrawn and it should be clearly understood that the use of equity held by public financial institutions for effective participation is very much in keeping with the present approach of Government regarding industrial management and development.

It should also be accepted that the Joint Sector basically does not mean that the finance is provided by Government and its institutions, and management is left to private sector industry. It is of course true that there would be concerns, especially those of middle size where the LIC and other institutions might hold equity and still not bother to participate in management. But that is because it would be considered that, at those sizes of units and in those industries, there would be no necessity to participate. Even there the institutions will have to operate as a vigilant shareholders so that the interests of the ordinary shareholder are properly safeguarded. This is far better done through financial institutions shareholdings than through legal instruments such as the Companies' Act. Of course for more important than this would be the role the institutions will have to play regarding the very large sized concerns in key industries where equity control should be utilised for the purpose of breaking the hold over such companies of a few business families and ensuring that these concerns are managed in the public interest through professional management.

If this function is to be properly carried out, it is obvious that a specialised agency will have to be

entrusted with the task. As the apex institution in the public financing field, the IDBI would be best equipped to do this. It is necessary to insist that individual institutions such as the LIC and UTI should not be expected to carry out this function. The basic functions of these institutions are quite different and their attention should not be diverted from these basic functions. The proxies for equity held by various financial institutions should be available to the IDBI. It should also have the first preference when other institutions are thinking of disinvesting their holdings of certain equities. The IDBI should also have a fund for policy acquisition of equities so as to increase control over certain key concerns.

The main advantage of pursuing on the Joint Sector idea vigorously would be that the large industrial empires in the private sector can be broken up without destroying the resources and the potentials of the good companies in the private sector. These latter would then not only be preserved as efficient entities but would be encouraged to further grow and operate efficiently. Their technical and financial advantages would be fully exploited for national benefit. All this can be done without nationalising these companies and creating various problems that arise therefrom. The companies will also remain individual and independent entities in most cases, thus eliminating undue centralisation which is a bane from which public sector undertakings suffer.

For this purpose the IDBI will have to be properly organised. It will have to conduct continuing analysis of the working of the key concerns in the economy in which the institutions hold large equity. Cadres of Directors will have to be built up. In important companies certain functional managers and directors would already exist. Some additional directors will have to be appointed to replace family directors. A cadre of public interest directors for appointment on companies whose management remains with private interests private interests will also be necessary.

To carry out all these functions efficiently IDBI will have itself to be vigorous and independent, and not be easily influenced by extraneous considerations due to political, administrative or business pressures. It will be necessary to have a strong Chairman, who will insist on a large degree of professional autonomous functioning. The Government will of course lay down the policy framework within which the IDBI will function; but the increasing tendency for these institutions to play a subservient role to departments can only be resisted by a strong professional Board.

It is with these objectives in view that I have suggested that certain changes may be carried out in the Bill under the consideration of this Committee. The broad changes in the Bill which I have suggested are summarised at the end of my memorandum.

Thank you.

MR. CHAIRMAN: Now, the Members may ask questions by way of clarifications.

SHRI INDRAJIT GUPTA: Dr. Paranjape, the views that you have expressed in your memorandum and your supplementary remarks now are of considerable interest because they suggest some new line of thinking regarding the future set-up of the IDBI.

What I would like to get clarified from you further is this. Why do you think that the existing set-up in the IDBI as a part and parcel of the Reserve Bank has not been conducive to effective functioning as you

visualise it? How do you think that the present set-up has obstructed or hindered the working of the IDBI? Why is it necessary to de-link it as is proposed to be done in this Bill? That is my first question.

DR. H. K. PARANJAPE: It is of course true that to some extent, if the Government had taken such a decision, some of its ideas could have been furthered even in the existing set-up though the present set-up is not the best one. For carrying out this function, there is first of all a common Board of the Reserve Bank and the IDBI. The Reserve Bank's main functions are quite different. Its Board is constituted in a certain manner to suit that type of function. The functions of the IDBI are really quite different from those of the Reserve Bank. So much so, the present situation under which one Board operates for the Reserve Bank as well as for the IDBI is obviously not conducive to the working of the IDBI with the kind of leadership necessary support to carry out those functions.

From this it also follows that the Governor of the Reserve Bank is the head of the IDBI and one of the Deputy Governors is the person actually working for the IDBI. I do not know whether these persons are selected for the functions that they are expected to carry out. I presume however that they are selected this keeping in view the contributions expected of them in the efficient working of the Reserve Bank. I should, however, say that the functions of a term-lending institution such as the IDBI are quite different. Of course, the Reserve Bank will look after the functioning of the IDBI as it looks after that of all the credit agencies. It will have to look after the IDBI and other financial institutions even if the IDBI ceases to be a part of the Reserve Bank. If we accept that the functions of the IDBI are quite different, then I think it would logically follow that the IDBI should be constituted as an independent and separate organisation. May I also submit one more point though here I may perhaps be trading on delicate grounds? Those of us who have some acquaintance with the working of these institutions do have a feeling that, just as the Reserve Bank has been, to some extent, considerably influenced by some of the bureaucratic and unbusiness like working tendencies in the Government to some extent, the IDBI also suffers from similar maladies. I would like to say that to the extent I have seen it, the ICICI which was set up essentially as a business like concern has organised itself so that to some extent, it functions better than even the IDBI. The ICICI had a kind of composition of the board of director which resulted (as the Dutt Committee pointed out) in treating larger Houses' a little more favourably. But as far as the organisation and its efficient functioning are concerned, I think the ICICI is far better then the IDBI which is like an old-fashioned governmental organisation. it would be difficult for the IDBI to organise its functioning differently unless we separate it from the Reserve Bank. It has to be organised specifically to carry out its own unique functions in a more efficient manner.

SHRI INDRAJIT GUPTA: You said that one of the main purposes of this organisation should be to see that no worthwhile projects suffer. Of course what is worthwhile or what is a worthless project is not for the institution to decide because that depends on the licensing by Government and the Industrial Development Ministry or whoever gives the licence. Theoretically speaking, in the eyes of the Government, that is a worthwhile project. Otherwise, that would not be given a licence. In theory that is the position. But, in practice, we know that things are rather different. Anyhow I would like to know one thing from you. Once a project for which a licence has been issued has already been approved why there should be any apprehension at all? After all the institutions are created for the purpose of meeting the longterm credit needs.

An apprehension has been expressed that if the IDBI is de-linked from the Reserve Bank and a separate board of directors is set up, naturally, a separate organisation is created. It may in fact become easy for the large business houses—monopoly nature—to influence the IDBI to extract more favourable terms for themselves.

DR. H. K. PARANJAPE: As far as the last point of Mr. Gupta is concerned, I would say that it would depend entirely on the kind of board that you set up and the kind of leadership that heads it. After all one of the conclusions of the Dutt Committee was that the institutions did favour the larger houses in the matter of financing and assisting. This was done even when the Reserve Bank was incharge. Essentially, this was because the Government itself had a certain approach. It was not that the institutions did something which was entirely out of tune with the approach of the Government. Maybe, a particular house might have got some more favourable terms than others. That might have some thing to do with the composition of the board of directors.

SHRI INDRAJIT GUPTA: The apprehension that I referred to was probably based on the fact that under the proposed set-up, the IDBI would be directly under the control of the Ministry—Department of Banking—and therefore some people apprehend that any changeover might mean that it would be easier to bring pressure to bear upon it.

DR. H. K. PARANJAPE: As I said, it would depend very much on the board that is appointed and on the Chairman who is heading it. And finally, of course, that depends on the Government whether at all it wants to support larger houses or not. You cannot have any board which will costantly resist. The overall policy is bound to be guided by Government. If Government thinks that we should have a policy in which larger houses should play a major role, no institution will be able to resist that whether it is a part of the Reserve Bank or not. After all, it is not as if the Reserve Bank has stood very much in the way of Government's pursuing whatever policy they want to pursue. When we are thinking of instruments like this, and what kind of organization we should have, basically we have to think, how these organizations will function efficiently in the context of the Government policy. The possibility of particular groups or business firms influencing the decisions would be less if you have a larger functional element on the Board of IDBI. The possibility of conflicts of interests will be less than with the composition you have today.

DR. MATHEW KURIAN: You have pointed out that the joint sector concept should mean that not only the equity share but even the managerial functions should be taken over increasingly by the public sector in terms of social interest. In view of the actual experience during the last several years of the operation of the MRTP, is it not true that monopoly control has failed? The monopolies are created by Government licensing policy; the Commission which tries to control the monopoly is not adequate. The only way to curb them is taking over of these Houses. The main question is of policy. If we assume that the existing policies of the Government are to control the monopolies and when monopolies themselves are being protected and sustained, you will never be able to bring that type of reform that you have in mind.

Is it not a fact that the whole policy of the Government needs a change with regard to the monopoly control? What is required is curbing monopolies and taking over the monopoly Houses?

You have referred to ICICI as a model in functional management. The experience is that ICICI has been

more influenced by the large industrial houses. That is their business concern. If we have a de-linking of IDBI from RBI, we have the new situation; one is that institutions like the ICICI which have traditionally been controlled by monopolies will have a larger share in the new organisation and decision-taking process. We are handing over the overall functioning to the Department of Banking, which has certain policies and which have strengthened monopolies in the past. Compared to that, the existing situation is that the RBI, by virtue of its statutory constitution, seems to be relatively more independent. Under the existing circumstances, RBI and IDBI are influenced by the monopoly houses. We are now making the situation worse by handing over to the tiger which has been swallowing the whole prey.

DR. H. K. PARANJAPE: What I said about ICICI, I did not say on the basis of any fresh study, but I said this on the basis of what is available in the Dutt Committee Report. I do not know the circumstances from 1969 onwards. Dutt Committee did find that because the ICICI Board was composed in a certain way, it appeared that there was certain preference in the ICICI loans, which was perhaps not quite appropriate.

The second question was, whether the monopoly control of large houses can be achieved through any such instruments. I agree that ultimately it is a matter of policy. It is not a question merely of devising an instrument, because ultimately the instrument has to be used by somebody. If the person who is going to use it does not want a certain thing to be done or a particular target shot at, the target would not be shot at. What we are discussing at present is not going to bring that change. Let us assume that the Government wants to break large houses and Government wants to promote the Joint Sector. It is the Government's statement after the Dutt Committee report. What I am suggesting is that the relevant question is—if that policy is to be clearly, consistently and efficiently pursued, what kind of instrument can work better. I feel that the one reason why the Joint Sector idea has not been consistently pursued is that it has been nobody's baby. No particular instrument or department was responsible for ensuring that this concept was carried forward. So many departments were involved.

What I am suggesting is that, as a part of the financial institutions' coordination, if we decide that pursuit the Joint Sector is a major objective of this coordination, the IDBI as the coordinating institution should be specifically organised with that end in view. But to expect an institution which is set up for a different purposes to pursue it, is if not impossible, at least a little difficult. Perhaps if we want to pursue it vigorously, it would be better to have a specific institution with a specific charter.

Now about the IDBI coming under the Department of Banking. It would depend very much on the personality as well as the security felt by the Chairman of the IDBI. Even take the Governor of the Reserve Bank. You could have a Governor of the RBI, who is readily agreeable to do whatever the Government wants. On the other hand, you may appoint a capable professional person who will say that he will resign if he is forced to operate against his best professional judgment. In order to appoint the right personalities, what kind of instrument will serve the purpose we have in mind, is the point to be considered.

DR. MATHEW KURIAN: My next question relates to one of the point made at the end, just now. You referred to the Reserve Bank's functions being qualitatively different from

the functions that you envisage for the IDBI. I think there is a fundamental difference involved in regard to public finance. Most of the authorities on public finance, particularly referring to developing countries like India, have invariably accepted the basic principle that the role of the Central Bank in the development of economy should not be a traditional role of short-term credit but that the Central Bank should be in over-all charge of the entire structure of promotional long-term and medium-term credit also. Therefore, the dichotomy of short-term finance should be ended in under-developed countries; a number of authorities have been harping on this. Your point is contrary to this generally accepted notion that there should be an integration between short-term and long-term finance. In fact, when the Reserve Bank took charge of industrial finance and agricultural finance, the whole principle that was accepted by the Government is precisely this, that the Reserve Bank should have an over-seer's role regarding co-ordination between short-term and long-term lendings. Your scheme seems to run contrary to that. I would like to know on what basis you are suggesting this. You are a very experienced economist and also a person who has specialised in public administration, and therefore I would like to ask you this question. An economist's argument, as I can see it, can be of three types. One is that the new arrangement will improve the quantum or volume of credit; the second may be that it reduces the cost of credit available to the ultimate borrower; and there is, thirdly, the question of monopolistic control about which we have already discussed. With regard to the first and second, my answer would be in the negative because the new arangement, based as it is on de-linking, would not increase the volume of credit; by delinking we would be reducing the credit, in fact, because there would be new contracts and new borrowers. Secondly, all the beauro-cratic methods are going to be the liability of this institution and, therefore, the cost of credit may also be larger and not lesser. Therefore, I do not see any economic reasoning for the delinking so far as the credit structure in this country is concerned. In fact, it will mean a re-introduction of the dichotomy which was partially reduced in the past by giving the charge to the Reserve Bank. Therefore, the question arises as to what else can be the reason for the Government wanting to de-link IDBI. I have a suspicion, at least in the form of a hunch, that the Government wants to control this because it would be a better way of influencing the monopoly houses, seems to be your assumption; this assumption needs to be reconsidered. Assuming that Government wants to control the monopolists, the new arrangement would be better; but is that assumption valid? Experience in the past has shown that this assumption is wrong and unless you can show historically that there is validity in this assumption that Government wants to control credit, as a scientist and economist I am not prepared to accept your assumption as valid. In fact, the assumption has been disproved over and over again by the actual licensing policies of the Government. Why do you draw conclusions based on wrong assumptions?

DR. H. K. PARANJPE: If I may start with the last point first, one has to make certain assumptions when when is thinking of a particular measure. I am not saying, either as a student of economics or of administration, that the Government has consistently pursued an antimonopoly policy; but the point is that the Government has announced this policy; it is a Government's annnounced policy. One can give them the benefit of doubt and say, may be it is because the instruments are not right that they have not pursued it and therefore let us think of the proper instruments for enabling them to cady out the policies they have announced.

DR. MATHEW KURIAN: Sorry for interrupting you at this stage, but as an economist and scientist, would you again logically say that one should make assumptions on the basis of announcements by the Government which have been disproved for twenty-six long years? As a scientist, would you go by assumptions based on practice or would you go by assumptions based on announcements which have been disproved over and over again during the last 26 years, while the practice has been consistent throughout the 26 years?

DR. H. K. PARANJAPE: All I can say is that if one is to draw logical conclusions from what has happened in the past, I cannot suggest anything because one should then come to the Marxist conclusion that in this kind of social structure nothing will help. That is a different logic. The present Bill will become irrelevant in that context. But for the present purpose, we are trying to do some thing within the existing structure.

DR. MATHEW KURIAN: I am not suggesting that you should accept a Marxist conclusion that nothing can be done. Let us assume that something can be done within the present structure. If that assumption is granted, would you agree with me that the Reserve Bank itself created by the Parliament under the statute can be, relatively speaking, more independent compared to the Department of Banking which is certainly following a policy which is a hot-bed of political pressure? You have in fact said that the IDBI should not be subservient to the Government, but now you are suggesting that it should be totally subservient to the Government. I am talking of the advantage of handing over the IDBI to a statutorily created body which is releatively a little more independent that any other organisation.

DR. H. K. PARANJAPE: As I have said, it is not really a question where one can make a categorical statement. All I am saying is that a particular investment is more likely to succeed. After all, what is the Reserve Bank? The Reserve Bank is guided by its Board and if its composition is not such as would ensure that the IDBI will further its objectives, it can be taken care of by having a separate Board. But then, what is point in keeping it under Reserve Bank. If you say that there should be a cushion between the Government and the institution to absorb the shock, I would agree, but if the cushion is not very flexible and if the cushion is a hard one it would more easily and with greater precipitation conduct the shock. It all depends on what kind of institution the Reserve Bank is.

Therefore, my submission is that if the Government's intention is to make the institution follow a certain policy, having the R.B.I. in between is not going to stop it. On the other hand, if you think that the Government of India does want to achieve some of the objectives envisaged, then creation of an independent institution organised specifically for its own purpose with the composition as proposed, will be of much help.

Then you also mentioned about the Central Banking functions in developing countries. There is no doubt that the R.B. I has played an important role in developing other credit agencies like in agricultural financing and so on. As I said even earlier, it is necessary that R.B.I. should continue to co-ordinate the functions or all credit institutions including IDBI, both short term and long term lending institutions, agricultural financing institutions and soon. Then if you want the R.B.I. not merely to a have the power to co-ordinate but to a certain extent as a holding company for all credit agencies then we shall have, logically, to make the commercial banks also subsidiaries of the R.B.I. But we have not done so. We have decided that the banks'

ownership will be with the Government though the control over their banking functions will be exercised by the Reserve Bank of India as a Central Bank and not as the owning agency. It is alleged that the Banking Deptt. as the owning Controlling agency goes further than it should in practice; I have also heard about it. But the main point is that today the co-ordination of the commercial banking functions of the nationalised banks is not the function of the Department of Banking. Management of these banks is the function of the Central Government (the Department of Banking) as the owner of the Banks. But if you at all think of the R.B.I. as a final holding company of all kinds of credit institutions, then it is a different matter. If this is not so, then it is my suggestion that the IDBI may directly be owned by the Government. Of course, the R.B.I. will have the co-ordination function. Here I have also to suggest that if the IDBI is to continue term lending like other financial institutions, then it is not necessary that IDBI should have IFCI or UTI as its subsidiaries and shareholding in these should be by the Central Government. I would like to make a distinction here. As far as the ownership is concerned, the Central Government should be the owner of the equity in all Central financial institutions. On the other hand, if it is decided that the IDBI should withdraw from term lending and other related functions and should act purely as an apex body, then it would only be appropriate that it should hold the equity of institutions like the IFCI, UTI, etc. One question is whether this would make a difference the quantum of credit to the small scale sector and to be the backward areas. Certainly by itself it will not make any difference. Regarding total amount available for credit, it is claimed that the present arrangement will be more useful, but I do not think that it is necessarily so. Of course, there could be a certain extra expenditure by having IDBI as a separate institution.

DR. MATHEW KURIAN: But in this case economy measure will also play its part.

DR. H. K. PARANJAPE: In my view the only difference would be a new Board of Directors and perhaps a few other minor expenses will be there.

SHRI A. K. M. ISHAQUE: You have rightly emphasised that the public sector banking institutions have extended all credit facilities to the large industrial houses. I would make it clear that you have merely referred to the fact about the absence of guidelines in the matter of credit facilities to be made available to the small scale sector. Now, can you tell us what is the percentage of human element that is responsible for not giving guidelines in so far as the credit facilities to the small scale sector is concerned? If in your view the larger houses are getting a major share of the credit facilities from the public sector financial institutions, could you suggest any lever by which this practice can be prevented?

DR. H. K. PARANJAPE: As far as this position is concerned, I would say that there was no analysis available upto the time of Dutt Committee's recommendation. Even the Dutt Committee could not come to any firm conclusion about what factors were responsible for the Larger Houses getting a major share of credit facilities from the financial institutions. It is very difficult to say that any one factor was responsible for this. Firstly, you had the whole approach to the Industrial Policy. There was no objection to the larger houses growing for achieving certain quick results at that time Government's own approach was that larger houses can grow in certain areas—so that it was not so much a matter of individual partiality or favouritism. It may be that some larger houses might have obtained a little more favour, might be due to particular factors or if they were represented

more effectively on the Boards; they would have had a little more influence. Individual influence does play a role in these things. But basically I do not think that we can attribute it to this factor and therefore we have to view this in a broader perspective. Again my submission is that any instrument can function properly only to the extent it is properly managed and backed by properly oriented policy. But, of course, if it is not backed by proper personnel and proper policy, then it will not serve any purpose.

SHRI BHUPESH GUPTA: I believe that since Malaviya Committee gave its report in 1964 and we have been talking about such matters. Relevant economic policies being what they are, there is no indication of any change. Do you really think that any great purpose will actually be served when the quantitative changes take place by a measure of this type? What in your view will be the structural change as a result of this method from the point of view of curbing the economic practices with which you are familiar as a member of the Monopoly Commission? Do you really think that the instruments can bring about the changes unless policies are changed? What optimum result, do you think, can emanate from a measure of this kind even if it is implemented in the most effective and better way than other measures of this kind which have been implemented?

DR. H. K. PARANJAPE: My answer would be that the possibility of pursuing the Joint Sector concept in its original meaning as laid down by the Dutt Committee would be better if we entrust this task to an apex institution like the IDBI. Then it has the authority to take over all the equities held by various types of financial institutions in different undertakings. While I do not have upto date material on this, I can safely say, that in something like 69-70 per cent of the large companies the institutions taken together would have equities ranging between 20—40 per cent; sometimes this equity would be larger than the equity controlled by the controlling families. If an institution is given these task of using this equity to break the interlinks between these key companies and the controlling families and also to ensure that family control is replaced by professional managerial control and that the companies' potentialities are exploited for the national interest, the objective that we have in view will be fulfilled. It would not be a revolutionary change, but it will be a sufficiently large change—to put it in another way, it will not merely be a Fabian change but also a genuine change.

SHRI BHUPESH GUPTA: I realised this point that some quantitative changes would be possible perhaps if we implement it in a better way. But I am not quite sure about that also. The same thing was said when the MRTP Commission was appointed We were told that it did not mean a revolutionary change, not by you, but those who piloted a measure of that kind. But there will be important changes. According to your experience, you kindly tell us why MRTP has so miserably failed in spite of the fact that there are some good people on it?

DR. H. K. PARANJAPE: This is a little out of the way, but I shall briefly deal with it. The reason why the MRTP Act has not fulfilled the expectations aroused when it was passed is that its implications perhaps were not quite realised and therefore the instruments, including the authority given to the commission, have not been in keeping with the requirements of the tasks that have to be carried out.

It is also true that the Government is not quite clear about its policy regarding larger houses and foreign monopolies. Whether you take the MRTP Act or Commission or any other Institution, the institution at

the most can point out a few facts as well as make recommendations. More than that, no institution of this kind can do anything. As far as coordination is concerned, kindly do not leave it as proposed in the present Bill. What you think the coordination is supposed to achieve? As it is, it can be coordination of anything or nothing.

SHRI BHUPESH GUPTA: You said that the Government should be clear about the implications of the MRTP Act towards monopolies. They are very very clear. There is no dearth of clarity. Then why does this nelp the monopoly houses? This is the policy of the Government. Otherwise, we understand that all these great economists in the Government do not understand even the elementary objective laws of economy so that they could not avoid saying one thing and doing another thing. You are certainly aware of it that they are not lacking in clarity. Do you really think, after your experience of so many years, that it is not necessary to put the big business people or representatives of the big business people in whatever guise they come on the Board of Directors of such institutions? Is it possible for us to run these Boards without allowing these elements to penetrate into them and making provisions to get their opinion whenever it is necessary? Do you think it is possible and is it not a fact—from your experience—that these elements when they come in, they really distort and sabotage?

DR. H. K. PARANJAPE: Without presuming to comment on the first part of Mr. Bhupesh Gupta's observations, may I say, that I do think that on Boards such as those of the IDBI. you should not have Directors who would most certainly have conflict of interests. While certainly we need professional experience on these Boards, it is not impossible to secure the services of professionally knowledgable and competent persons on a whole-time basis so that they could give up their relations with particular industries or industrial groups and work with the institutions as whole-time directors. It is true that some of the aboslutely top people may not like to do so in the present situation. But even they would take a different line if they find that, in any case, the bulk of the bigger companies are indirectly going to be in the public sector through the Joint Sector concept being properly implemented; in which case, the best opportunities would be not only in the private sector, but even more so, in the public sector and the joint sector. In such a case, I do not think we shall not get the services of the best persons available. I would not say that the persons who are working for the private sector are not going to work honestly and usefully in these institutions. A few of them, of course, may have peculiar ideological approaches. But, by and large, they are professional people and if they find that Government is implementing certain policies, they would try to implement those policies, as long as there is no conflict of interests involved.

SHRI RISHI KUMAR MISHRA: I would like to draw your attention to Page 3 of your memorandum, wherein, you have quoted from the Dutt Committee's recommendations.

It says:

"The lack of any clear policy guidelines by the Planning Commission as well as by Government has obviously been an important reason for the policies pursued by those institutions. ...."

Then again, on page 8, you have emphasised this point. You have said that in the absence of clear guidelines, this drift will continue. Is it possible to provide in the Bill itself some of the important provisions of what you think the guidelines should be to ensure that the basic objectives are subserved by the IDBI and if so, what should be those major guidelines?

DR. H. K. PARANJAPE: I must say I am not a lawyer. How exactly this should be put in the law is not something on which I can really advise. But, you can provide it in the preamable; make clear the objectives and implement some of the suggestions I have made at the end of my memorandum. For example, if the Select Committee decidmes that the body implementing the oint Sector concept should be a wing of the IDBI, provide for that wing; if it is decided that it should be a holding company under the IDBI, provide for that holding company; provide for a larger functional element and a much smaller nominated element and also provide that common financing mcannot be done except for vry large projcts. Some of these things would help. Obviously, the whole approach of oint Sector the whole approach of Joint Sector cannot be provided for in this Bill. It will have to be accepted as part of the thinking behind whatever provisions are made.

SHRI RISHI KUMAR MISHRA: On page 9 and later on page 23, you have said that you do not want IDBI to have equity holding in IFCI. Similarly, in regard to Unit Trust. If you want to have an apex holding company of financial institutions, one would expect that the apex body should have control over the equity of other financial institutions. You have suggested exactly the reverse. Why is it so?

DR. H. K. PARANJAPE: Well, as I said, we have two alternatives. If we decide that IDBI should be an apex body and nothing else, then, of course, it may be proper that IDBI should hold the equity of all these institutions. But, as it is, IDBI is also carrying out parallel functions of term lending, underwriting, etc., etc. I wonder whether any institution which is already working for a certain period of time, can be completely changed in its character, because it has its own history and it has its own advantage. If we want to continue the IDBI, its manner of functioning, without any change, then probably, IDBI, will continue to carry out these functions in addition to whatever functions we now envisage. That is why, I have said in my memorandum that I am not clear as to what purpose is served by the IDBI having a substantial equity holding in the IFCI,. In some respects, I would submit, this is useful—equity of IFCI, etc., being held directly by the Central Government—because having only one institution, or having all institutions under its control, is not quite desirable. I think a certain degree of competition, a certain availability of alternatives is very useful. If we are to keep these various institutions with some degree of overlapping, I think, it would not be proper to make IDBI a sort of holding company for all the other institutions, with which, IDBI is competing to some extent. I think, structurally it may be useful not to have this equity holding with IDBI.

SHRI RISHI KUMAR MISHRA: You have said that there should be a holding company under the IDBI.

DR. H. K. PARANJAPE: That holding company is not for these financial institutions. I was thinking of a holding company having control over the equity in other companies held by various financial institutions for the purpose of being able to participate in and make appointments to the management of the companies in which it holds predominant equity and also to act as a vigilant shareholder to participate in general meetings and so on. This would be a very special function and this would require a very big organisation. Whether it should be a wing or whether it should be a holding company, etc., are all matters of detail which will have to be worked out in accordance with whatever general approach is adopted.

SHRI RISHI KUMAR MISHRA: Dr. Mathew Kurian has also asked this question. This is about the dichotomy

or the bifurcation between short term and medium term credit and long term credit. Will it help discipline credit planning in the whole country in an integrated manner if these two are bifurcated and they are not under the Reserve Bank of India, except in a general way? Do you think more efficient credit planning is possible if all these credit institutions, whether they are for development assistance in the field of industry or agriculture, are under the same umbrella?

DR. H. K. PARANJAPE: As I said, if we adopt as a policy that all important credit institutions should be subsidiaries of the Reserve Bank of India, that may be one story. But, I do not think that would either be worthwhile or desirable. Reserve Bank of India has its own functions. Let the ownership, appointment of directors, etc., remain directly in the hands of the Government, instead of indirectly. Credit, as a whole, will continue to be the function of the Reserve Bank of India. Reserve Bank of India does not own commercial banks. Still, it is supposed to coordinate short term credit. The role Reserve Bank of India has played in agricultural credit again is due to certain historical developments. Now, they are gradually creating specialised bodies to continue that. Nobody can say that what had happened in the past was all wrong. What we are doing now is, we are trying to rationalise the structure according to future requirements.

SHRI RISHI KUMAR MISHRA: Do you think Reserve Bank's representation on the IDBI Board will be substantial?

DR. H. K. PARANJAPE: There is bound to be one nominee of the Reserve Bank of India on the IDBI Board. It is quite proper.

SHRI NOORUL HUDA: According to the Dutt Committee, so far, the large industrial houses have taken the benefit of the assistance provided by the financial institutions. They have named these houses also, Birlas, Tatas, Mafatlals, etc. Monopolistic tendencies in the country's economy have grown. Now, the policy pronouncements of the Government are there. Government says that monopolistic interests should be curbed and there is need for providing more credit to the backward regions and economically weaker sections of the society, etc. Under these circumstances, you have advocated the concept of joint sector in your memo. Under the existing capitalist structure of our economy, will this concept of joint sector help in any way in curbing the growth of the monopoly here? You have also stated in your memo that the capitalist instrument of take-over can be used to defeat capitalists' interests. That is not clear to me. Can you give us any example taken from other capitalist countries—whose policies the Government of India are following, according to us—where the instrument of capitalism has been used in this manner to defeat capitalist empires? Lastly, the Government says that ours is a mixed economy. The bill envisages the delinking and separation of the IDBI from the Reserve Bank. Without effecting basic changes in the economic structure in our country, would this structure help in any way in increasing the social ownership of production?

DR. H. K. PARANJAPE: If one were to quote a historical parallel, there is none. In no other country has anybody even attempted to carry out the capitalist transformation of the economy and provision of social justice under a system of adult franchise. We have decided to try a special experiment in India. We must, therefore, devise suitable measures for it. But we have examples for the kind of structure we have in view. For example, we have the Italian examples of holding companies like the IRI and the ENI. These are very large public sector holding companies which hold equity in quite a large number of companies which are not all Government-owned. But they are

effectively controlled by the above organizations which are themselves public sector enterprises. To some extent, when SAIL was organized in India, the same kind of approach was thought of. This job can be done more thoroughly and systematically because, after the nationalization of life insurance, of general insurance, of banking as also control over long-term financing by public institutions, we have enough instrumentalities in our hands to ensure that in the key private concerns existing to-day as also in the future ones when they grow beyond a certain size, part of the equity may be held by public companies. Even when they control only 20 per cent, 25 per cent or 30 per cent of equity, the public institution can take over the management, without resorting to a formal Act of nationalization, since the remaining equity would normally be widely dispersed. That is how even to-day, the large houses control a large number of companies. There is no reason why the public financial institutions cannot use the same instrument which the business families are using at present. This instrument is available and can be used purposefully. The IDBI, in cooperation with the LIC, can decide that there are certain companies in which the public sector equity is not large enough; but may be, those companies are not being managed properly. They being key companies, the IDBI and the LIC may consider whether they should have control over them. The IDBI can gradually build up the equity and then change the management to the extent necessary. That is why I had said that the instrument of takeover is not necessarily one which the capitalists alone can use. A government which wants to do it, can do it with the help of nationalized financial institutions under its control.

SHRI A. G. KULKARNI: As you had said at the outset, even the present structure of the IDBI under the supervision of the Reserve Bank was not able to control the monopolies. It is also borne out from another question that even the MRTP is unable to do it, because ultimately, the creation of institutions and passing of laws giving guidelines, do not help. Ultimately, it is the positive policy of the Government that would usher in these changes. We are talking about the joint sector for the last 4 or 5 years and nothing worthwhile has happened. Government ultimately shirks the responsibility to ask any institution to have active participation. We have seen it in regard to the National Rayon Corporation. Even the Directors refuse to exercise their right to participate in the meeting. I want information from you on two points. As a member of the MRTP and as an economist who was on the Dutt Committee, what experience, do you think, these specialist bodies would have? Different industries require different types of specialization and of expertise. Even within the IDBI, you may perhaps like to have a special type of an evaluation cell. From your memo it seems to me that you are very keen on evaluating the performance of the various industries to which loans are granted for social purposes. If more profits are to be earned, the managers should be competent. I am a person concerned with agricultural finance. The approach of the Reserve Bank is also a supervisory one, which does not help the growth of that sector. The Government wants to create more positive impulses in backward areas and to create more scope for developing entrepreneurial talents there. You were saying that the time has come when even agricultural finances require the special type of approach. No loan in the agricultural sector is given for more than 15 years; there are seven year medium term loans. In western countries they give long term loans of 40 years at a pitiably low interest rates of 2 or 3 per cent. Do you feel that the Reserve Bank of India should divest itself of the agricultural sector also as is being done in the case of the industrial sector? In the industrial sector the

ICICI or the UTI purchases shares, guarantees loans or under-writes shares. In the agricultural processing sector, there is no such arrangement. The agriculturist has nothing but his land which has been mortgaged to the land mortgage banks for hundreds of years. Don't you envisage in the IDBI amendment any special provision for underwriting shares in the agricultural processing industry till the agricultural sector is separated from the RBI? You have also stated in item 3 of your memorandum that IFC's equity should be directly given to the Government, and not by the new IDBI. The point seems to be that there should be selectivity. Out of these three or four institutions who should cater for loans to co-operatives so that this sector could grow to its full potential?

DR. H. K. PARANJAPE: In all humility may I say that Mr. Kulkarni's knowledge of agricultural finance is far better than mine and it is difficult for me to make very useful suggestions. By and large I would suggest an approach where the Reserve Bank of India gradually divests itself of whatever developmental functions it had in particular areas which function was necessary in the historical context. Where there is sufficient maturity and experience, you need not continue to have these nurselings clinging to their mother.

As regards certain institutions not under-writing the issues of co-operative institutions, etc., obviously there is no reason why this should be so. I do not know whether the UTI charter provides for it.

SHRI A. G. KULKARNI: This point was raised by me with Mr. Parikh, Chairman of ICICI when he came in as a witness and he replied that those shares were not quoted in the market. He also mentioned that those shares were guaranteed by the Government.

DR. H. K. PARANJAPE: Instruments like the UTI, LIC, etc., distribute their overall portfolio into different types of instruments. What you are mentioning is that you should make them like State Government debentures. Basically we are thinking of LIC, UTI, etc., for industrial purposes and to the extent agricultural processing industries come in, those institutions should enter the field. But usually these industries are of a size where probably the State Finance Corporations would be more appropriately involved.

SHRI A. G. KULKARNI: The State Financial Corporations can grant loans up to Rs. 20 lakhs whereas these processing industries such as sugar, cotton textiles, paper, etc., range from Rs. 5 crores to even Rs. 30 crores.

DR. H. K. PARANJAPE: To the extent that they exceed those limits, the other institutions should come in.

SHRIMATI SUMITRA KULKARNI: In your paper you have mentioned about the breaking up of monopolies. I accept that monopolies are hindering the development and the benefits are not percolating to larger sections of the country. What about further economic development of the backward areas, spreading out into areas where there is no industrial development? Would you like to throw some light on this? What is the alternative? How do you fill in this vacuum? Another connected question is that the new entrepreneurs whom we envisage to come up, their requirements and needs will be different from those of the monopoly houses. So far the Government rules and other things have been made to meet the demands of the already well-settled industrial houses. But these are new entrepreneurs who have to be supported because they have no expertise or experience. How do we help them? How do we forecast their requirements and needs and decide what kind of assistance and guidelines they require?

DR. H. K. PARANJAPE: As far as the development of backward areas is concerned, already the institutions have certain policies and they make special surveys to find out which primary industry can be encouraged, how the entrepreneurs can be guided to go there and so on and so forth. Except that, a coordinated look by the IDBI will help to take an overall view of what is happening. I do not think that that broad problem will receive any special attention by the measure that is under consideration.

The other point made by Shrimati Kulkarni is who will take the place of the monopoly houses, if you break them, because they are doing some industrial development work. May I suggest this is where the approach that I am suggesting of take-over will be an approach which will not create too much of a disturbance, because what is suggested is not either the nationalisation of the Houses as such or merely the break-up of the Houses but a break-up of the empire of a large house through obtaining the key companies, because the share-holdings of these companies would be substantially in the hands of these institutions. Today we are not using this equity with the institutions. If we create a special institution, as I am suggesting, we can do it. All that we need is the will to do it. The large key enterprises in these empires will become separated from the family control and will be under the overall guidance and management of the public institutions like the IDBI. Of course, there will remain a number of small companies with the large Houses. But once you take away the control over these key companies, you need not too much worry about others.

SHRIMATI SUMITRA KULKARNI: You said that the IDBI will not take care of small-scale industries. Even now they are not being taken care of by them. So, that argument will not help. Today also we have got the incentive scheme for spreading out industries to the backward areas but nobody will go there. They will go to Gaziabad. I do not consider any place which is less than 100 miles away from Delhi as a very backward area. The industries should be encouraged to go to various parts of Madhya Pradesh and Gujarat. Unless this is properly planned, it cannot be done. Very often our experience is that in the name of such extension very few industries are established in the backward areas and most of them are established nearby cities. That frustrates the very basic objective. That is not the real solution.

Secondly, I did not ask what will be done about the vacuum created by the take-over of the monopoly houses. The monopoly has also got two aspects. One is that the monopoly houses are having an undesirable control of finances through which they accumulate dividends and other benefits. With an investment of Rs. 2 lakhs they operate Rs. 2 crores of activities. That has to be broken. So far as their expertise is concerned, that is a different thing altogether. So far as small companies are concerned, the IDBI and the other financial institutions are controlled by the Government, and so the Government should be able to control these industries also through these financial insituations. Ultimately, the family control withers away and automatically the professional managers come into the field to control industries. This is what has got to be projected more effectively rather than saying that the monopoly houses have to go. The monopoly houses will automatically go, because no monopoly house will be having that kind of capital to go logically into the development programme. For that government finances are expected, and once government finances are there then naturally the government control is also there. What is more important is that the nation develops, rather than any particular industrial house. This is what

I had in mind. I did not mean that there will be a vacuum that has got to be filled.

There are innumerable small entrepreneurs outside the monopoly houses who want to come up. They do not have anything to offer except their own ability. There is no expertise or experience. They believe they have the ability and they have the guts to come up. Are we envisaging any guidelines or set of rules whereby we can encourage and support them instead of restricting them?

DR. H. K. PARANJAPE: As far as replacement by professional management is concerned, certainly that is exactly what I have in mind. Up till now the financial institutions have not been called upon to insist on this, partly because there is no clear policy. As far as LIC is concerned, I think the letter of instructions by which it is precluded from participation in management still stands, unless it has been withdrawn in the last one or two months. But, more than that, the whole instrumentality has to be revised. When the Dutt Committee Report came, one of the criticisms by the Chairman of the LIC was that they do not have enough people to be appointed on so many boards. It is true. Unless a policy is adopted, proper panels drawn up and people trained, we will not be able to do it. So, what is necessary is that a policy should be adopted, instrumentality for it created and then carried out.

So far as backward areas are concerned, to some extent the smaller entrepreneur today is handicapped because many times in the same field he has to compete with a large house which is backing a small unit. To some extent, our failure has been that we have defined small-scale units in terms of their capital assets, not in terms of their ownership or capital control. Although you have a large number of so-called small units getting various preferences, they are really owned and controlled by, and associated with, larger houses. When they compete with genuine, small entrepreneurs, naturally the small entrepreneur is handicapped. There should be guidelines both to the department concerned and the institutions that they have to go behind the mere facade of size and see who has got the ownership and control. Otherwise, the various preferences meant for the small-scale units will really go to the larger houses. There again, the institutions which are supposed to finance small institutions, they will have to be differently oriented. But for real reorientation you will require proper instrumentality.

SHRIMATI SUMITRA KULKARNI: The Dutt Committee suggested that the industrial units should be run by professional managers. Do you really believe that we in this country are short of professional managers and technical know-how as such? Do you agree that we are not short of professional managers? Secondly, will IDBI help the State Governments in opening up backward areas with water, electricity, roads, communications, etc.? If this is done, any industrialist will go to such places at his own cost.

DR. H. K. PRANJAPE: I agree there is a wealth of technical and professional talent in the country. Actually it is the present structure which makes the professional managers play second fiddle to the members of the family. About the second question, it is a wider issue whether State Governments should be financed regarding their infrastructure development of backward areas by an institution like IDBI. I think it is better not to load one institution with too many diverse functions. There has been a proposal with the Government for a long time that even the loans given to State Governments should be institutionalised in the sense that there should be a separate bank which will handle loans given for development purposes like irrigation, power, etc. That could perhaps have

some advantages, but I am a little doubtful whether IDBI should be loaded with a very wide sphere of financing the overall infrastructure development of backward areas. There is the Industrial Reconstruction Corporation. You can think of a specialised institution of that kind.

SHRI MADHU LIMAYE: You have devoted considerable attention to the question of joint sector and large industrial undertakings and the role which the IDBI has played in exercising control What concrete provisions in the Bill would you suggest to enable IDBI to play a positive role in fostering new entreprenurial talent in general and agro-based industries in particular?

DR. H. K. PARANJAPE: I am a little uncertain whether the IDBI as an apex institution should have directly a role to play in financing agriculture-processing industries. May be I am wrong, but my understanding is, a very large number of such industries would have a size and scale of operations by which they would come much more under the purview of the State institutions and to some extent under the joint auspices of the Industrial Finannce Corporation and State institutions, because they (the State Institutions) are likely to be more in the know of the actual potentialities of such projects than an all-India institution. But if it is going to be a very large project like a paper mill, there is no reason why IDBI cannot directly come in.

About new entrepreneurs, they do not begin at a very large side. They are bound to begin at smaller or middling size. Therefore the direct financing of it is bound to be largely within the scope of the State institutions and the IFC. Certainly the supervisory function of the IDBI could be more clearly defined to include overseeing whether the concerned institutions are carrying out the function of promoting new entrepreneurs. IDBI could undertake studies of the kind of industries where new entrepreneurship could be promoted and make the results available to the State institutions and the IFCI, and oversee them. We can have a provision like that in the charter or in the powers and functions.

SHRI MADHU LIMAYE: Your major proposal is to create a pool of trained pubiic directors. But in page 21 of your memorandum you have said:

> "There are too many retired and aged persons and also a number of persons who can easily have a conflicting interest."

What concrete measures would you suggest to recruit and train public directors and give them practical experience before they are appointed?

DR. H. K. PARANJAPE: Most of the existing undertakings have a good element of professionally competent technical and managerial persons But many times they play second fiddle to the members of the family. The introduction of the Joint Sector would mean that these people who are already there will owe their allegiance to the public institutions and not to a family. Mostly, you will not have to change them. To some extent, there would be family controlled directors in charge of certain key functions like finance and marketing. Some replacement will have to be made there and people with appropriate background for finance and marketing purposes will have to be trained for this purpose. The approach in my view would not be that you take up fresh men and train them. In most of the undertakings there will be people who are potentially capable of doing this work. You have to make selections from among them and give them the necessary opportunities for talent development both on the job and through specialised courses. For this, appropriate panels from among senior personnel in the controlled undertakings will have to be built up. To

some extent this is like what is now attempted to be done by the Public Enterprises Bureau. It is attempted to have panels of persons who are available in enterprises with different degrees of competence and see how they can be developed for particular senior jobs. The IDBI will have to do something similar for the enterprises which it controls through equity, and build up some kind of personnel structure through which appropriate talent can be built for occupying senior positions,

SHRI MADHU LIMAYE: You suggest that personnel should be recruited from the existing professional managers who are employees of these undertakings. Their loyalty is to the undertakings, not to the financial institutions.

DR, H. K. PARANJAPE: Specially in my role as a Member of the M.R.T.P. Commission, I have had an opportunity to meet some professional people working in the large private undertakings. I have seen that quite a number of them would be quite happy and willing to be loyal to the institutions and to serve the public interest as a whole, shifting their interest from the family. There will be a few others specially in the finance and marketing fields—certain key positions in these enterprises are controlled by people who are near to the controlling family, But, by and large, the people in technical charge and other aspects of management are quite ready to do a professional job. Some re-orientation may be necessary. There will also be the wider question of creating a new atmosphere.

SHRI MADHU LIMAYE: On page 9 of your Memorandum, you have suggested:

> "This, however, does not mean that all the functions hitherto carried out by the Reserve Bank in this area should be transferred to the IDBI."

I am still not clear as to the demarcation of the functions. What functions would you suggest that the Reserve Bank should retain and what functions should be transferred to the IDBI?

DR. H. K. PARANJAPE: The overall coordination of credit is obviously not a function which the IDBI has to undertake. It has to be retained by the Reserve Bank. Secondly, the proposed transfer of equity or even the existing equity held by the IDBI need not be there. Till now, the Reserve Bank was the owner, To make the IDBI the owner may not be appropriate. That may be transferred to the Government itself and not to the IDBI.

SHRI A. K. M, ISHAQUE: You have spoken of one fallacy and that is, the public financial institutions are making huge investments in large houses but they are not having a control over them. You have suggested that there should be a convertibility clause and, by virtue of this clause, the investments that are made by public financial institutions be converted into equity shares. You say that, in this way, every big concern can be ultimately converted into a joint sector. Can you tell us, if these large concerns are ultimately converted into joint sectors, will they retain the efficiency which is there in the private sector? If it is not, can you suggest any measure by which the incentives that are available to private sector organisations are available to joint sectors so that the joint sectors can derive the same benefits?

DR. H. K. PARANJAPE: One of the reasons why I have been suggesting this particular approach in preference to nationalisation of individual enterprises is that, in my view, this would create the least possible disturbance in the operation and continued efficient functioning of these enterprises as compared to nationalisation, At the same time, I would suggest that as these companies should continue to be

non-Government companies and that they will not become Government companies as per the definition of the term in the Companies Act. So that troublesome aspects of Government companies may not affect them necessarily. For example, the way our C.A.G. audit is functioning today, many times it has created inadequacies in the functioning of public enterprises. To some extent, this is unavoidable because that agency was created for a different purpose not for business credit. I think, the Government or the public financial institutions can appoint Auditors who can do the job but perhaps with less inhibiting effect on the management of the companies than what happens in the public enterprises.

Secondly, there is no reason why the incentive systems which exist in the private sector enterprises should not be continued. I do suggest that if a large number of them are converted into Joint Sector Units, we could bring about an overall change in the salaries and perquisites. You may decide that somebody getting Rs. 8000 should get Rs. 4000; but you can pay him Rs, 4000 on such a basis that he can earn Rs. 4000 only by showing certain results. Incentive depends not so much on the quantum of payment as on the mode of payment. There are a number of good things in the private sector management, the flexibility the various incentives—positive and negative the readiness to hire and fire at a senior level, which are very desirable features which, I hope, because of conversion to Joint Sectors, will not be eliminated.

MR. CHAIRMAN: Thank you very much.

DR. H. K. PARANJAPE: Thank you Sir.

(The witness then withdrew)

II. **All India Reserve Bank Employees Association, Calcutta.**

Spokesmen:

1. Shri T. K. Ghosh, *Vice-President.*
2. Shri A. K. Sen, *General Secretary.*
3. Shri N. C. Das, *Secretary.*
4. Shri G. K. Bhardwaj, *Secretary.*
5. Shri D. T. Taide, *Secretary.*
6. Shri B. K. Sen, *Member, Executive Committee.*
7. Shri H. C. Sharma, *Member, Executive Committee.*
8. Shri Chander Shekher, *Member, Executive Committee.*

(The witnesses were called in and they took their Seats)

MR. CHAIRMAN: Before we proceed, I want to bring to your notice the foliowing Direction by the Speaker:—

"The evidence that you give would be treated as public and is liable to be published unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire your evidence to be treated as confidential, such evidence is likely to be made available to the Members of Parliament."

You have submitted a Memorandum and that has been circulated to Members. Now, you can give the background and make your observations regarding the Bill in general and the clauses in particular, if any.

SHRI A. K. SEN: At the outset I wish to make a submission that there is a general feeling that the trade unions are, more or less, concerned about only wages, bonus, promotions and that kind of thing. At the beginning itself I want to remove that feeling because the trade union movement is also concerned with all that is hap-

pening in the economic and social life of the country; I am not adding 'political' at the moment. That is why we are interested that on all issues which are confronting the country, on all matters which come before different authorities, as a trade union we have to contribute our thinking to it. When this Bill came up, it attracted our attention and we thought that we should make our appearance before you. When we say that we are concerned with it, we are concerned with it not only as Reserve Bank employees but more so as citizens of the country. Many of the witnesses who have come before you earlier must have spoken to you about the Reserve Bank and its functions. Mine will probably be a repetition.

The Reserve Bank of India is the authorised central bank of the country to look after the operation of currency and credit system. If we think that operation of the currency and credit system only means issuance of currency notes and distribution of coins or just working as a banker to the Government and banker to commercial banks, it will mean a very limited approach. The functions of the Reserve Bank should cover commercial, agricultural, industrial and all types of investment activities as the supreme head of all financial institutions of the country. It is true that there is a conventional idea that the central bank of the country should limit itself to certain specified items of work. Probably, those who hold this view forget that there is a material difference between a highly industrialised and economically advanced country and the countries which are developing or under-developed. Therefore, the question that comes to our mind is whether the central bank of the country should remain confined to the conventional functions or it should shoulder higher responsibility for development of economy and industrial growth. In that background we feel that the Bill that has been prepared for separating the Development Bank from the Reserve Bank is, in our view, not correct. That is why we differ with the formulation that the development activity should be kept in the hands of a separate set of people other than the central bank of the country. The first point that we want to raise is about the ownership of the institution. Of course, the Reserve Bank is also owned by the Government, but there is the autonomous and independent character of the Reserve Bank as the central bank of the ocuntry; it is kept free for making independent judgment without interference. By interference I mean interference by political exigencies, political interests, which does affect the functioning of an autonomous institution. Apart from that, as the central bank of the country, the Reserve Bank has developed a type of skill and enterprise which is necessary for the wide-ranging economic activities in our country. Please look at it, for example, from the angle of agricultural finance. That continues to be within the purview of the Reserve Bank. We may have reservations about hundred per cent success, but success has been achieved by the Reserve Bank in developing and organising, on its own initiative, separate bodies under it and as subsidiaries they have done a lot. We feel that development of industrial finance also should be left to the same institution, the Reserve Bank, after seeing the progress made by the Reserve Bank in the agricultural field, which, in fact prompted the Government and the Parliament to go in far Industrial Development Bank being set up as a direct subsidiary of the Reserve Bank. The question today is this. If the Industrial Development Bank is separated and if the huge fund that is left at its disposal for sanctioning loans to different areas, to different industries, has no bearing with the controlling authority of the currency and credt, then there will be a lopsided development in our economy. Then how much fund will be provided to the Industrial Development Bank as an independent institution? We have

heard that, if the Industrial Development Bank is made a separate body, in that event, there will be finance provided within the budgetary allocations. And we have the recent experience of budgetary control: instead of once a year, it has come twice. I do not know, it may even be thrice or four times, In that case, the Industrial Development Bank also will be tagged to that. Its financing plans and programmes will get upset according to the changes in the budgetary programme. This will have a serious set back in the total planning of the Industrial Development Bank as an independent institution separate from the Reserve Bank. Along with that comes the point that, if the central bank of the country which has to control the total economic and credit policy of the country and not only the credit and currency policy of the country, does not have control over the investment of such a huge magnitude as the IDBI's operations, then all the formulations of the central bank of the country will get upset. It will not be able to have a real impact on controlling the economy of the country. One of the material points which I request you, honourable Members of the Committee to bear in mind is this, namely, whether this would be prudent from the national interest. If IDBI is made independent body and if it is given control of all the subsidiary term lending institutions like the SFC, IFCI etc., all these things will have cumulative effect. If State level corporations and Central level corporations also start functioning independently, with broad control of the IDBI as holding company, what happens is, one might move in one way another in another way and so on. The Central Bank will move in one way and the other in another way. So, the result is this. There will be two different approaches in the same matter of growth of development, industrial growth, or industrial culture. I use the word industrial culture, because it has flown from the new concept of holding company, a culture of economic experts and administrative experts and so on. I do not want to go into that field just now. Even if the IDBI is separate today, the question is, does it mean, Reserve Bank's control over the commercial banks is being taken away by any subsequent Bill that you propose? Do you, Members of the Committee, feel it is necessary? Today, what is the position? There is change in the pattern of deposits of commercial banks as it is known to everyoody. What is the prenationalisation position which you will find if you go back, a decade back? What was the proportion of long-term deposits into the commercial banks? Fixed and long-term deposits were of small proportions compared to the total deposits of the banking industry. Now today the pattern is changed. 65 per cent of deposits are investment-oriented. Long term deposits are not meant to be used for short term credits alone. Instead of shares, I invest in long-term deposits and fixed deposits. This is the change which I am submitting which has come about. That is to say, in a banking company, my return will be large. So, from that angle, this has become investment oriented now. Now, what the commercial banks will do with the deposits? They are able to pay higher rate on those things. They must have some opportunity to earn more by way of investment of these deposits. What will be the channel for utilising these very things? That is the point. Now, they have to go in for term-lending. They have been resorting to term-lending, to medium-term lending and so on. I will not be able to give you the accurate figure where this limit of medium-term lending is crossed by the commercial banks. But it is a fact which we cannot ignore that nearly 65 per cent of the total deposits of commercial banks are investment oriented. Some channel has got to be found for them to be invested. Today commercial banks resort to term lending operations. These commercial banks will remain under the control

of Reserve Bank as the Central Bank of the country. Assuming that under the new IDBI they will be looking after term lending operations of all financial institutions in the country, even this medium term lending of commercial banks will come under the governance of the IDBI. If it is so then the Central Bank's authority on commercial banks will remain restricted on deposits to the extent of 35 per cent. See the changing pattern of interest rates today. The Central Bank will have control of commercial banks. They are investing to the extent of 35 per cent, in respect of capital of industries and business. Now, will the Central Bank be doing justice and discharging the responsibility entrusted to it? In our opinion, they will not be able to do it. This is our submission.

The other important point is this, Only 35 per cent of the deposit will be available to commerce and industry. This will be the position and I request you, Members of the Committee, to kindly apply your mind to this aspect of the matter. Please consider whether this will be good for the economic and industrial growth of the country.

In 1964, all commercial banks were in private hands. The Industrial Development Bank was set up then. When nationalisation came, 85 per cent of the banking industry came into the public sector. What was true in 1964 in the matter of setting up Industrial Development Bank under the aegies of the Reserve Bank would hold good even today. All functions of commercial banks, short-term lending, long-term lending etc. have got to be brought within the ambit of the Reserve Bank. What holds good in 1964 in this respect holds good even today. Reserve Bank will have to have control over those industrial development finance as an independent institution without outside interference, they have to give out credits to whichever sectors it may be necessary in the interest of the country as a whole and in the interest of the community as a whole.

Regarding commercial banks' credit to industries, how much is this today? 1972-73 figures show this. Credit granted by commercial banks to industries is 73 per cent of the total commitments and allocations. Now, what will happen to commercial banks investing in the industrial field? Commercial banks will resort to making their funds available for speculation and so on. I am sure the Members of the Committee would not allow this thing to be done. May be it is used for smuggling and so on. You get big flash news in newspapers saying so many people have been caught today for smuggling etc. How are we to ensure that a greater return is given to the Government for the capital invested? What now happens is some of these black money becomes white and they try to invest the unutilised funds in that manner.

They are the people to make use of it. We agree with the Government's direct role and we also agree that the development aspect of the country will have to be looked after by Government. So, Government should have a direct role there. The question today is this. How can the development of the regions take place, especially, development of economically backward regions? It is necessary for Government to look after this. If the financing of these projects and the development agencies are to be linked up with Government's finding out economically weaker or backward regions and finding out finances for that, we are afraid that the Board would be too much concentrated on interests other than the balanced regional development. To-day there are so many areas in so many districts in the States which have not got the balanced developments. That complaint is there. Would you not look into that? Why is that so? Is it because of the fact that the Industrial Development Bank is remaining with

the Reserve Bank? That is the reason why it is happening. Who decides this whether a particular area is backward or a particular area is economically weak and industrially backward? These have not been worked out. I am also not going into the reports of various Commissions and Committees. The main point is that if Government takes the role of finding out which is economically weaker regionally or industrially backward area, then there should be a Central Agency for the purpose to do that. At present there is no such agency. To find out which is the area which is considered to be economically weak—I am subject to correction—we go by the recommendations of the State Governments. Also many important personalities come into play. Otherwise how is it that certain region in a particular State which is industrially and economically better off compared to other regions is given assistance at concessional rates by the IDBI? Only certain regions get the preference or priority in the matter of getting the assistance from the IDBI. We do not know whether there are any complaints from any entrepreneur or industrialist which are being attended to properly or not by the IDBI in the matter of development of a particular industry in a particular region. At the same time I do not say that no commendable work has been done by the IDBI. IDBI has done a commendable work in general development of areas. There may be certain lacunae or deficiencies or shortfalls. The fact remains that they have their own staff and expertise of their own and are trying to draw upon their own resources. May be there may be other people also. There is a question of correction or rectification of a certain thing. What is important is whether there is any complaint in regard to the functioning of the IDBI or not. The question of separation is not at all necessary. You must have also gone through the documents published by the IDBI and also survey's conducted by the IDBI in various regions. Their reports are published. Along with this, the IDBI is also expected to build up its own expertise and managerial talent for the quick appraised of the projects. I do not know of any institution other than this which has done such a commendable work. We are associated with this institution during the last four or five years and we have seen the efficiency and the speed as also the devotion with which we have to work. The purpose for which the IDBI was set up has been served. We have worked with devotion there. Of course a new challange has been thrown. As employees of an institution, we have to work for the development of the country. We have to see that the objective for which the IDBI was set up is fulfilled. Whatever may be the weakness on our part, there is no need for separating this institution from the Central Bank of the country. This will only jeopardise the progress of our country. You have to judge this from the performance and the coordination of all the term-lending institution of Central Banks that are functioning in this country and more so with the economic set up in which we are to-day, there is a topsy-turvey development that has taken place in the country. You are just putting the clock back. The credit policy of the Government has got to be balanced.

Another point was raised about the Reserve Bank being too much overburdened with various types of work. That is bound to be so because more and more responsibilities are coming in and more and more duties are involved. The Central Bank to-da along with the other associate institutions has got to look after the deve'opment of regions in this countrv. If you move a little further, if we are to separate the industrial bank from the Central Bank of the country, I think tomorrow somebody may have the idea of saying that foreign exchange control is also very important and this job should be entrusted to the Central Bank of the country. A separate corporation has got to be set up. Let us carry this a little further. There is

a huge public debt. Every now and then it becomes so voluminous that it becomes unmanageable. The Reserve Bank is a Central Bank. Let it come under a separate Corporation. I think questions are posed in this manner. probably, we have not examined it in depth. That is why questions are put as to why the Reserve Bank is saddled with so many functions.

The hon. Members raised a point as to why the development bank's term lending should not be kept away from the Central Bank of this coun ry

MR. CHAIRMAN: Now, you must conclude since you have taken a long time. Members also want to ask very some questions.

SHRI A. K. SEN: I have got two or three points only. I wanted to restrict my submission to half an hour only. Some how I have taken a little long.

I was talking about the concept of a holding company. The experiment of Italy is there. We have got to bear in mind the industry that was set up. Obviously, in a manufacturing industry or similar types of industries, the functioning and coordination is by way of a holding company. This we can understand. To have a holding company for financial institutions, each unit functioning on its own and putting a member on the Board of the holding company is one thing and to have an integrated system is another thing. If you think of having a holding company of all financial institutions under IDBI, why not the RBI should become the holding company? That would be better for coordination. If we view it from that angle, the objective will be better fulfilled.

If it is left in the same set of people to guide the entire policy, there may be difficulty for some of them to apply their mind for industrial development, agricultural development as well as central bank functioning. You can have some other nominees on the Board in stead of keeping the entire Board of the Reserve Bank. I think, that would be an ideal set up to look after the various interests. Re-structuring the IDBI may be helpful.

About the charge of too much responsibility on the Reserve Bank, I would submit that after all the Board of Directors do not process the various questions. Where is the question of too much burden? I think, the hon. Members do not have that much lack of confidence in our work and in our functioning at our level. Only the policy-making is done at the highest level; we do the other work.

DR. K. MATHEW KURIAN: In your memorandum, you have stated on page I:

> ".....the central bank's functions cannot be kept confined only to the classical roles of monetary control, bankers' bank and banker to the Government. Its operational field has essentially to extend to promotional and developmental activities for success of an economy of growth."

I agree with that. I would, however, like to seek certain clarifications.

By implication in your memorandum, you are saying that there is a dichotomy created between short-term and long-term finances as a result of the new Bill. Even under the new arrangement proposed in the Bill, agricultural finance will continue to be with the RBI. Even according to the framers of the Bill Developmental function should continue to be with the Reserve Bank. There is a self-contradiction in the minds of the people who have framed the Bill. They are delinking only industrial finance, while agricultural finance continues to be with them. So, the argument that the central bank should not be confined to the classical role, but it should also enlarge to include developmental functions is accepted in an implied manner by the framers of the Bill, when they have not de-linked agricultural finance.

SHRI A. K. SEN: What we want is that the industrial finance should also not be reclinated from the central bank's control.

DR. MATHEW KURIAN: Now there must be some national interest if a Bill has to be brought in Parliament and a new dispensation is proposed. There could be three reasons, why delinking could be considered. One argument is that by delinking IDBI from the RBI and giving it to a new holding company will increase the volume of credit. Will the Bill increase that?

SHRI A. K SEN: No, Sir.

DR. MATHEW KURIAN: It will reduce the cost of credit, so that the borrowers can get credit at lower cost.

SHRI A. K. SEN: I am afraid, duplication of institutions and management is not going to reduce the cost.

DR. MATHEW KURIAN: The other argument is that it would possibly avoid the hold of Monopoly companies on industrial finances. May be that Government is more interested in controlling monopolies, while IDBI is the hot-bed of monopolists. The expe-rience shows that while the Government has been declaring its intention to control monopolies, in fact more and more finances have been given to them. You have mentioned that the industrial licensing policy of the Government has been the root cause for monopoly growth. If that is the case, delinking of IDBI from Reserve Bank and handing it over to the Department of Banking would worsen the situation. That is what I feel. Would you say that the new arrangement will be better as compared to the present arrangement so far as the monopoly growth is concerned?

SHRI A. K. SEN: We feel that any material change is not going to come about. It will worsen the position. I do not see that the Government has got no say about certain policy matters. That independence is there for Reserve Bank. The basic point remains in the licensing policy. Supposing in a particular region, an industry is to be established and a license is given to an industrialist of the monopoly group, IDBI or the RBI cannot stop it. Their function is restricted to finance the project. That comes after a licence has been given. Even after the separation, it will remain the same. The situation will not change. Other influences may also come in between.

DR. MATHEW KURIAN: It might not imrove but possibly worsen the situation.

That means that we can see no economic reason for the new Bill and therefore we must find some extraneous reasons as to why the Bill has been brought forward. I feel personally, that one reason why this new Bill has been brought forward is that some people in the Department of Banking can enlarge their empire.

SHRI A. K. SEN: I don't know about that; to us it seems to be for the economic development of the country. At whose hand it is done is not that material; but more material is the question as to whether it is going to be placed in the hands of expert in the economic field or in the hands of an expert in administration. We think that such a transfer is not going to bring about improvement.

DR. MATHEW KURIAN: My last question relates to the possible improvement. According to your memorandum, delinking is not desirable and the new Bill should not be passed in this form. But you have no objection to making improvements within the present arrangement. For example you have yourselves stated "By improving the structure of the IDBI's Board of Directors ... ... to professionalise and improve its functioning'.

SHRI A. K. SEN: Though I have not gone into the details as to what type of people should be brought in, some experts should be brought in there.

DR. MATHEW KURIAN: You mean to say that the purposes of the Bill can be achieved not by delinking but by other means?

SHRI A. K. SEN: That is our point.

SHRI LOKANATH MISRA: Why do you think, in the first place that it is necessary to have an IDBI? You have said that the Central Bank of the country should have the role of developing finance also; then why should not the Reserve Bank do it directly?

SHRI A. K. SEN: I think the answer is clear in the RBI Act itself. We say that it was not the suggestion of the Reserve Bank; it was the Central Government which felt that this should be done. Subject to correction, so far as our information goes, it was initiated by the Central Government that a specialised organisation should come up to look after the specialised sectors of agricultural and industrial finance etc., and that is why the Reserve Bank felt that a specialised Department should come up. Added to that, I would say that a Department of Banking Operations came after the Banking Regulation Act was brought into force in 1949. A whole Department for inspection of commercial banks was set up at the initiative of the Central Government.

SRRI LOKANATH MISRA: I am putting this question because Dr. Kurian had asked about the role of developing economy etc. Do you think that the structure of an organisation is at all relevant to the implementation of programmes? For example, do you think that whether the provisions of this Bill are implemented by the Government or by the Reserve Bank or by any other organisation would be a major consideration?

SHRI A. K. SEN: The policies of the Government and the organs of the Government through which those policies are implemented, if they are to be in the national interest, should be subject to a check by experts in the field so that the objective is correctly fulfilled.

SHRI LOKANATH MISRA: You have suggested that the Board of the IDBI can be changed. How do you react to the suggestion that the Chairman should not be the Governor of the Reserve Bank?

SHRI A. K. SEN: I think it would be desirable.

SHRI LOKANATH MISRA: Do you have any suggestions in regard to clauses 16, 50 and 51 which relate to staff matters? In this context, do you think that the interests of the employees will be protected if a scheme of perpetual interchangeability is created between the staff of the Reserve Bank and the new IDBI?

SHRI A. K. SEN: As I have said at the outset, we have come here not to represent the parochial or secondary interests of the employees. The material aspect of policy making for the country forms 99.9 per cent of the whole issue and 1 per cent relates to staff matters.

SHRI LOKANATH MISRA: Let us assume this relates to that 1 per cent. It is a healthy sign that you lay so much emphasis on major issues of economic development, but what is your view about that .1 per cent?

SHRI A. K. SEN: I do not know if interchangeability between separate institutions is practicable. But if continuity is there, this is something which we can discuss later on; but protection of the employees' interests is bound to be there. I do not know how it will work—the bringing of staff from separate Departments or Wings under the same umbrella. Some interchangeability as it stands today has got some meaning. Today we can

go to the IDBI or to the concerned Government Department and learn the working of the different Departments and we can bring back with us new resources for working more effectively and in a better manner. There can be such interchangeability of expertise between the two.

SHRI INDRAJIT GUPTA: My question has been covered by Mr. Misra. So do I take it that you have no specific suggestions or amendments to propose from the point of view of protecting the rights or the conditions of the employees in case Parliament in its wisdom decides to place this Bill on the Statute Book? You have said that we can deal with this later on, but I don't think later on you will get another opportunity. So, in the interests of the employees themselves I only wish to know whether, in the event of this Bill going through, they have any specific suggestions for being incorporated in this Bill so that any possible apprehensions they may have regarding their rights and conditions of service can be taken care of.

SHRI A. K. SEN: In our Memorandum, we have mentioned about the promotional opportunities of the entire R.B.I. staff. I will now quote the last portion of para 20 of our Memorandum.

"Thus, there is no case for dissolving the common pool nor the circumstances warrant it. Conceding exceptions as to IDBI recruitment of purely technical hands—like engineers—as are not available of from the common pool, in respect of all other staff our Association is firmly opposed to any alternation in the present practice that may affect inter-institutional mobility."

So, a common pool for R.B.I., I:D:B: I. and the U.T.I. and its associate body should continue.

SHRI INDRAJIT GUPTA: There should be some provision for option.

SHRI A. K. SEN: If the common pool continues, then the question of option does not arise.

MR. CHAIRMAN: Thank you Mr. Sen. You can withdraw now.

SHRI A. K. SEN: Sir, I have a submission to make, that is, some members of our units want to appear before this Committee for giving evidence.

MR. CHAIRMAN: That is not possible. They can submit their Memorandum if they want.

SHRI A. K. SEN: Another submission is that if the Committee visit the IDBI and other units, the members may be able to explain their view points from the regional angle and developmental angle.

DR. MATHEW KURIAN: Mr. Chairman, this point should be considered and discussed later.

MR. CHAIRMAN: All right, we will consider this point later. Thank you very much.

(*The Committee then adjourned*)

RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973.

Friday, the 27th September, 1974 *from* 10.00 *to* 12.00 *hours.*

PRESENT

Shri B. N. Kureel—*Chairman.*

MEMBERS

Lok Sabha

2. Shri K. Chikkalingiah
3. Shri Anadi Charan Das
4. Shri Jagdish Chandra Dixit
5. Shri K. R. Ganesh
6. Shri Indrajit Gupta
7. Shri Noorul Huda
8. Shri A. K. M. Ishaque
9. Shri Ramachandran Kadannappalli
10. Shri Robin Kakoti
11. Shri N. S. Kamble
12. Shri Madhu Limaye
13. Shri Jagannath Mishra
14. Shri Pratap Singh Negi
15. Shri M. S. Purty
16. Ch. Ram Prakash
17. Shri Ram Swarup
18. Shri M. Ram Gopal Reddy
19. Shri Babu Nath Singh
20. Shri Somchand Solanki
21. Shri T. V. Chandrashekharappa Veerabasappa
22. Shri Sukhdeo Prasad Verma
23. Shri K. Suryanarayana.

Rajya Sabha

24. Shri K. B. Chettri
25. Shri Bhupesh Gupta
26. Shri Yashpal Kapur
27. Shri A. G. Kulkarni
28. Shrimati Sumitra G. Kulkarni
29. Shri Rishi Kumar Mishra
30. Shri Lokanath Misra

31. Shri Deorao S. Patil
32. Shrimati Saraswati Pradhan
33. Shri R. Narasimha Reddy
34. Shri Kameshwar Singh
35. Shri Gian Chand Totu
36. Shri B. N. Mandal.

LEGISLATIVE COUNSEL

1. Shri S. K. Maitra—*Joint Secretary and Legislative Counsel.*
2. Shri N. L. Vaidyanathan—*Additional Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE

1. Shri N. C. Sen Gupta—*Secretary.*
2. Shri M. K. Venkatachalam—*Joint Secretary.*
3. Shri N. Sethuraman—*Joint Secretary.*
4. Shri D. K. Sen—*Deputy Secretary.*
5. Shri V. K. Shunglu—*Deputy Secretary.*

SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

WITNESSES EXAMINED

I. **Rajasthan Financial Corporation, Jaipur.**

Spokesmen:

1. Shri Brij Raj Bahadur—*Managing Director.*
2. Shri B. D. Naval—*Accounts Officer.*
3. Shri O. P. Bhargava—*Law Officer.*

II. **Officers of the Industrial Development Bank of India, New Delhi.**

Spokesmen:

1. Shri S. P. S. Deol
2. Shri B. K. Taparia
3. Shri P. Kumar
4. Shri B. S. Ratra

1. **Rajasthan Financial Corporation, Jaipur.**

Spokesmen:

1. Shri Brij Raj Bahadur
2. Shri B. D. Naval
3. Shri O. P. Bhargava.

[*The witnesses were called in and they took their seats*]

MR. CHAIRMAN: Before we proceed, I want to bring to your notice the Direction of the Speaker regarding evidence tendered, before this Committee which is as follows:

You may kindly note that the evidence you give would be treated as public and is liable to be published, unless you specifically desire that all or any part of the evidence tendered by you is to be treated

as confidential. Even though you might desire the evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

SHRI BRIJ RAJ BAHADUR: We had submitted some points but we have prepared another memorandum somewhat more lengthy. Unfortunately, due to a mistake we brought only 20 copies. We will send you more copies by Monday. In this memorandum, we have enlarged the points we have made.

MR. CHAIRMAN: We will circulate it later.

SHRI BAHADUR: We have tried to bring out certain general issues which, basically, would be as follows:

First of all, the SFCs should be co-ordinated with the proposed changes which are being made in the IDBI, the RBI and other Acts.

The second point is that in our view there is somewhat excessive administrative subordination of the decisions of the board of the SFC to what I would call the Secretariat of the RBI on the one side and the Government Secretariat on the other.

Then there are a few minor issues. For example, there is no clear cut policy regarding staff, the amenities that should be given to them, what should be their retirement benefits, pension etc. There is also one point which I would mention in passing that under the Act, we are supposed to open offices mainly inside the State. We feel there should be at least one office outside the State which is necessary to have co-ordination with the IDBI. Otherwise, papers would be held up and there would be excessive paper work.

SHRI DEORAO S. PATIL: Have these amendments you propose been discussed in your board meeting?

SHRI BAHADUR: We had convened a meeting on the 28th, but our evidence has come on the 27th. So we have prepared these amendments which we will present to them later.

We have made certain suggestions in the memorandum now submitted. Under sec. 7(5) of the Act, we suggest the limit of the borrowings be raised to 15 times instead of 10 times the amount of paid up share capital and the reserve funds of the financial corporation. In view of the fact that the maximum limit of lending has been increased from Rs. 20 lakhs to Rs. 30 lakhs, and the volume of lendling of the corporations has increased and there is the factor of general escalation of prices, it is felt that even in the case of medium scale industries, we will be short of funds with the ten times limit.

The second suggestion is that we should be allowed to accept deposits below 12 months so that we have at least some element of competition with banks. At present, the 12-month limit imposes a restriction.

The third thing we have suggested is that the restriction of the Chairman being separate from the Managing Director should not be there. It should be a discretionary provision in the same manner in which such a provision is proposed in the Bill for the IDBI.

Then under sec. 17(i)(b), we have suggested that the words 'by regulation' may be deleted. This is an important point for us because the board consists of very senior people. After they take a decision, we have found that papers may be held up for 8 months or even a year in the Secretariat or in the RBI making the whole exercise infructuous. Secondly, while we take decisions at the top level in the corporation, the process of examination is by the clerical staff in the Secretariat and the RBI. In other words, there is no automatic procedure whereby our proposals will

come before the Council of Ministers or the Board of Directors of the IDBI. The result is that it is almost like any other ordinary proposal or letter given to the Secretariat. We feel that the Board should be sufficiently high-powered to be able to implement its own decisions and regulations.

Then, we have submitted that for appointments of officers up to, say, the pay-scale of Rs. 2,250/- p.m. or any other similar scale that is suggested, the Board should have final powers. At the moment, I have got the approval for appointing a Technical Officer, but the proposal is sticking on for months pending clearance. My work is help up because of such delays.

The next proposal is that the rate of dividend should be the rate of interest, whatever it is, that we are paying on debentures. At the moment, according to the various clauses in the Act, our effective rate is three and a half per cent, which does not attract the serious investor or even the corporate investor like a bank to whom the debentures in the IFC are much more attractive.

Regarding refinance, we have suggested that either it should be automatic or we should have the right of representation on the Committee of the IDBI which considers the proposals from the investors. At the moment, we feel that while we are in sympathy with the IDBI, our finances tend to be treated at some discretionary level; it is treated as a dicretionary matter. We have at the moment advanced a total of over Rs. 1 crores in which refinance has been wholly or partially refused. We become the supplicant rather than a partner of the IDBI, in certain spheres. A case in point is that the IDBI was refusing refinance till sometime ago for mini steel plants. We are wanting to finance the mini steel plants which have obtained licences from the Government of India for carrying on business. The IDBI does not find it possible to help us. That is our difficulty. This should not happen.

In the same manner, we have one or two cases like flour mills which are essential to our economy. There also, refinance has been refused. We believe that the cases will be reconsidered, but our voice in the IDBI is not effective and they have an element of discretion in the matter.

MR. CHAIRMAN: What is the basis of this assumption? You have just now stated that your voice will not be properly heard in the IDBI. What is the basis for that statement?

SHRI BAHADUR: I have no forum in the IDBI. There, when my case comes, it is considered by their regional committee. They will just read my letter. There is no forum for me in the sense that I have no right of representation in the Committee.

The next point that I wish to submit is this. In the amendments to the Industries (Development and Regulation) Act, there is a provision that, "as a principal financial institution for co-ordinating the working of institutions engaged in financing, promoting or developing the industries...." etc. Our submission is that our Act should carry a corresponding provision that we are also engaged in financing, promoting and developing the industries. At the moment, the developmental and promotional aspect is somewhat neglected in the SFC Act.

Then there is a minor point about which we really encounter no danger, but the point is this. Even though there is indemnity against prosecution, we feel that the Act should be further amended to make it obligatory on the court that no prosecution shall be entertained unless the prior consent of the State Government or the Central Government as the case

may be is filed along with the prosecution. At the moment, even though indemnity is there, the man will have to appear in the court and try to get discharged rather than avoid a prosecution itself, and be saved from it.

Lastly, I wish to submit that there were certain recommendations made in the Seminar organised by the Management Development Institute between 4th and 6th September. This Seminar was attended by representaitves from all the SFCs and a number of other organisations. If the hon. Committee considers it useful, it might like to call for the recommendations of the Seminar, because, all over the country, the SFCs have certain views which would be useful.

Finally, we would like to submit one thing from our personal experience. That is, we are extremely grateful and are obliged to Mr. V. V. Chari, Deputy Governor of the Reserve Bank, for the personal and sympathetic interest he takes in these matters, and we know from personal experience that whenever there is anything which is held up in the routine fashion, it receives his personal attention and we get appropriate consideration at all levels.

MR. CHAIRMAN: Now, hon. Members might start putting questions. Shri Suryanarayana.

SHRI K. SURYANARAYANA: The representatives of the State Financial Corporation of Rajasthan have given only some amendments in relation to staff and other minor matters. They have not given any suggestions or opinions in relation to the purpose of this Bill, which is to streamline the financial assistance to the developmental activities in the industrial sector in the country. So, I want to ask them what is their feeling and what is their observation in this regard.

If they go through the Statement of Objects and Reasons of the Bill, at page 17, they will find that it is stated as follows:

> "In view of the enlarged role envisaged for the Development Bank, it is better that it should take over the capital held by the Reserve Bank in the different State Financial Corporations and in the Unit Trust of India."

In view of the developmental activities in the country, I want to know what is their experience in relation on this Bill; do they feel that that should be some centralisation of the activities? Do they agree with the objects of the Bills thoroughly? They have not given any comments on this.

SHRI BAHADUR: First of all, I would submit that the lending limit should be raised from Rs. 30 lakhs to Rs. 80 lakhs. Otherwise, what is happening is that poor States like Rajasthan are unable to set up supplementary agencies which have been set up in U.P., Maharashtra and in some other States and which are able to provide finance of Rs. 50 lakhs and above to the bigger units. We feel that out State may suffer some handicaps on account of the fact that above Rs. 30 lakhs, there is no local agency to provide larger finance.

Secondly, as I mentioned earlier from our personal experience, the Vice-Chairman has been so good that we have not been able to find any inhibiting or other factors in the present set-up or the proposed structure of the Reserve Bank and the IDBI. My experience is, of course, limited to eight months. I do not want to to comment on things about which I have no experience. But, I feel, so far as shares to non-officials are concerned, this is not serving any useful purpose. As a matter of fact, the people who have got shares and who want

to become Directors are doing it on account of certain vested interests, not on account of public interest. They are giving benefits to their own people and there is an element of patronage. This is my limited experience that I am submitting to the Committee. I do not want to make any comments on those aspects of the Bill which are not strictly related to us.

SHRI K. SURYANARAYANA: The object of this new Bill is to create one institution and to channelise all the financial assistance through that institution to various industries in the country. You have not given only opinion on that. Do you agree that this Bill will be beneficial for the development of industry?

SHRI BAHADUR: The Bill will certainly be beneficial provided the local institutions step up the limit of Rs. 30 lakhs. If you put a limit of Rs. 30 lakhs and then leave every thing to the central institution, there will be a gap. Many States have filled it up by setting up supplementary financial agencies. Our feeling is that the limit should be increased to Rs. 80 lakhs, so that another financial agency is not necessary.

Then, there is a provision of having an expert on small-scale industries. I have not come across any such expert on small scale industries. I do not understand what it means I do not think there is any such expert on small-scale industries. That provision may be re-considered.

Then, instead of one Director, you want two Directors from the IDBI. I do not understand the purpose. We have not fully understood why you want one more Director.

SHRI INDRAJIT GUPTA: You have repeatedly referred to the fact that your experience with a particular individual, that is the present Vice-Chairman of the Reserve Bank has been very good in the sence that he has taken up personal interest in your things and so on. We are not concerned here with individuals but with the structure and the principles of the proposed legislation.

Secondly, if I heard you correctly, you referred to what you call excessive subordination of the State Financial Corporations to the Reserve Bank and the Department of Banking. I would like to know, apart from your experience of a particular individual who has helped you, whether the excessive subordination is also part of your experience or it is an apprehension for the future. What safeguards can you suggest against it?

SHRI BAHADUR: I have some personal experience about it. I became the Managing Director of the Corporation on 31st January. Since that date, many references have been made to the Reserve Bank and the Government of India about regulations and they have not been replied to. This is my experience. My colleagues tell me that there are many regulations pending for the last one year. In the meantime, our development is held up. We were required to pass resolutions for making certain changes which we wished to make and, after those changes are implemented, they are converted into regulations. The regulations cannot be framed unless we get the consent of the Reserve Bank. As I said, I do not have enough experience to comment on those provisions which are relating to the internal structure of the Reserve Bank and the IDBI. I am only referring to my field of experience.

SHRI A. G. KULKARNI: I wuold like to know whether, by and large, as far as I understand, the State Financial Corporations usually give loans to small-scale and medium-scale industries upto Rs. 20 lakhs. Subsequently, it might have been raised to Rs. 30 lakhs. ...

SHRI BAHADUR: Rs. 30 lakhs limit is common for all the States. Some States have set up supplementary agencies, e.g., U.P., Maharashtra and some others, which provide larger finance on their own.

SHRI A. G. KULKARNI: These are other agencies, not financial agencies.

SHRI BAHADUR: They are financial agencies.

SHRI A. G. KULKARNI: They may be financing in equity; they may be financing in deferred payment machinery, etc. By and large, a lending institution in any State is the State Financial Corporation. Do you cater to the loans for the cooperatives?

SHRI BAHADUR: We have given some loans to cooperatives. There is no ban. We have given loans to cooperatives as one of the borrowing groups.

SHRI A. G. KULKARNI: Within a limit of Rs. 30 lakhs.

SHRI BAHADUR: Yes.

SHRI A. G. KULKARNI: What is the source of your funds? I want to know whether all your policies are guided by the industrial policy of the State Government.

SHRI BAHADUR: I can speak only of my State. We consider each proposal as it comes to us. The Industry Secretary is a member of our Board; the Financial Commissioner is a member of the Board; I am on deputation from the State and the Chairman is a nominee of the State Government. Therefore, the coordination is informally there.

SHRI A. G. KULKARNI: I am asking a very specific question, whether the lending policy of your State Financial Corporation is mostly tailor-made to the industrial policy of the State of Rajasthan or not.

SHRI BAHADUR: It is a policy to meet the industrial requirements of Rajasthan. I am unable to subscribe to the view that it is tailored to the policy of Rajasthan, Government because there is no resolution as such. Our lending is dominated more by the chance of getting refinance from IDBI.

SHRI A. G. KULKARNI: There may be guidelines isued by the Industries Department of the particular State on how loans should be granted. The control of the IDBI or whatever it is over the State Financial Corporation will be overall control on investments or directions. Take for instance a State; it may feel that it should manufacture some luxury items while the IDBI may hold the opposite view. In view of that, should the new IDBI be empowered to overrule such guidelines?

SHRI BAHADUR: We are not financing any luxury manufacture. Let us take the example of flour mills. For our local economy it is necessary to finance one or two flour mills in certain areas but we had been refused refinance on this account; possibly it is a technical error. We feel that there should be a forum for the State Government and the IDBI to discuss the issue and lay down overall policy.

SHRI A. G. KULKARNI: The SFC are allowed to float debentures at the State level. Is that the only source or some funds are reimbursed from the IDBI and the Reserve Bank?

SHRI B. D. NAVAL: We issue bonds in the public market as advised by the Reserve Bank of India. We also get refinance from the IDBI which is our main source. We always consider proposals and see whether it does not conflict with the policies of IDBI.

SHRI A. G. KULKARNI: Do you get adequate funds from the IDBI?

SHRI NAVAL: We get funds from the IDBI.

SHRI NURUL HUDA: The main object now is to delink the IDBI and enlarge its scope so that it can assume the role of a principal financial institution. Would it help in the growth of industries in an industrialy backward State like yours? According to the presenet set-up the IDBI is part and parcel of the RBI. Is it hindering in any way the growth of industries?

SHRI BAHADUR: Our State has not derived much benefit from the IDBI, not because of any default in the IDBI but because of lack of knowledge on the part of our enterpreneurs as to how to get finance. The main pressure of the enterpreneur was on the State agency; it was not on the primary lending institution.

SHRI NURUL HUDA: That means that it does not matter whether the IDBI is separated from the IDBI or not?

SHRI BAHADUR: It will not make very much of a difference from the SFC point of view

SHRI DEORAO S PATIL: You had suggested that the proviso to section 8 should be deleted. This relates to fees and allowances to members of the committee.

SHRI BAHADUR: We think there has been some mistake in the heading that section relates to deposits. It refers to the State SFC Act.

SHRI O. P. BHARGAVA: These amendments have been proposed to the State Financial Corporations Act.

SHRI DEORAO S. PATIL: But that clause relates to pay and allowances.

SHRI BAHADUR: There we are referring to the deposits of the State Finance Corporations. It will enable us to raise more resources.

DEPUTY SECRETARY (SHRI PARANJPE): The witness is suggesting the deletion of the proviso to section 8 of the State Financial Corporations Act, 1951, which reads:

"Provided that the total amount of such deposits shall not at any time exceed the paid up capital of the Corporation."

SHRI A. K. M. ISHAQUE: The witness says that the limit for borrowing should be raised to 15 times from the present 10. Who are the present beneficiaries? If the limit is raised from 10 to 15, do you think that the small-scale people, who used to derive some benefit from it, would be affected and the bigger people who have other sources of finance will be benefited at the cost of the small people?

SHRI BAHADUR: The point made by the hon. Member is of importance to us. We have a maximum portfolio of soft loans at low interest rates depending on types of borrowers, upto 2 lacs. It is a fact that if the borrowing limit is raised, a part of the benefit will go to the entrepreneur who is setting up an industry costing less than Rs. 1 crore because he will take advantage of the somewhat lower interest rate as compared to what is provided by the banks in the current crisis. But the main thrust will continue to be the kind of industry which is somewhat between small scale industry and Rs. 30 lakhs borrowers. The limit of R's. 7.5 lakhs is increasingly becoming meaningless. It is getting relegated to the cottage industries. Therefore the category of person who will be getting Rs. 15 lakhs to 20 lakhs will take advantage of this.

There is another aspect. At present there is power cut in some States which is bringing some industries to us. Their plant and machinery is lying idle in some States and they want to shift them to Rajasthan. They want enough capital for shifting the industry, say Rs. 15 lakhs to 20 lakhs

and some amount for electrical installation. We apprehend that it will be a welcome incursion into our State. We will not be able to finance it fully if our limits are not raised.

SHRI GIAN CHAND TOTU: How much of power will you be able to spare for bringing industries from other States?

SHRI BAHADUR: That question should be directed to the Chairman of the Rajasthan State Electricity Board. I can broadly mention that we have already got one atomic power station and the second is under construction. We are already in the Bhakra grid. Therefore, our power resources are somewhat more adequate than those of a few neighboring States such as UP, Haryana and Punjab. We are not wanting to take any political advantage of this. Our point is that crores of rupees worth of machinery belonging to the nation is lying idle. We are trying to help the industrialists in seeing to it that it is put to use without affecting the industrial structure of the States where they are now installed.

SHRI GIAN CHAND TOTU: The Financial Corporations are meant for national industrial development and it is the national money which is being used by the State Financial Corporations. If some State has more power to offer and it tries to attract industries from other States which are short in power, would it not be anti-national? Why do they not share their excess power with the other States?

SHRI BAHADUR: We do not want to attract any industries. We get applications. We would like to finance the applicants who come to us. We are not forcing anybody to come to us.

MR. CHAIRMAN: That is all. Thank you very much.

SHRI BAHADUR: We extend our grateful thanks to the Chairman and the hon. Members of the Committee. We would be glad to supply any information that is desired from us at any time.

The witness then withdrew.

II. Officers of the Industrial Development Bank of India, New Delhi

Spokesmen:

1. Shri P. Kumar
2. Shri S. P. S. Deol
3. Shri B. K. Taparia
4. Shri B. S. Ratra

(The witnesses were called in and they took their seats.)

MR. CHAIRMAN: Before you proceed, I want to bring to your notice the Direction of the Speaker, Lok Sabha, regarding the evidence tendered before this Committee. You may please note that the evidence you give would be treated as public and is liable to be published unless you specificially desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire your evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

Now you may give your observations on the Bill in general or on any clauses in particular. You have submitted a memorandum. This has been circulated to the members.

SHRI P. KUMAR: Mr. Chairman and hon. members of the Committee, first of all we would like to express our deepest gratitude to the hon. members of the Committee for affording us an opportunity of a personal hearing. We have listened to the direction read out by the hon. Chairman. We are confident that we will make our submissions to the best of our ability, and

we also hope that whatever submissions we make here before this hon. Committee will be treated as confidential except from Members of Parliament as you have said, so that we will not have to suffer on account of the free and frank views expressed here for enabling the members to arrive at a conclusion.

As you might have seen, our memorandum is a short one, running into four pages and confining itself to staff problems, i.e., clause 16 of the Bill. The need for submission of this separate memorandum has arisen mainly, I may be permitted to submit, because after the Bill was introduced in Parliament on December 22, 1973 and was referred to this hon. Committee on April 10, 1974, the Reserve Bank of India, in whose service we have been for the last one decade, have come out with a series of administrative circulars introducing a free mobility between the various departments of the Reserve Bank and the Industrial Development Bank of India. The net effect of it, in our opinion, is that the expertise available to the Development Bank in its personnel matters, by the time this Bill gets through, will be materially affected and it may have an adverse impact on the staffing pattern of the new institution.

We have taken into account Clause 16 and have made our points elabortely in our memorandum. I shall briefly touch on them.

All the members of staff who are in the service of the IDBI on the appointed day will be employees of the Development Bank. On this we have no comments to offer except saying that this would appear to be in the best interests of the new organisation because the experience and the expertise of the existing staff in the Development Bank will be available to the new institution.

On the point that every member of such staff other than those recruited specifically for utilisation in the Development Bank will have an option to opt for service in the Reserve Bank, we have something to say. We have pointed out that this Clause is liable to different interpretation which may ultimately not be in conformity with the objectives of the Bill and the framers of the law as, according to our interpretation, envisaged in this Bill before the hon. Committee. Historically, we constitute Group V of the Reserve Bank service. Group V was constituted some time in 1965 so as to provide staff from the Reserve Bank to the Development Bank because, section 26 of the IDBI Act, 1964, provided that the IDBI might have its independent staff or it would be lawful for the Development Bank to take staff from the Reserve Bank and it would be lawful for the Reserve Bank to make available services of their staff to the IDBI without payment of deputation allowance.

We form part of Group V Service of the Reserve Bank. In that process all of us have come to IDBI from the Reserve Bank after applying for transfer to this Bank with certain minimum prescribed qualifications in industrial finance, in development banking or having passed some particular papers of the Institute of Bankers examination. Some of us have been recruited from outside for utilisation of our services in the Development Bank. Some technical people have also been appointed. Whenever the need has arisen for recruitment of staff in the Development Bank, applications have been invited from eligible persons in Reserve Bank. We have come to the IDBI even in the existing capacity, in the same grade, after undergoing a process of selection; though the Reserve Bank Officers' Association had been protesting that this should not be there, the Development Bank had insisted that they required a particular type of discipline and only people experienced in a particular line would be of use to the organisation. That way, every one of us can be interpreted to have been specifically recruited for utilisation in the IDBI. Our apprehension is that, although this provision is

there, we being in the Development Bank can opt for service in the Reserve Bank, almost all of us can be denied the opportunity of option to go to the Reserve Bank. What is provided in the Bill, We feel, may be a necessary legal formality because it involves a change of employer. We were employed by the Reserve Bank. Even those who were specifically recruited for the IDBI were also appointed by the Reserve Bank and placed on duty with the Industrial Development Bank of India. In no manner were they less qualified than the staff recruited for the Reserve Bank, rather some superior qualifications were prescribed for them. Therefore, this option should be available to all the employees in the Development Bank. This Clause is liable to different interpretations and it may ultimately mean denial of the option envisaged in the Bill. To all of us, this should be made available. We do not want that this new institution, when it comes up, should be confronted with people who wish to opt for Reserve Bank and are retained in the Development Bank by the interpretation of the provision of this Bill. Unwilling workers should not be retained in the new institution.

The Bill envisages transfer some functions to the Development Bank which have not been specified in the Bill, but dealing with industrial finance. The Bill provides that, if these functions are transferred to the Development Bank, the staff handling these functions on the appointed day will be transferred to the IDBI and given a corresponding option. The Bill was introduced on 22nd December, 1973, and it may be few more months by the time it is enatced. In the mean time, the Reserve Bank has come out with a series of administrative instructions which seek to change the entire staffing pattern in these organisations. The idea is that the services of those people who have acquired a degree of expertise and specialisation may be made available to the Development Bank. The very object of the Bill may be defeated if this is allowed to go as it is. Within the transitional period of 18 months there is to free transfer of staff between the IDBI, UTI and RBI. We were told by the authorities that the RBI employees Association has asked for free transfer of staff members in groups and departments. But what we feel is that the purpose envisaged should not be defeated in any way. This is our stand. We welcome the provision of the Bill for larger role for IDBI and we certainly welcome this step. There should be no mass migration of staff from there.

MR. CHAIRMAN: What is Group V?

SHRI KUMAR: Industrial Development Bank of India staff.

SHRI INDRAJIT GUPTA: With regard to the apprehensions expressed by the witness about this clause 16(3), I wish to ask one question. There are certain functions which are discharged by the Reserve Bank of India staff. The work is transferred and the staff discharging those functions are also transferred. You have stated in your memorandum that this is not in conformity with the practice followed regarding selection of personnel from the IDBI and so on, and some suitability test should be applied even now. The staff is already there. That function is transferred to IDBI, What is the difficulty or harm if that is also transferred? They did the work already there. That is the practice followed hitherto. You refer to some sort of selection and suitability test and so on. Why not select these people who have done the work and what is the specific nature of the suitability test which you mention? Under what basis did they select people? Do you want this to continue or not with reference to the proposed functions under Clause 16(3)? I would be glad if you could explain this a little more clearly.

SHRI KUMAR: We have no objection. There are certain people who are already performing those functions and what is the harm in their

coming to the New Development Bank as envisaged. We have no objection. If work comes, people have come to manage work. We have come by a test or selections. Certain people failed to make the grade. They could not get selected. Now, by virtue of this provision they will come, Those earlier found unsuitable will find their way, This is our respectful submission. Secondly, the migratory circular is there and persons may be transferred in particular departments. There is the appointed day, 1st August or 1st December. He may be there for just a single day on that day, but, by virtue of this provision he becomes liable to be transferred. This is just because he is there on the appointed day. My point is, real people with expertise may not come as envisaged and this should be guarded against.

MR. CHAIRMAN: Those who are there should not be disturbed.

SHRI KUMAR: Naturally. There is a process of selection. Group V selection is there. That is even for clerical posts, Minimum qualification is graduates—with economics, commerce and those who have industrial finance diploma and so on. Applications were invited and they went before selection board. One senior officer of the IDBI and another senior officer from RBI were there who selected these people in that interview.

SHRI INDRAJIT GUPTA: As officers here you have got considerable experience. Have you anything to say about the basic purpose of the Bill?

SHRI KUMAR: We welcome the larger role envisaged in the Bill for the Development Bank. The IDBI is to play an effective role in regard to State Financial Corporations and Unit Trust, ICICI, IFCI. This larger role proposed in the Bill will be in the larger interest of the country.

SHRI INDRAJIT GUPTA: Are you aware that some of your colleagues who are officers of the Reserve Bank hold the view that the present structure in which the IDBI is part and parcel of the RBI has not proved to be in any way working against the efficient functioning of the IDBI and therefore there is no necessity to change it?

SHRI KUMAR: I may kindly be permitted to state that so far as the stand taken by the officers Association is concerned, we are not opposed to it, being members of the Association. Even if the role of the IDBI is enlarged in the existing set-up, it does not conflict with our stand. We are only saying that the role of the IDBI should be enlarged, whether it is done under the existing set-up or whether it is decided that structuring is necessary to do so. We are in agreement with them that a change in ownership is not necessary for enlarging the functions of the IDBI.

SHRI K. SURYANARAYANA: May we ask your organisation to give us in writing some of your views regarding the transfer of all these things to the IDBI? The Reserve Bank people have submitted their difficulties and also their suggestions for development and so on. So, can you also give us your suggestions for the benefit of the Members of this Committee before we finalise our Report for Parliament. We would like to know your opinion as to how many amendments to the Bill would be beneficial for the country because, after all, it is not only your service conditions but the development of the country that has to be considered. So we would request you to let us know in which way it would be beneficial for the developmental activities of the country. Kindly send us your memorandum or note for our consideration.

SHRI KUMAR: We were given to understand that whatever we represent here will form part of the record for Parliament.

SHRI K. SURYANARAYANA: We want the benefit of your evidence for the development of the industries

also, because we have got time. Before the end of this month or by October 15th please send us your note to the Committee. We are all interested in the development of the country. Even your services are for the benefit of the country otherwise what is the meaning of your services? We want to safeguard the industrialists as well as your services. So, just as the Reserve Bank people have given us their suggestions for their services as well as for the industrial development, we would like you to give us your suggestions for protection of your services as well as for the development of industry in the country.

SHRI KUMAR: So far as this memorandum submitted by the RBI Officers Association is concerned, all the four of us and officers on whose behalf we are appearing here subscribe to the views of the RBI Officers Association contained in the memorandum. There are no two opinions about the same.

SHRI GIAN CHAND TOTU: In view of the option given to the officers working in the IDBI to revert back to the Reserve Bank of India, what would be the percentage of such officers? Of course this is rather a hypothetical question, but I would like to know whether a large number of officers would revert back to the Reserve Bank because of the option given or they would prefer to stay on in the IDBI.

SHRI KUMAR: It would be difficult for us to hazard a guess on this question, but as we have put it in our memorandum there is more than a theoretical possibility. We have reduced it in writing that we think that in view of the enlarged role envisaged for the IDBI whether it is under the Government set up or the RBI set up, the number will be negligible. It is difficult, however, to say precisely; it will depend on the circumstances prevailing and in what shape the transfer of management takes place.

MR. CHAIRMAN: Thank you very much. You may now retire.

[The Committee then adjourned]

RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973

Monday, the 21st October, 1974 from 15.00 to 17.25 hrs.

PRESENT

Shri K. Suryanarayana—*in the Chair.*

MEMBERS

Lok Sabha

2. Shri Dinen Bhattacharya
3. Shri Chandulal Chandrakar
4. Chaudhry Dalip Singh
5. Shri Anadi Charan Das
6. Shri Indrajit Gupta
7. Shri Ramachandran Kadannappalli
8. Shri N. S. Kamble
9. Shri Madhu Limaye
10. Shri Jagannath Misra
11. Shri Piloo Mody
12. Shri Surendra Mohanty
13. Shri Pratap Singh Negi
14. Shri Rajaram Dadasaheb Nimbalkar
15. Dr. Laxminarayan Pandeya
16. Shri E. V. Vikhe Patil
17. Shri M. S. Purty
18. Shri Ram Swarup
19. Shri Som Chand Solanki
20. Shri T. V. Chandrashekharappa Veerabasappa
21. Shri N. R. Vekaria
22. Shri Sukhdeo Prasad Verma

Rajya Sabha

23. Shri Bhupesh Gupta
24. Shri Yashpal Kapur
25. Shri M. S. Abdul Khader
26. Shri B. V. Abdulla Koya
27. Shri A. G. Kulkarni
28. Shrimati Sumitra G. Kulkarni
29. Shri B. N. Mandal
30. Shri Rishi Kumar Misra

31. Shri Lokanath Misra
32. Shri Deorao S. Patil
33. Shrimati Saraswati Pradhan
34. Shrimati Maimoona Sultan
35. Shri Subramanian Swamy
36. Shri Gian Chand Totu.

LEGISLATIVE COUNSEL

Shri N. L. Vaidyanathan—*Additional Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF BANKING)

1. Shri N. C. Sen Gupta—*Secretary.*
2. Shri M. K. Venkatathalam—*Joint Secretary.*
3. Shri N. Sethuraman—*Joint Secretary.*
4. Shri A. K. Dut—*Joint Secretary.*
5. Shri M. Dandapani—*Director.*
6. Shri D. K. Sen—*Deputy Secretary.*
7. Shri V. K. Shunglu—*Deputy Secretary.*

SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

WITNESSES EXAMINED

Industrial Development Bank of India Calcutta.

Spokesmen:

1. Shri S. Jagannathan—*Chairman.*
2. Shri V. V. Chari—*Vice-Chairman.*
3. Shri C. S. Venkat Rao—*General Manager.*
4. Shri S. A. Dave—*Economic Adviser.*
5. Shri C. D. Datey—*Executive Director, R.B.I.*
6. Shri H. R Kamath—*Deputy Manager.*

(The witnesses were called in and they took their seats)

MR. CHAIRMAN: You may kindly note that the evidence you give would be treated as public and is liable to be published, unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire the evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament. Do you want to make any opening statement?

SHRI S. JAGANNATHAN: We have not submitted any memorandum and we have no particular opening statement to make. We have come to answer any questions you may put.

SHRI RISHI KUMAR MISRA: Before we ask questions we would

like the Chairman of the IDBI to give his opinion on the general principles of the Bill and his views on the new holding company.

SHRI S. JAGANNATHAN: It is a very comprehensive question. The scope of the Bill, as I understand it, is to delink the IDBI from the Reserve Bank and give the IDBI a close link with the various financial institutions. I would say that delinking is really an important part of the Bill, as I see it, because in my opinion, there is no new linkage which is very elaborate or significant. Definitely, I would say there is less of linkage than in the present. Because, at present the Reserve Bank is linked with the IDBI and the Reserve Bank and the IDBI are linked with various financial institutions. Under the new arrangement the IDBI will take over many of the functions of the Reserve Bank. Of course, it cannot take all the functions of the Reserve Bank, for instance, in relation to the cooperative societies or the commercial banking system. That will still be the concern of the Reserve Bank alone. Today the Reserve Bank has a special kind of linkage with the IDBI with a common Board of Directors, Chief Executive and common Chairman.

SHRI MADHU LIMAYE: Is it a fact that you were opposed to the idea of IDBI being separate from the Reserve Bank, what you just now called delinking? Have you communicated your views to the Government in writing and, if so, what were the grounds for your opinion?

SHRI S. JAGANNATHAN: I had an opportunity to express my views and I had communicated them to the Government. I would say that we have autonomy within the Governmental system and in consultation we express our views. Government has taken into account those views and has come forward with these things. I would rather not say what I particularly wrote at one particular date. I would be very happy to answer any questions.

SHRI MADHU LIMAYE: This Committee would like to know the grounds on which you based your opposition, because the Committee is considering this Bill in all its aspects. So, if we know your grounds we shall be able to arrive at a correct judgment.

SHRI S. JAGANNATHAN: I do not know whether the Government is represented in this Committee and whether it would like itself to make available the views I gave. I was wondering, I just wanted a clarification, consultation before answering the question. I do not know whether the representatives of the Government themselves would like to make available my views set out in my part of the correspondence.

SHRI MADHU LIMAYE: We are aware of the views of the Government on the subject. We want your views.

SHRI S. JAGANNATHAN: You were talking of the past, the views I have communicated to the Government in certain letter.

MR. CHAIRMAN: You can give your personal opinion.

SHRI BHUPESH GUPTA: Mr. Chairman, you should kindly tell the witness that he is completely free to give whatever opinion or view he likes and that he is not expected, or called upon to get the permission of the Government for that. He is the representative of that Bank and he has come here to help a Parliamentary Committee. It is not proper for him to say that he should ask the opinion of the Government before giving his views. It is perfectly justifiable on his part to exercise his own discretion

and right in this matter. I think it would be setting a very bad precedent in the course of giving evidence to ask the Government as to whether he should express his opinion or not. That is not right. In all fairness you should make the procedure clear to him.

MR. CHAIRMAN: This is a Committee elected by both Houses of Parliament and we want to hear the evidence of various officers, quite apart from the views of the Government which we have alrady obtained.

SHRI SUBRAMANIAN SWAMY: I think it is highly objectionable on the part of the Governor of the Reserve Bank to come here and say to a Parliamentary Commitee that he wants to consult the Government before deciding what he should say and what he should not say. I think it is extremely objectionable. Does he consider himself under the Government?

SHRI S. JAGANNATHAN: There is no basis for saying that I wanted to consult the Government before I give my views. That is not what I said. I asked whether the Government would like itself to communicate to the Committee the views that I had conveyed to them, because there were two questions mixed up. One question was: what were the views that you communicated and what was your objection. The second question, which was mixed up, was: what are your views? The hon. Member on my right said that I was asking for the permission of the Government. That is a misunderstanding. I was not asking for the permission of the Government.

MR. CHAIRMAN: We have understood you to say that you have to consult the Government first before you give your evidence.

SHRI MADHU LIMAYE: If the witness is afraid of communicating his views, I have got here a copy of his confidential letter to the Government. I want it to be circulated among members. Is this the way to treat a Committee of Parliament? He is committing contempt of Parliament. In view of this, I do not want to ask any questions. I do not want to participate in this debate.

(Shri Madhu Limaye then left the Committee.)

SHRI SUBRAMANIAN SWAMY: Now that the witness has said or clarified that he is not seeking the permission of the Government, let him state his views on the subject.

MR. CHAIRMAN: If it is confidential which cannot be circulated in the public interest, let him say so.

SHRI SURENDRA MOHANTY: We must know the contents of that confidential document. Government cannot claim privilege in a Committee.

SHRI RISHI KUMAR MISHRA: Mr. Chairman, I think you can see the document and decide. The Chairman of IDBI has clarified the position that he did not seek permission of the Government. He only wanted to know whether the Government would like to communicate the views that he had communicated to the Government to the Committee.

SHRI BHUPESH GUPTA: The witness asked whether the Government would like to communicate his views. Now, there are two ways. One way is for the Government itself to make it known to the Committee what views he has in a confidential report or otherwise has communicated to the Government. This is for you to decide. Alternately, the witness can be asked to communicate it himself. In the Select Committee confidential documents are gone in. Whether this document should be published or not it is for the Select Committee to direct. The Select Committee in a case of this kind is not precluded

from going into a confidential relevant document if the Select Committee so wishes.

SHRI SUBRAMANIAN SWAMY: We are not investigating a contingency plan of invasion of Pakistan. We are investigating on an issue which cannot be deemed to be confidential at this stage of the investigation. I think you should direct the Government that the correspondence between the Governor of the Reserve Bank of India and the Government should be made available to the Committee. This is the normal procedure.

SHRI PRANAB KUMAR MUKHERJEE: Mr. Chairman, Sir, if I may be permitted to say it is a well-known procedure in the proceedings of the Parliamentary Committees that any witness appearing before the Committee is free to express his opinion and answer questions. The Government does not come in the way. Therefore, Mr. Jagannathan is entitled to give answers to the questions put to him by the hon. Members of the Select Committee. As regards the communication between two departments of the Government whether that should be placed before the Committee depends on the decision of the Committee and the Chairman. But, I think, it is not a usual practice to place before the Members of the Committee the communications which are between two departments of the Government.

SHRI SUBRAMANIAN SWAMY: As a member of this Committee I would like to see the correspondence so as to come to any conclusion. It is a normal practice in any Parliamentary Committee to make the correspondence available.

SHRI A. G. KULKARNI: The Minister has made the position clear. We have to follow the procedure laid down in this regard. The Chairman can decide on this point. Since the Government has made the position clear, Government has no objection to whatever the witness wants to say.

SHRI M. S. ABDUL KHADER: I insist that the paper should be placed before the Committee.

SHRI A. G. KULKARNI: The Member has already left the Committee.

SHRI SUBRAMANIAN SWAMY: I want that the Government should place the paper before the Committee.

SHRI A. G. KULKARNI: I am suggesting that the Minister has clarified his position. If the Governor wants to say anything he can say now. The letter which Shri Madhu Limaye has got or which you have got should be placed or not placed before the Committee can be dealt with according to the normal procedure. I think you are competent to understand what I am talking.

SHRI SUBRAMANIAN SWAMY: I want the Chairman to direct that the Government should make that correspondence available.

SHRI BHUPESH GUPTA: We are on the wrong track. I do not know why Government is being brought in again and again. The issue is between the witness and the Committee. It is for the witness to say what he likes. In the course of evidence being taken, Government should not be brought in. What is the *locus standi* that the Government has got? The Chairman is a non-Government person. We are here in the capacity of the two Houses. Whether the Joint Committee can compel that man to place that document before the Committee, the Chairman can decide with the advice of the Committee. We are asking the witness to express the view. If we believe that that document is relevant to the debate, the Government can be asked to produce that document. Even if it is a

Secret document or national interest or security interest is involved, the Chairman of the Committee has to be satisfied in this regard. We have every right to have every document produced before us.

श्री बी० एन० मंडल : जो सवाल माननीय मधु लिमये जी ने पूछा वह क्वेश्चन अराइज करता है । जो उन के मुंह से निकला है, विटनैस ने जो कुछ कहा था, कि हम ने कुछ लिख कर सरकार को ऐसा नहीं दिया कि क्यों इस बिल की जरूरत है। बिल की जरूरत के बारे में हम ने सरकार को लिख कर के नहीं दिया है ....?

श्री सुब्रह्मण्यम स्वामी : यह नहीं कहा है ।

श्री बी० एन० मंडल : मैं यही समझा हूं कि इन्होंने ऐसा कहा है । बीच में टाक्स भी होती रही है कि क्यों इस बिल को लाने की आवश्यकता है । अब जब इस बिल के बारे में सवाल पूछा जाता है तो क्यों कोई अड़चन खड़ी की जाती है, वह कौन सी अड़चन है जिस की वजह से ये जवाब नहीं दे सकते हैं । इस बिल को लाने की क्या जस्टिफिकेशन है ? क्या इन्होंने सजैशन दिया था या गवर्नमेंट अपने मन से लाई है ? अगर ये कहते हैं कि इन्होंने सजैशन नहीं दिया तो क्या ये समझते हैं कि इस बिल को लाना जरूरी है ? अगर हो तो इनको इसको जस्टिफाई करना चाहिये । जब आर. बी. आई. के अन्दर यह काम चल रहा था तो क्या कोई डिफिकलटीज़ सामने आईं और आई तो वे क्या थीं ? इस चीज़ को इनको क्लेरिफाई करना चाहिये ।

SHRI PILOO MODY: I think this heated discussion could have been avoided if the Chairman had taken an early decision in informing the witness that he comes in the capacity of the Governor of the Reserve Bank to give his expertise to the Members of the Committee, and he may not be selective in doing so where the Government may or may not disagree with him. Therefore, you have to assure the witness—in fact to instruct him that he should give his opinion freely and frankly because it is ultimately his expertise that the Committee wants to take advantage of and if he is to hedge his opinions on the grounds that they may go contrary to the provisions of the Bill and may not be appreciated by the Government, then it would falsely the entire evidence that he has given; and the Committee cannot come to adequate decision on the subject.

MR. CHAIRMAN: On behalf of the Committee we are giving the assurance. Let us proceed with the evidence now.

SHRI S. JAGANNATHAN: I thank the Members. With due respect I may say that I was never in any doubt regarding my duty nor have I appealed for the protection, to the Committee, nor have I asked for any assurance. While making general observations I took a pause. Hon'ble Member misunderstood and thought that I had finished.

I shall make some general observations, trying to cover the subject and questions thereon and I shall clarify any point which remains.

SHRI SUBRAMANIAN SWAMY: I must object. There was a specific question put by Shri Madhu Limaye.

SHRI S. JAGANNATHAN: I had hardly begun. I made a pause. That Member misunderstood me and thought that I had finished. The Industrial Development Bank was set up in 1964. The Reserve Bank is a much older institution. In 1964, the

Government saw the need for setting up an apex institution and thought it desirable to entrust it to the Reserve Bank. They had a certain precedent in Canada of the Central Bank of the country also being the Industrial Development Bank in the sense that the Central Bank owned the capital and had a common Board of Directors with the IDBI. The statement of the then Finance Minister while moving the Bill explained what he expected the apex institution to do.

After the Act was passed by Parliament, the Bank came into being. It has completed ten years and in my personal view, I think, it has worked well. I was not here for the major part of the time, but reviewing its achievements, I would say, it has done well.

When this question of close linkage of various institutions came, I pointed out that there is already a certain legal linkage with most of the institutions, not all of them. Now there are three development Banks, the Industrial Development Bank, the IFC and the ICICI. In regard to the problems of new industrial ventures, LIC and UTI also take part depending on the circumstances and their own characteristics. These five institutions meet periodically for coordination under the chairmanship of the Chairman, IDBI, or the Vice-Chairman. That is the informal coordinating machinery.

There are also State Finance Corporations which were set up in all States. The Reserve Bank has a special relation with the SFCs. The Industrial Development Bank has a share in the share capital of the SFCs. The Reserve Bank has got certain supervisory functions over the SFCs and that is one method of coordination with the State Finance Corporations. The Industrial Finance Corporation is specially linked with the IDBI since the IDBI owns 50 per cent shares of the IFC. The ICICI is not linked by ownership, but I have explained the coordination. The LIC is directly owned by Government. But as I said, the coordinating machinery is there. The UTI was really sponsored by the RBI in accordance with the wishes of the Government. The Reserve Bank has share holding and various legal powers in relation to it. That is the present system of coordination.

The system as proposed in the Bill would be retaining much of the coordination between the IDBI and the other institutions and would give to the IDBI some of the functions that the Reserve Bank had. For instance, the IDBI has to take over share capital in the UTI, IFC as also SFCs. There would be no change in respect of IRCI, no change in respect of LIC. About UTI I have already mentioned.

The Reserve Bank is also linked with the commercial banks and the cooperative banks. These functions would not be transferred to the IDBI.

Broadly, in the Reserve Bank and in the IDBI, we were not very clear as to the specific objectives which Government had in mind and we expressed the view that we were not able to see much advantage in the reconstitution proposed. We also thought that there were some substantial disadvantages in the delinking of Reserve Bank and the IDBI. We expressed the view which I still hold, that the Reserve Bank no doubt has a lot of work to do, but this delinking will not be helpful, because the coordination task would become more difficult. It is a matter of proper organisation of a coordinating institution to see that it is able to coordinate properly, but as for individual institutions, they have to do their own work and be allowed to function within the coordination. The UTI, and IRCI have got their own Boards; of course IDBI has got a common Board with the RBI. We advised that the IDBI may be reconstituted with a separate Board of its own but not necessarily delinked from the Reserve Bank. We also mentioned with some instances, how coordination would become more difficult. It was our view that there was not any substantial advantage, but there could well be many disadvant-

ages. This was the substance of the views, we conveyed to the Government.

SHRI SUBRAMANIAN SWAMY: Are you in favour of this Bill?

SHRI S. JAGANNATHAN: I do not think, I would be able to answer one way or the other. I have mentioned the advantages and the disadvantages. It is for the Government to take a decision this way or that way. I have expressed my personal view. There are no substantial advantages and there are some disadvantages also.

SHRI SUBRAMANIAN SWAMY: Did you at any time in the recent past, after weighing the advantages and disadvantages express the views that this would be unfeasible and impracticable?

SHRI S. JAGANNATHAN: I do not remember these two words. My view was, as I said, that there were not enough advantages.

SHRI SUBRAMANIAN SWAMY: In your letter dated 2nd May, 1973 to Shri Sen Gupta, in Note 2, you have mentioned that the delinking of the IDBI from the Reserve Bank is unfeasible and impracticable. That is why I wanted the entire correspondence to be placed before us in the very beginning, it has been a voluminous correspondence. Anyway, the letter I am referring to, written by Mr. Jagannathan to Mr. Sen Gupta in May 1973 should be placed before the Committee.

Now let me proceed. When you took over as Governor of the Reserve Bank, did you go through some of the correspondence of your predecessor with the Government of India?

SHRI S. JAGANNATHAN: I do not remember. There was something about the speech of the Minister in Parliament, but I do not recollect.

SHRI SUBRAMANIAN SWAMY: Do you know what was the recommendation or opinion of your predecessor in regard to the delinking of IDBI.

SHRI S. JAGANNATHAN: Yes; he advised against separation. He felt that co-ordination would perhaps become difficult and he felt that the Reserve Bank of India was adequately staffed and can tackle the tasks that it has.

SHRI SUBRAMANIAN SWAMY: Did you also advise the same way?

SHRI S. JAGANNATHAN: I did support the same view.

SHRI SUBRAMANIAN SWAMY: Before you, one of our witnesses was Mr. James Raj of UTI. The Reserve Bank owns 100 per cent interest in the UTI?

SHRI S. JAGANNATHAN: The Reserve Bank owns the controlling interest.

SHRI SUBRAMANIAN SWAMY: Do you know of a Working Group which studied the public financial institutions?

SHRI S. JAGANNATHAN: Is it the Group headed by Mr. James Raj?

SHRI SUBRAMANIAN SWAMY: Yes. The reason why I am asking this is that Mr. James Raj was also here some time ago and he gave evidence totally in support of the Bill. But just a year ago—a year before his evidence—he was the head of a Committee which was asked to look into the question and this Committee, under his Chairmanship, had given the finding that "the Reserve Bank is very adequately staffed to exercise control over public financial institutions". But the opinion expressed here by the witness is quite different. Only a year ago, as a Member of the Technical Group, he gave the opposite recommendation. There ought to be some degree of consistency.

Now, can you tell me, under the proposed new Act what new dimensions will be added to the IDBI which are not presently available to it?

SHRI S. JAGANNATHAN: I think there are a number of provisions. I do not know how to answer the question about dimensions.

SHRI SUBRAMANIAN SWAMY: Does it give power to the IDBI to do something more wonderful than what it is doing today?

SHRI S. JAGANNATHAN: The Bill affects the organisation. Perhaps the Government want to have a direct hand in the development of the IDBI. That, I presume, is the purpose.

SHRI SUBRAMANIAN SWAMY: So, as far as you can say, there is nothing substantive that is added to the IDBI except that Government will now have a direct hand in the running of the IDBI? The RBI was there between the IDBI and the Government, but now Government has a direct hand; apart from that, there is nothing substantive in the proposed Act which adds to the functions of the IDBI?

SHRI S. JAGANNATHAN: There is one point about the powers given to the IDBI. The control that was previously with the Reserve Bank—that is, the Reserve Bank's relations with the FCI and the Reserve Bank's relations with the UTI—has been transferred to the IDBI. In that sense, it does enlarge the IDBI.

SHRI SUBRAMANIAN SWAMY: Is it a substantial enlargement?

SHRI S. JAGANNATHAN: It certainly adds to the IDBI's role. Instead of working through the Reserve Bank, it has direct relationship with the UTI and the FCI.

SHRI SUBRAMANIAN SWAMY: Has anybody been happy with the way the IDBI has been functioning or has anyone expressed doubts that the IDBI has not fiunctioned properly? This ICICI itself is a public sector financial institution; have they expressed any reservations about the IDBI's functioning?

SHRI S. JAGANNATHAN: Nobody has complained to our knowledge about our performance.

SHRI SUBRAMANIAN SWAMY: Has anybody spoken about the good performance of the IDBI?

SHRI S. JAGANNATHAN: There have been some appreciative press comments.

SHRI SUBRAMANIAN SWAMY: Have you seen the minutes of the Annual General Meeting of the ICICI? Have any comments been made about the performance of the IDBI therein?

SHRI S. JAGANNATHAN: Yes. As for adverse comments. It would only be fair to assume that some people who could not get sanctions in time etc. might have made some adverse remarks.

SHRI A. G. KULKARNI: I have some specific questions to ask. From the Governor of RBI letter dated the 22nd May '74 with Annexures, we get an idea that the Governor is not happy with the present Bill. If so, what were the reasons for the same? The second point is that in that letter along with annexures, it has also been stated that the IDBI will henceforth have an effective control over the management and monitoring of the private sector. Does this mean that the old IDBI had not carried out the functions which were envisaged while Mr. Krishnamachari moved this Bill in Parliament? The third question is: will the Governor state now that since the IDBI's role in the industrial sector is being separated, it will be too much on their part of the RBI to do the functions of agricultural Sector?. We feel that the PBI should have monetary functions only and have control over the monetary

operations of the Government of India and the Treasury. These two functions have got to be oriented. Now, logically speaking whether you will agree that the problem of agricultural investment also needs to be approached in a different manner? Will you support the idea that the RBI in its present form or IDBI in the new form should also be asked to participate in the share-holdings of the large size co-operative sector?

SHRI S. JAGANNATHAN: In regard to the first question—whether I have made certain comments about the Bill—subject to checking up this with my colleagues, I believe on that day. May, 1973 there was no bill at all. There was only a scheme which had also subsequently been revised and modified. Therefore I do not think I had made any comments on the bill. The other point raised by the Member is about the linking functions of the IDBI—linking the financial institutions. Here have consulted the financial institutions and I also noted certain conditions made by them. So far as the separating part is concerned, there are certain limits as to what they could do in a appraisal. But now they could do joint appraisals. However, one institution can not make appraisals on behalf of other institutions so long as they are distinct and their identity is preserved. For instance, UTI is not a development institution. It has to look to the interest of the unit holders and on occasions the technical staff have to tell their Board that they are not satisfied with the prospects of the project appraised. I consulted the institutions more than once on this question of centralised appraisal and they had the reservations which I communicated. I would not like to go into it in detail nor I would be very competent to go into it in great detail.

Your third question is about the role Mr. Krishnamachari wanted the IDBI to play in this. I have read the speech introducing the bill and all that. That was introduced in 1964 or so and I think Mr. Krishnamachari stayed only till 1965. I am not aware that he had envisaged any particular role in the management of the private sector units. The conception, to the best of my knowledge came with the "Dutt Committee" and was not very clear or detailed. What Government did recently was to set up a high level co-ordinating committee with all the concerned Secretaries to Government of India and all the institutions to meet and discuss what should be done in these directions. And I presided over such meetings and I do not find anything significant arising out of these joint discussion, apart from the agreement to constitute a panel Directors and, of course, there were general discussions. I pointedly enquired whether there were any new activities and new directors seen for the institutions to follow. We agreed that the institutions were proceeding on the right lines and they should do more than what they are doing now.

The last question was about the agricultural sector. Logically I am not sure if the delinking suggested is connected in any manner with the idea that the institutions should play a more direct part in the management of the private sector. There is of course nothing like that in the agricultural schemes which are being financed by the ARC—any question of more direct management of the private sector. I would say that there is a lot of difference on the agricultural side. My personal view is that neither of them—IDBI or ARC need be separated. There are differences. About the shareholding by the institutions in co-operatives, this concept is something new to me. The present concept is that only members of the co-operatives would hold shares and the institutions would not come in but they have been providing finance or refinance. I think that is perfectly all right since they have been functioning for the poorer sections of the society.

SHRI A. G. KULKARNI: But the letter written in May gave that im-

pression. I do not know whether it is a summarised view or what the other institutions have stated. Am I to understand that was not your personal view, but that was the summary of the views of the Chairman of ICICI, UTI, etc.? If so, he should be categorical in his statement. The second point is that in the letter of IDBI and in the Annexure, it is stated that because of the introduction of the new institutions like NIMCO, the new organisation will have an effective control in the monitoring of the private sector. If so, whether the same view you would hold in the case of the new IDBI in its re-structured form? I would like you to make a positive statement on this point.

SHRI S. JAGANNATHAN: The first question was whether I expressed the views of the institutions because I was a part of one of the institutions. I did consult all of them. I agree with the views of the institutions. I had forwarded them with my general support. Then, the question was about the new IDBI. I am sorry, I did not quite catch the thrust of the question whether the new IDBI would....

SHRI A. G. KULKARNI: In that letter of 22nd May, there are some annexures. I think, in Annexure I to that letter, it has been stated that the NIMCO, that is the organisation which was envisaged at that time, will have a more effective control in monitoring the private sector or the monopoly sector to whom loans will be granted. I would like to know, whether the same conception has been kept intact in the new Bill, according to you?

SHRI S. JAGANNATHAN: Various bodies have been envisaged at different stages and one common feature is that the institutions should combine together and exercise functions which are in their common interest. Now, there is really nothing at all wrong in the institutions combining together. Even now we have an inter-institution meeting. They discuss and coordinate. But, there were certain functions and a certain organisation envisaged, which the institutions thought and I agreed may not be desirable, namely, a completely common centralised appraisal by a different body, that is, a body consisting of all five of them combined together, but nevertheless different from the individual institutions and the acceptability of that principle by the institutions was in doubt. Similarly, if we have a similar structure and similar function proposed, of centralised appraisal there would be the same doubt as to its advisability. But, of course, they can have a joint corporate existence and decide to do various things. There is nothing wrong in the principle of joint corporate existence and of joint functions, and certainly none in jointly devising measures for exercise of such control as is desirable on the private sector.

SHRI DEORAO S. PATIL: The last question which Mr. Kulkarni asked was whether you agree that the separation of the Agricultural Refinance Corporation from the Reserve Bank of India would benefit agricultural development in the country. Or, do you suggest that some other steps should be taken in this regard?

SHRI S. JAGANNATHAN: I do not think it will help matters to separate it—the ARC, from the Reserve Bank of India. It has got its own Board. It has got its own Governmental representative. It has a strong Board of Directors. It has got all the advantages of resources from the Reserve Bank of India and I am not able to see any way in which it would benefit by delinking it from the Reserve Bank of India.

SHRI RISHI KUMAR MISHRA: What qualitative change will occur in the character of the IDBI by transfer of its equity owned by the Reserve Bank of India to the Govern-

ment of India? Do you think that any qualitative change will occur in the character of the IDBI?

SHRI S. JAGANNATHAN: There could be a qualitative change in the concept as a whole. One important element is the transfer of equity. But, the main thing is really the transfer of direct responsibility and delinking. The Reserve Bank of India certainly would have no responsibility and as one hon. Member put it, the buffer may not be there. The buffer, I think, is not meant to slow down. The buffer is meant to coordinate and I do think that there would be some practical difficulties. Whenever there is a separate institution, coordination takes on a different dimension and a different fact. For example, the LIC is a totally different institution. It is directly owned by Government. The law, as modified,—I think it was Mr. Krishnamachari, the then Finance Minister who did this—provided for the Reserve Bank of India being able to give directions to the LIC with a view to have better coordination. But, in practice, I do find nevertheless that this institution is unlike the others, quite distinct from the Reserve Bank of India and the problems of coordination with the LIC, are very real. Matters of interest rates which are literally settled in a matter of an hour or so, within the Reserve Bank family, (the IDBI, ARC, etc.) could take six months to one year with the LIC. If they belong to the same family, they meet together and settle it themselves or have a mechanism for having the differences settled. But, when there is a completely different identity, naturally, honest differences of opinion will arise. I am now talking of the new IDBI. IDBI and Reserve Bank of India would be two parallel institutions. There could be a qualitative difference in the future, when everything depends on the way it is managed. In theory, of course, difficulties of organisation may be overcome just as perfect organisation may be spoiled by bad people managing it. But speaking organisation-wise, I think there would be differences and there would be problems of coordination in the new set up envisaged.

SHRI RISHI KUMAR MISHRA: Do you think that this de-linking will adversely affect Reserve Bank of India's role in planning credit management because, when medium-term, short-term and long-term credit are delinked, it will adversely affect Reserve Bank of India's role as a Central Bank which would plan credit management in the country?

SHRI S. JAGANNATHAN: I would only say that the resources are for both short-term and medium-term credit, coming from the Reserve Bank of India. Reserve Bank of India is now fully responsible for coordination. Later, it may have a bigger and more difficult task in coordinating. That still could be, in theory, done in various ways. But, the task could be more difficult and may not be so well done.

SHRI RISHI KUMAR MISHRA: Do you think that the resources available for development banking will be affected if IDBI is delinked from the Reserve Bank of India? This question has also come up that when the backing of the Reserve Bank of India is not available to the IDBI, the total resources available for development banking may be adversely affected. Or, do you think that it will not adversely affect the development of resources for this purpose?

SHRI S. JAGANNATHAN: I would say neither 'Yes' nor 'No'. The task of Reserve Bank of India would be a little more complicated because the Reserve Bank of India has got two kinds of resources. One is, what comes out of the profit, which profit itself is provided for, a good part of it, by Government as interest on the Reserve Bank's credit, i.e., loans to Government. If the Government does

not resort to deficit financing, it pays interest on the securities by taxation. The Reserve Bank of India has this resource its interest income from Government and the banks and part of it is spent on the IDBI, part of it on the ARC and the major part of it is given to Government. Then, the Reserve Bank of India has a function of creation of credit for the commercial banks. Reserve Bank of India creates credit during the busy season and gets back the loans in the subsequent slack season. For the IDBI also, it can, in theory, extend resource by just creating credit. Support to the IDBI could be, in theory, affected in this way I would have say, it is not very proper to do so. I have expressed my views. But, I would like to take some pains to make it clear. Under the Bill, lending of resources to the IDBI would be by the Reserve Bank of India. Now, when the Reserve Bank of India lends to anybody else, cooperatives, commerical banks, etc., it has a direct supervisory role, e.g., in regard to these cooperatives and commercial banks. Normally, every responsible lender has the responsibility of ensuring that the money given is spent for the purpose intended and there is a policy of lending. I had advised and I would still put it to Government for their consideration that this particular structure should be reconsidered, namely, even if the two institutions are separated exactly as proposed, Government may themselves provide the resources to the IDBI, instead of Government owning the IDBI and getting the Reserve Bank of India to provide loans from its resources. It is a complicated problem and it can create complications.

SHRI RISHI KUMAR MISHRA: As you know, Government decided recently that loans advanced by financial institutions are convertible into equity. One of the arguments in favour of having a separate holding company for all the financial institutions is that, in order to take full advantage of the convertibility clause it is necessary to develop the expertise. It has been stated that we should have that expertise to take advantage of the convertibility clause and intervene in the management of private sector companies which receive loans from financial institutions. Do you think that this particular role is not possible to be played under the present arrangement? Do you think that there will be difficulties in that?

SHRI S. JAGANNATHAN: I do not think that the link between the Reserve Bank and the IDBI makes it more difficult or more easy to convert loans into equity. I would say that it is entirely a neutral matter. The IDBI can try, with its resources, and develop whatever organisations, strength and expertise are necessary to watch over the assisted private companies. The IDBI has its own staff and is, in addition, backed up by the Reserve Bank staff today. I do not think that there are any new advantages that would come by delinking because whatever specialist technical staff the IDBI wants to recruit, it is free to recruit and has been recruiting. In addition, there is the backing of the Reserve Bank economic staff, for instance, and general banking information and other things. I agree that there is something which the IDBI is trying to build, as it takes more and more shareholding in more and more companies. Effective supervision is one of the tasks it has on hand. I do not think that it will be affected in any way by not being separated or will be improved in any way by being separated.

SHRI RISHI KUMAR MISHRA: What is the general practice in most of the countries? Is the Central Bank of the country also playing the role of the development bank or are these two functions separated? You had mentioned about Canada. But what is the general practice?

SHRI S. JAGANNATHAN: There are countries like England where the central bank has no development function. It depends on the stage of development and the keenness of the country itself to use the Central Bank's resources for development. Such a large and rich country as Canada which, compared to the United States, is not fully developed, thought it advantageous for the Central Bank to do development banking also. After some years' review they have separated the Board of the Development Bank from the Board of the Central Bank. But, the link with the Central Bank, to the best of my knowledge, continues still. Therefore, the answer to your question is that there are both the types. But, generally, the view held has been that, in developing countries, it is an advantage to have the Central Bank take part in development function.

SHRI RISHI KUMAR MISHRA: Even after the creation of this, the problem of coordination will remain between the IDBI, LIC and others. What is the mechanism that, you think, can be written into the Bill itself to ensure effective coordination?

SHRI S. JAGANNATHAN: I do not think any further provision is necessary. Today by an informal arrangement there is coordination. Ultimately the Government has the overall responsibility. I do not suggest any further provision in the Bill. One cannot get coordination by adding these things in the Bill.

SHRI INDRAJIT GUPTA: I take it that the principal beneficiaries from the IDBI credit finance have been the larger industrial firms under the big business houses. That is what the reports show. The bulk of IDBI finance has been going to the bigger business houses or firms controlled by the big business houses.....

SHRI S. JAGANNATHAN: I take it that the question is whether it is so or not. My answer is in the negative. First of all, the IDBI has provided a large amount of assistance to small industries; the organisation for doing that is that the IDBI refinances the State Finance Corporations which are an essential element in the structure. The State Finance Corporations deal with a large number of small industrial units and the IDBI refinances them. If you would permit me, I would request the Vice-Chairman who is the chief executive to say something on this. But before I hand over to him, I would make one point. If, supposing, 80 per cent of the industry is owned by certain units and all of them have been, for reasons of their linkage, etc., classified as large houses. Then they together constitute 80 per cent also of the volume of industrial production in the country. I do recollect that the Hazare Report which first brought out this concept and clarified the term 'large houses' had also said that in respect of some important industries which Government decide to license, the particular industries should get the support of power, water, finance, credit, etc. Here I would say that, factually, it is not correct that the bulk of the finance has been going to large houses because the IDBI refinances the State Finance Corporations and thereby a large number of small industrial units. In direct finance, a good deal does go to the main industrial sector which is owned by various companies which have been classified as large houses. If you would permit me, I would ask the Vice-Chairman....

SHRI INDRAJIT GUPTA: That would not be necessary. I was only coming to the point of my question. I had not asked you my question.

I am quite aware of the fact that the industrial structure in the country is such that you cannot exclude the big industrial units or big business houses. At the moment, they are the most dominant factor in the industrial structure. We are not discussing policy at the moment; we are discussing a certain organisational structure—of credit. I agree that the

IDBI or the Reserve Bank has nothing to do with licensing. That is done by another agency of the Government. In their wisdom if they decide to issue licences to certain units, thereafter the credit agencies are only concerned, I suppose, with certain other criteria before they decide how much and on what terms to give and so on. My point is this. You had said a little while ago that, as far as the work of the IDBI on the whole was concerned, it had been proceeding on right lines and generally there has been an appreciation of its work. Perhaps you are aware of the fact that the Federation of Indian Chambers of Commerce and Industry welcomes this Bill. Now, the people who constitute the Federation of Indian Chambers of Commerce and Industry are well known to you and to me also. They are generally voicing in public their impatience with procedural delays, what they call red tape and difficulties in coordination and so on and so forth. They want streamlining of procedures so that delays are eliminated. According to you, this Bill, by proposing this delinking, may create further complications and delays in the matter of coordination and so on. Don't you think that it is a little strange that the Federation of Indian Chambers of Commerce and Industry should enthusiastically welcome and support this idea of delinking? What benefits, do you think, they are thinking that they would derive from it which leads them support this measure? Normally they would oppose, I should have thought, on these very grounds, namely, that coordination will become more difficult, there will be delays and so on and so forth. But I am rather surprised to find that they are supporting it. I would like to know whether you can shed any light on this.

SHRI S. JAGANNATHAN: As I mentioned earlier, I have also had complaints about delays in the IDBI, however unavoidable. Every one at the receiving and feels it. Whenever I do not get sanctions from the Government of India, I have become impatient. Every one at the receiving end does come across delays. So far as the Federation's views are concerned, I cannot throw any light except that various people told me that there was a difference of opinion within the Federation. I can well understand their not anticipating any difficulty. For the points which I have mentioned are things which have very little to do with procedure for appraisal, sanctioning of loans, etc. There are some aspects which are not known to the public, for example, what role the commercial banks would play in a particular project, how much would the IDBI provide and so on. I do not expect the general public to be very conscious of the kind of things that I have mentioned. The people in the Federation might well be impatient with the existing system. But how they expect any improvement, I am not able to guess. But I do know that there are differences of opinion within the organisation. They told me that they were discussing it and they were going to make up their mind. Now I learn from you that they have made up their mind to recommend.

SHRI INDRAJIT GUPTA: If IDBI is delinked from the Reserve Bank and comes directly under Government's control, do you think there is any danger of big business industrial sector getting more favoured treatment possibly at the expense of the other people who do not belong to that sector?

SHRI S. JAGANNATHAN: I have no reason to think so.

SHRI INDRAJIT GUPTA: There is also a complaint which is also expressed in the Dutt Committee's report that although the absolute volume of industrial development and growth has been commendable, it is rather distorted and lopsided in the sense that certain priority sectors have not got the incentive and encouragement they should have got whereas the big business houses have got more than their

legitimate share. Do you think this will be further accelerated now?

SHRI S. JAGANNATHAN: I do not expect any adverse result in this direction. I hope the institutions will maintain the standard of examining projects on merits. When Government take direct responsibility, Government also answers in public for the development of backward regions. I do not expect any reduced interest in it.

SHRIMATI SUMITRA G. KULKARNI: You said, the Reserve Bank has got direct supervisory role to be maintained *vis-a-vis* all the commercial and other banks to which it gives loans, including the IDBI. Now we are proposing to delink this institution from the main institution. Who will be the authority for maintaining this direct supervision, which is a very essential part of financial management?

SHRI S. JAGANNATHAN: I do not think that would be a factor so far as commercial banks are concerned Reserve Bank would continue to have its role. Only the coordination between commercial banks and IDBI is more easy when the Reserve Bank's Governor is the Chairman of IDBI and Deputy Governor is the Vice-Chairman. But there is no reason to think that the function of supervision of commercial banks by the Reserve Bank would be affected in any way.

SHRIMATI SUMITRA G. KULKARNI: You said, you are going to recommend to the Government that Government give loans directly to the IDBI and not through the Reserve Bank. To that extent Reserve Bank's authority to supervise and control would be considerably reduced.

SHRI S. JAGANNATHAN: Today when the Reserve Bank is owning the IDBI, the Reserve Bank is providing the resources of IDBI for the large part, excepting what comes back in loans and what is raised in the open market. The Bill provides for the continuance of this function. It is not technically totally unfeasible, but I am only thinking it is not advantageous, for the better way would be that the resources of the Reserve Bank could be transferred to the Government and Government could finance the IDBI directly. The annual profits are transferred after keeping back something for the IDBI. In future, It can be transferred without keeping back anything for the IDBI and Government would have the resources directly available for using in the IDBI. This is an advantage in organisation, but it would not affect the general question of supervision you seem to have in mind.

SHRIMATI SUMITRA G. KULKARNI: With all its multifarious duties, it becomes difficult for the Government to control. The supervisory authority of the Reserve Bank is of one type when it is not given the basic resources and it is of a different type when the Reserve Bank Governor is the Chairman of the IDBI. When Government gives direct resources to this bank, it will become really diluted.

SHRI S. JAGANNATHAN: The IDBI will have a board which will be fully effective. Mine was a very small technical point, namely, the budget could provide for the resources of IDBI. I was not saying that the loans would be individually given by the Goverment. They would be given by the IDBI board as at present. The IDBI board could be strengthened as much as the Government wishes.

SHRIMATI SUMITRA G. KULKARNI: You have said the world over mostly the central bank keeps this control. Ours is a developing country. When the IDBI is delinked, do you think the Reserve Bank will be able to maintain this control?

SHRI S. JAGANNATHAN: I have given some personal view about the difficulties of coordination. It does not mean that every country must have the central bank doing development work. It is really a matter for Parliament to decide what is the organisation we want for this.

SHRIMATI SUMITRA G. KULKARNI: I am not at all sure that the backward areas will be opened up with the help of IDBI much more vigorously and effectively than what at present the Reserve Bank is able to do. Do you agree with this?

SHRI S. JAGANNATHAN: Opening up of backward regions is a complex problem with many facets. I do not think the Reserve Bank is inhibited in any way in tracking the tasks before it. But it takes time. It is a question of definition of backward areas, infrastructure provision, various incentives, licences, etc. It is open to anybody to hold the view that the IDBI will do it more vigorously in future.

SHRIMATI SUMITRA G. KULKARNI: The IDBI may not be doing any better than the Reserve Bank at present.

SHRI S. JAGANNATHAN: IDBI is improving every year and doing better than the previous years. I think it will continue to progress.

SHRI V. V. CHARI: As the Chairman said, it is not the Reserve Bank which is directly concerned with the development of backward areas at present. It is the IDBI. In that regard, there is no particular change in this. The assistance given to backward areas is of two types—financial assistance and promotional assistance. In 1973-74, out of a total of Rs. 186 crores, Rs. 61 crores went to districts in specified backward areas, which is quite a substantial percentage. Regarding promotional assistance, we have surveyed the backward areas in 18 States and Union Territories and have located the possibilities of industries being developed in those areas. Reports have been issued in regard to 17 of those areas. These are followed up by what are called inter-institutional groups which we have constituted in 16 of the States. These inter-institutional groups have got as members the lead banks in the area, the other branches of the financial institutions, the local Industrial Development Corporation, the State Finance Corporation and so on. They go through the survey reports and select what projects can immediately be implemented and how financing could be arranged. I am very glad to say we have been able to achieve quite concrete results by way of locating projects and also implementing them. So, both the survey as well as the activities of the inter-institutional group form one of the most important activities of the IDBI towards faster industrial development in the so-called backward areas. With regard to assistance, as I have already mentioned, more than 33-1/3 per cent of the total sanctioned during 1973-74 had been for projects located in the specific backward areas.

SHRIMATI SUMITRA G. KULKARNI: Today we are giving loans to these industries for going to the backward areas. We are selling our capital at cheaper rate than what it would otherwise fetch. Instead of giving it to the industries, would it not be better if we give it to the States for developing their backward areas? After all, the industries are attracted to go to the backward areas only if they have electricity, water and other infrastructure. If this capital at a cheaper rate of interest could be utilized by the State Governments for providing the basic infra-structure, I am quite sure that no business man or industry can away from that area.

SHRI S. JAGANNATHAN: I would say that the State Governments have and do exercise the responsibility for developing backward areas, providing infra-structure which includes the provision of roads and power. These are essential elements in the annual plans, plan finance as it is called, budgetary resources and market borrowing fund being made available for providing these facilities. But the industrial loans are for specific purposes, for assets owned by the company. They are not for industrial estates, roads or

power. So. you have to have both—the IDBI should lend and the State Government should provide the infra-structure.

SHRIMATI SUMITRA G. KULKARNI: If we give these loans to the State Government, they will provide the infra-structure so that industries can go there. Our cheaper capital should go to the State Governments rather than the industrialists, who can afford to raise capital at the market rate.

SHRI S. JAGANNATHAN: The State Government needs finance for various development purposes. But it cannot be a substitute for an individual setting up his own plant, taking his own risk and making his own production, which is financed by the IDBI. You have got a point in saying that the State has to develop the infra-structure. When that is done it would be much easier for the industries to go there. But the infra-structure includes not only highways and electricity but also railways, and most of the industries want broad-gauge and not metre-gauge. There are many facilities to be provided.

SHRI PILOO MODY: I want to know from you whether you have covered all the disabilities of this proposal of delinking that you have mentioned in the cross questions that have gone on so far or are there any other disadvantages of delinking which have not higher to be covered?

SHRI S. JAGANNATHAN: I think the questions have covered what I wanted to say.

SHRI PILOO MODY: In the original statement you said there may be some advantages and a few disadvantages of delinking. What are the disadvantages left over in the questions and answers that have been going on so far?

SHRI S. JAGANNATHAN: I have been concentrating on delinking. Of course, there is the question of the composition of the directorate of the IDBI. Incidentally, I may mention the Research and Economic Department of the Reserve Bank which was being taken advantage of by the IDBI. But in theory, given the will, almost all the problems can be solved. Special arrangements can be devised. You can recruit the staff and make duplicate arrangements. But they do not work as well as one institution.

SHRI PILOO MODY: In other words, for research, information and things like that either the IDBI will have to create its own corpus structure or it will have to constantly depend on the Reserve Bank to provide that information. Is that correct?

SHRI S. JAGANNATHAN: It could do both. It can do research of its own by building the staff and also rely on the Reserve Bank. But it will not be as smooth as the present arrangement.

SHRI PILOO MODY: You said there was something in the structure, as proposed in the Bill, of the IDBI which could stand some modification.

SHRI S. JAGANNATHAN: It is a matter of opinion that I shall now refer to. There is quite enough opinion which feels a controlling body had to be an apex institution. It is no doubt also a coordinating institution but there are dis-advantages in the Board of Directors having on it as Directors, all the heads of the bodies that have to be coordinated. Many people felt that this is not a good organisation that bodies that will be coordinated and supervised by the IDBI will all find their seats on the Board of the IDBI. There are other ways of coordinating which may function better.

SHRI PILOO MODY: Do you think by delinking IDBI it is going to act as a great impetus to development?

SHRI S. JAGANNATHAN: Delinking is an organisational matter and I do not think it will be an impetus or a drag on the matter.

SHRI PILOO MODY: Suppose all the five institutions were linked together under the RBI. Will that act as an impetus?

SHRI S. JAGANNATHAN: They are today linked informally under RBI. Not only does the RBI have shareholding but also intra-institutional meetings are presided over by the Governor or the Deputy Governor of the Reserve Bank of India. I will not say 'impetus' but an effective coordinating machinery. Impetus has to be in the institution.

SHRI PILOO MODY: In other words the informal arrangement is working very well.

SHRI S. JAGANNATHAN: Yes, I think so.

SHRI PILOO MODY: You also observed that delinking IDBI from RBI will create a parallel body. The implication of these words is that there would be a certain sense of competition overlapping and, therefore, confusion in the activities of the two parallel bodies. Would you like to elaborate it?

SHRI S. JAGANNATHAN: I think I over-stated the word 'parallel'. I would like to withdraw the word parallel. There would be the task of coordination as the IDBI asserts its own point of view and there would be no effective method of coordination except to bring in the Government.

SHRI PILOO MODY: That would be more horrible if between the two it would require Government's interference or intervention.

SHRI S. JAGANNATHAN: There would not be day-to-day conflicts but smooth coordination may not be there. There are four Finance Secretaries under one Finance Minister the Secretaries may have their own individual point of view but there is one person to coordinate.

SHRI SUBRAMANIAN SWAMY: I have been listening very carefully to your answers. You have admitted that you are not very enthusiastic with the Bill. Your earlier correspondence also supports this. Your predecessor was also of the same view. The Administrative Reforms Commission also rejected such a proposal and the report of the Group on re-structuring of the public sector units also rejected it. Secondly, neither the government nor the private sector are unhappy about the present functioning of the IDBI.

Now, please tell us when IDBI gets delinked then under clause IV(A)(ii), IV(B) certain amount of money is going to change hands. Before 1969-70 the Central Government used to give money to IDBI through RBI but it stopped in 1970. Now, with the transfer of IDBI to Central Government the Central Government will have to provide money to IDBI through the Central budget.

SHRI S. JAGANNATHAN: I think the delinking makes a difference in procedure.

SHRI SUBRAMANIAN SWAMY: This is going to mean the Central Government is undertaking to provide money to a new financial agency in a sense which responsibility they did not have to do because the Reserve Bank was doing that.

SHRI S. JAGANNATHAN: That is correct. But there is no difference in the volume of resources.

SHRI SUBRAMANIAN SWAMY: But it is a new obligation. Certainly, now the Reserve Bank is going to still provide money to IDBI but you are not going to give money to IDBI without asking questions. Are you? The proposals which come from the IDBI are to be honoured as a dole: What is the procedure?

SHRI S. JAGANNATHAN: When the Bill is passed and responsibility is given to the R.B.I., the R.B.I. will have to satisfy itself when providing funds.

SHRI SUBRAMANIAN SWAMY: R.B.I. will have to evaluate the proposals sent to R.B.I.—one agency is borrowing money from the other.

SHRI S. JAGANNATHAN: That may have annual proposal which has to be examined not necessarily every individual proposal.

SHRI SUBRAMANIAN SWAMY: At the present moment the IDBI when it undertakes investments, takes decisions itself. Now the situation will be that the Finance Ministry will have to make an assessment, draw proposals and submit them to the Reserve Bank. The Reserve Bank will examine them and go through the gamut of reports, hold meetings, conferences—in effect duplicating the work in project evaluation.

SHRI S. JAGANNATHAN: The individual project need not be evaluated.

SHRI SUBRAMANIAN SWAMY: The programme has to be drawn.

SHRI S. JAGANNATHAN: Yes. It will be closer to what the World Bank does to ICCI.

SHRI SUBRAMANIAN SWAMY: You are introducing:

1. increase in the daily transaction of money for projects;

2. going to duplicate work.

You will have more paper work than you have now.

SHRI S. JAGANNATHAN: It depends on how things work.

SHRI SUBRAMANIAN SWAMY: You know Indian culture.

SHRI S. JAGANNATHAN: There can be close relations between the IDBI & RBI.

SHRI SUBRAMANIAN SWAMY: You cannot give loans without assessing the situation. You will be answerable to giving loans.

SHRI S. JAGANNATHAN: In this position, it will have to take responsibility for providing funds.

SHRI SUBRAMANIAN SWAMY: In fact there is duplication of work. One of the reasons given for the transfer of the IDBI to the Ministry of Finance is that somehow this will help both the Reserve Bank and IDBI and IDBI will function in a much better way. You have seen the way the nationalised banks have been functioninug. You know that 87 and odd crores were paid as compensation to the nationalised banks and profits transferred by the nationalised banks as a ratio of this work out to something like 4.5 per cent. This compensation is being paid in terms of 30 years bond. In effect it means that the nationalised banks will have to make profit of 8.75 per cent to break even in the operations. Do you think that the nationalised banks have been functioning that way? The banks are functioning under the Finance Ministry. Either you deny the statistics or you explain how $4\frac{1}{2}$ per cent loss can be called as a good one.

SHRI S. JAGANNATHAN: If the Government get the interest payable on the bonds, there will be no immediate loss.

SHRI SUBRAMANIAN SWAMY: That compensation of 87 and odd crores has to be paid.

SHRI S. JAGANNATHAN: That has to be deemed as being invested in the banks and the annual profit is the income on this investment.

SHRI SUBRAMANIAN SWAMY: What does the national Government get out of the funds? It works out to 4.85 per cent.

SHRI S. JAGANNATHAN: They get the income which enables them to pay interest on the bonds.

SHRI SUBRAMANIAN SWAMY: But they do not get it.

SHRI S. JAGANNATHAN: In say 25 years the banks may be worth much more and Government do not have to set apart funds annually for repaying the loans. RBI too is responsible for the nationalised Banks. Whatever I say are not in a sense managed by the Finance Ministry alone.

SHRI SUBRAMANIAN SWAMY: I tell you why this is important. The ownership of the IDBI Management is being transferred from the RBI to the Central Government. The Central Government has made a mess of banks that they are already running.

SHRI PILOO MODY: It is a matter of fact which can be easily proved.

SHRI S. JAGANNATHAN: There are many things which determines bank's profitability. I have mentioned two important things—developmental functions which have added very substantially to the cost. (1) If you open 1500 new branches every year which are going to take 5 years to break even, in the meanwhile you have added 6,000 branches which do not pay.

(2) The other is the extra cost of "retailing" money or providing credit to the small borrowers. It is much more expensive. There are million farmers' accounts alone now. The entire number of accounts was only 1 million and odd at the time of nationalisation. Before they were nationalised mainly very large customers were provided with funds. Then there are complication for the banks' profits from our monetary policy. We require them to deposit larger reserves and invest more in Government and approved securities. The amount that they have to invest in Government security has gone up in a few years from 26 per cent to 33 per cent. This does make a very substantial difference. The bank rate has gone up 3 times, but the Government security rate has not gone up very much. There are many other factors. I would say that Government wishes and we also wish that they should make a profit after tax at 5½ per cent on the national capital—many of the banks do make, some do not.

SHRI SUBRAMANIAN SWAMY: This Ministry of Finance have not been able to manage things profitably. You have not to defend the Government.

SHRI S. JAGANNATHAN: I do not think, the expectation is justified that the IDBI will cease making profits. There are no parallels with the nationalised banks.

SHRI SUBRAMANIAN SWAMY: I would like to draw your attention to page 7 of the Bill, clause 16, para 4, which states:

"If on the appointed day or at any time thereafter any of the functions of the Reserve Bank is transferred to the Development Bank, it shall be lawful for the Development Bank to appoint, with the previous approval of the Reserve Bank, such of the members of the staff of the Reserve Bank whose services were, immediately before the transfer aforesaid, being utilised by the Reserve Bank in connection with any of the said functions, and every member of the staff so appointed shall be released by the Reserve Bank and be deemed to be appointed by the Development Bank under sub-section (1) on the same salary, emoluments and other terms and conditions of service to which he was entitled immediately before the date of his appointment."

Here the power is being vested in the hands of the Development Bank to choose which officers they want out of the Reserve Bank staff.

SHRI S. JAGANNATHAN: That is not my reading. The IDBI functions are going to stay with them. The Industrial Finance Department of the Reserve Bank is being transferred to the IDBI. What it means is that those officers and staff who are in the IDBI, should continue to work with them unless they choose otherwise. Those working in the IFD may be transferred to the IDBI.

SHRI SUBRAMANIAN SWAMY: Powers have been vested to the IDBI to pick and choose subject to the approval of the Reserve Bank.

SHRI PILOO MODY: It says that the Reserve Bank *shall* make available these members of the staff.

SHRI SUBRAMANIAN SWAMY: If that is the intention of what you say, then you have to put it like that those who are in the IFD would be transferred to the IDBI. But as it is, it does not give a right to the people. All the people who are doing that work shall be transferred. You say that only the IFD employees will go. That is the information you are giving us.

SHRI PILOO MODY: For example, IFD has so far been using the research facilities of the Reserve Bank. These research facilities have not been transferred. Can IDBI say that these were facilities being used by IFD, and therefore, it is incumbent on the Reserve to release these people?

SHRI S. JAGANNATHAN: The Reserve Bank will not give up its research staff. IDBI will presumably develop its own research facilities.

SHRI SUBRAMANIAN SWAMY: You have now told us that only IFD will be transferred. Don't you think that it would be better if that is specified here?

SHRI S. JAGANNATHAN: It is for the Government or the Draftsmen to see. The Scheme of the Government is quite clear. It would not create any problems according to me. We know what the scheme is. I do not know about the legislative or drafting aspect of it.

SHRI SUBRAMANIAN SWAMY: Don't you think that it is desirable to specify this?

SHRI S. JAGANNATHAN: If there is any misapprehensions, it may be worth considering.

SHRI SUBRAMANIAN SWAMY: As it is, there is no option. It says that the staff so appointed shall be released by the Reserve Bank and deemed to be appointed etc.

SHRI S. JAGANNATHAN: The compulsion is on the Reserve Bank, not on the staff.

SHRI SUBRAMANIAN SWAMY: When Shri Kumarmanglam introduced the concept of holding company, he at that time had the feeling that many of these technical departments had been dominated by the civil service culture and he wanted this civil service culture to be replaced by a culture of techno-cracy. In the present case, don't you think that this is the opposite of that? The IDBI is being bureaucratised by bringing it under the Department of Banking?

SHRI S. JAGANNATHAN: These are two different unconnected things. One is that you have a company managed by professional people and then there is the other concept, a holding company concept. I think it is a mistake to bring that concept or

to assume that the IDBI is being bureaucratised. I do not think that the IDBI is being bureaucratised.

SHRI SUBRAMANIAN: SWAMY: The very fact that it is put under the Department of Banking shows that it is being put under the bureaucracy of the Finance Ministry.

SHRI S. JAGANNATHAN: It functions under the Finance Ministry. Again, it is a point of view. Every single Government company which has been created in India, if you see the rules of business, comes under the Finance Ministry for some purposes.

SHRI SUBRAMANIAN SWAMY: To you mean to say that the IDBI at present is not under the bureaucrats of the Finance Ministry?

MR. CHAIRMAN: Thank you, Mr. Jagannathan, for your evidence.

[*The Committee then adjourned*]

RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973.

Tuesday, the 22nd October, 1974 *from* 15.00 *to* 17.10 *hours.*

PRESENT

Shri K. Suryanarayana—*In the Chair*

MEMBERS

Lok Sabha

2. Shri Dinen Bhattacharya
3. Shri Chandulal Chandrakar
4. Shri Anadi Charan Das
5. Chaudhary Dalip Singh
6. Shri Indrajit Gupta
7. Shri Noorul Huda
8. Shri Ramachandran Kadannappalli
9. Shri N. S, Kamble
10. Shri Jagannath Mishra
11. Shri Piloo Mody
12. Shri Surendra Mohanty
13. Shri Pratap Singh Negi
14. Shri Rajaram Dadasaheb Nimbalkar
15. Shri E. V. Vikhe Patil
16. Shri M. S. Purty
17. Ch. Ram Prakash
18. Shri Ram Swarup
19. Shri M. S. Sanjeevi Rao
20. Shri M. Ram Gopal Reddy
21. Shri Babu Nath Singh
22. Shri Somchand Solanki
23. Shri N. R. Vekaria
24. Shri Sukhdeo Prasad Verma

25. Shri Bhupesh Gupta
26. Shri Yashpal Kapur
27. Shri M. S. Abdul Khader
28. Shri B. V. Abdulla Koya
29. Shri A. G. Kulkarni
30. Shrimati Sumitra G. Kulkarni
31. Shri B. N. Mandal
32. Shri Rishi Kumar Mishra
33. Shri Deorao S. Patil
34. Shrimati Saraswati Pradhan
35. Shrimati Maimoona Sultan
36. Shri Subramanian Swamy
37. Shri Gian Chand Totu

LEGISLATIVE COUNSEL

Shri N. L. Vaidyanathan, *Additional Legislative Counsel.*

Representative of tho Ministry of Finance (Department of Banking)

1. Shri N. C. Sen Gupta, *Secretary.*
2. Shri M. K. Venkatachalam, *Joint Secretary.*
3. Shri N. Sthuraman, *Joint Secretary.*
4. Shri D. N. Ghosh, *Joint Secretary.*
5. Shri D. K. Sen, *Deputy Secretary.*
6. Shri V. K. Shunglu, *Deputy Secretary.*

SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

WITNESS EXAMINED

Dr. Ashok Mitra, *Former Economic Adviser to the Government of India.*

Dr. Ashok Mitra, Former Economic Adviser to the Government of India

(*The witness was called in and he took his seat*)

MR. CHAIRMAN: Dr. Ashok Mitra, while welcoming you I may read to you Direction 58 that is.

You may kindly note that the evidence you give would be treated as public and is liable to be published unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire the evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

Have you got any Memorandum? Please give your opinion on this Bill.

DR. ASHOK MITRA: I have not got any Memorandum.

I had a look at this particular Amendment Bill and the major thing that is proposed is to sever the link between the Reserve Bank and the IDBI and the major development through such severance and through the other details that are given in the Bill, it is hoped that the Development Bank will be in a position to co-ordinate in a much beter manner the task of promoting Industrial Finance for the general economic growth in the country.

It is our national weakness that we try to substitute often activities—we are a nation given to rituals—by instrumentality. We assume that we would be able to achieve certain things which we have not been able to do in the past by new instrumentalities.

If I may go back a little bit in history when IDBI was first set up in 1964. There was already the Industrial Finance Corporation of India and one could not imediately see what was the compelling reason to set up another body which was more or less charged with the same work as I.F.C. If one looks into the separation of IDBI and I.F.C. it is altogether artificial—certain sectors were earmarked respectively for the IDBI & the I.F.C. There is proliferation of such bodies. Of course, we have also other bodies and we have used the fund of LIC partly to finance our Industrial projects and so on and as one looks through this Bill the purpose is that IDBI will act as a *primas inter pares*. This will be an industrial bank which will offer loan to all other financial institutions so far as long term finance is concerned and it is perhaps hoped that by having some kind of a principal development bank the activities will be accelerated and there will be better co-ordination. As thing are we have the Reserve Bank of India which is the leading monetary authority in the country and IDBI is for the present a part of the Reserve Bank. I ask myself what is the compelling reason that I must separate IDBI from the Reserve Bank? Do I gain or lose? The gain is that we have a new separate Board of the IDBI which will be separated from the Board of the Reserve Bank of India. IDBI becomes a litle more autonomous in relation to the Reserve Bank of India. Is it desirable? I would not repeat the point that I made of unnecessary proliferation of bodies. Apart from that, our resources are limited and it is one of the purposes of economic development planning to see that there is no wasteful use and there is co-ordination. If coordination is the main aim, there should be co-ordination between different agencies of the Government—monetary and fiscal. In the monetary field again one should not make to great a distinction between the requirements for working capital that is short term finance and of long term capital and in any case one cannot judge the over-all requirements of one without reaching the judgement about what are needed for the other. Here I would have thought after all our industrial sector is still very much crude and at this stage not much harm wuold be done and I think there would be some gain if we persevere for a while with the closer integration of short term and long term monetary policy and that is the reason

why I would support this type of continuation of arrangements for some more time IDBI is at present under the jurisdiction of the Reserve Bank and there is common Board. The moment we set it up as another separate entity it tries to develop its separate agencies. here are financial and monetary stringencies. Particular institution asks for finance from the Government and it cannot get the funds. It asks for funds but could not get it. Reserve Bank turns it down. Sometime it then comes back for knocking at the door of the IDBI; there are discounting facilities, financing facilities, etc. The main purposes are sometimes altogether short term and even such purposes have been sought to be promoted through the facilities of the IDB. Once it becomes organisationally separate, I have this apprehension that the kind of chaos in industrial policy which we wish to avoid will rather proliferate. Where financial support is not to be given even in those cases, probably you will find that suport is given, which should not be given based on considerations of economy. This apart, we know there is a common servicing apparatus in the IDBI and Reserve Bank. People are interchanged between these two organisations The moment you set up a new organisation there will be a paraphernalia of more officers and we would only be multiplying the people in the two organisations and I don't think there is such quantities of expertise, technical and otherwise, in the country which are needed to sustain these two separate bodies. We will be creating quite a bit of overlapping and quie a bit of waste, if I may say so.

The Reserve Bank has been there for a long time, it is about forty years now. People look up to the Reserve Bank as the leading monetary authority and they look up to it for guidance. The Bill wants these two RBI & IDBI to be separated. The IDBI would not have as much financial backing as the RBI. The share capital is Rs. 100 crores and if necessary this is proposed to be increased to Rs. 200 crores. At present it can only approach the RBI for additional facilities Reserve Bank can exercise its judgment when additional facilities are needed etc. I have a suspicion that when there is total separation then there will be trouble. Who will decide whose judgment is better there will be a lot of confusion. At present on the Reserve Bank Board LIC is represented, in the kind of arrangement through which the IDB is operating the Reserve Bank is there to exercise moral supervision if this sort of separation is there we find that in relation to the LIC the resources of the IDBI will be weaker. There is proposal to have additional representation of IDBI on the Board of LIC but out of 16 or 17, one more or so, will not make much of a difference. Ultimately it will before Government and not the IDBI to see to it that the LIC is serviceable to the kind of discipline, developmental financial discipline, to which it would like the LIC to fall in line. If that is the kind of *modus operandi* that is thought of, I am afraid that cannot be done merely by having a superior body. Of course coordination of activities is very important. But this coordination could be effective only if Government wants his coordination to be made effective. After all already the RBI can issue directives; the Government can issue directives to RBI. I don't think the sort of additional luxury which the Bill seeks is needed at all. This will not serve much purpose. What I would respectfully submit is, while trying to go another stop forward we should not aggravate a mistake which is already there. I would venture to stop here. I have done. Thank you.

SHRI BHUPESH GUPTA: At present you don't have this separation from the Reserve Bank. Both banks have same board. Don't you think by this the IDBI can be influenced by

the same thinking of the Board of Directors of the Reserve Bank of India?

DR. ASHOK MITRA: The Board of Director of the RBI is nominated by and large by Government. The way it operates is the way the Government wants it to operate. And the way the Board of the IDBI operates will again be the way the Government wants it to operate. So, by merely separating the two, I do not think we will have separate consciousness germinating into the system, if I may say so.

SHRI BHUPESH GUPTA: There will be two boards. Now, if the same Board is there the chances of separate consciousness in the functioning of IDBI will be less than in the case, where it is a separate board,—other chances remaining equal, if I may say so. Now, from the list of the Board of Directors what we find as, the Board is very much weighted in favour of the big business people. Reserve Bank's Board is weighted in favour of them, if I may point out this to you. Now if this is done, it is quite possible for the Government, through the intervention of Parliament etc. to have a different type of Board. You said about money being used for developmental finance and all that. Therefore, don't you think it would be a substantially better type of arrangement to have a separate sort of identity as some people have suggested? This is my question

DR. ASHOK MITRA: I appreciate your view that if we make certain special provisions in the constitution of the IDBI to make it in character somewhat different from the RBI, certain things might be possible. But ultimately it is the will of the Government which will really be the primary motive force here. We have seen what has happened in the nationalised banks with independent boards.

SHRI BHUPESH GUPTA: I agree, but when we create institutions of this kind, we wonder why some of us influence the way of thinking of the Government. Hence it is sometimes suggested whether such an arrangement would be advisable. Are you satisfied with the manner in which the Reserve Bank is functioning in relation to developmental activities? Is it not a fact that the RBI is functioning in the main to help the big business element in the private sector and that this has its own impact on these institutions? Therefore, will it not be better to separate the two and try our luck to run the IDBI keeping in view the objective of weakening the position of monopolists? Not that it can be done unless the Government changes its mind, but here is one point where certain steps could be taken.

DR. ASHOK MITRA: We can keep on shuffling the modalities but when the mind is invariant, it does not help. Assuming that by having a separate board it should be possible to give a new direction to the activities of IDBI, I have a feeling that perhaps within the ambit of the present arrangements, one could suggest to the Government to set up a separate board of this nature for IDBI.

SHRI BHUPESH GUPTA: You have not shared your thoughts about the Reserve Bank. You have been associated with the Government as Adviser to the Finance Ministry and naturally you know much better than many of us. Would I be wrong if I say that the Reserve Bank has more or less institutionalised a conservative reactionary approach in the administration of its funds and banking policies?

DR. ASHOK MITRA: The character of the activities of the Reserve Bank has been moulded by the character of the Government of India as such. At any point of time, if the Government had felt that the Reserve

Bank has taken a line which was at variance with the accepted policies and objectives of the Government of India, it was up to the Government of India to correct the Reserve Bank's operations. So, if one has to really use appellations, one should use them in respect of the Government itself rather than for a mere arm of the Government.

SHRI BHUPESH GUPTA: You suggest that it is better to concentrate on changing what you call the mind and policies of the Government. What is your experience? Do you agree these policies have by and large helped exactly the elements which create economic difficulties and lead to concentration of economic power, whether it is done through the Reserve Bank or through its subsidiary?

DR. ASHOK MITRA: If any citizen of the country is not satisfied with the operation of any arm of the Government and if we reach conclusion that it is because the Government's attitude needs to be changed, certainly it should be our objective to try to do that. But in this specific case, I would be against setting up any institution for the simple reason that it would mean a further waste of nation's resources without really achieving anything concrete.

SHRI BHUPESH GUPTA: In your view, what is the real problem that the private sector is facing from the point of view of financing of development activities on their part?

DR. ASHOK MITRA: By and large our private industry is still suffering from a kind of schilzophrenia. They cannot decide whether they should place emphasis primarily on their industrial and manufacturing activities or whether they should slide back into speculative and mercantile activities. Very often whatever help they get from official sources, they utilise it not so much for expansion of production but for speculative purposes. This dichotamy in their attitude should be got rid of. Otherwise whatever development would take place would be with the help of the public sector. Even today the bulk of the industrial finance for companies coming up fresh in the private sector is from the public financial institutions. This has almost become a tradition.

SHRI BHUPESH GUPTA: What can be done to restrict this dichotamy from this side, apart from general policies, in the sphere of banking or credit institutions?

DR. ASHOK MITRA: I think if we want a more purposive use of the monetary policies then perhaps we should really look into the activities of the major industrial houses of the country as a whole. There is no change in the possibility of credit going out to 25—30 industrial houses. The Reserve Bank has to adopt an institutional approach if it wants its credit policy to be more effective but even all this we want a basic change in the Government's overall attitude.

SHRI M. S. ABDUL KHADER: I would like to know whether you support this delinking or not?

DR. ASHOK MITRA: I would be for the present against the delinking of the IDBI from the Reserve Bank for the simple reason that I am against proliferation of unnecessary institutions in our economy which means waste of resources.

SHRI M. S. ABDUL KHADER: It it is withdrawn from the clutches of the Reserve Bank of India there is a great fear that IDBI will be exploited by the big business. Is it so?

DR. ASHOK MITRA: Again I would be absolutely neutral as between IDBI and the Reserve Bank of India. If the Government wants IDBI

to be in the clutches of the big business it will be in the clutches of the big business.

SHRI GIAN CHAND TOTU: If IDBI is delinked from the Reserve Bank of India what would be the establishment cost which will result in the wastage of the national resources?

DR. ASHOK MITRA: It is not merely a question of establishment cost but we really set-up a pattern of conspicuous proliferation of unnecessary institutions. There is a whole lot of establishment expenditure, new constructions coming up and there is also drain of technical talent. We do not have enough technical telent in the country. The diffusion of monetary control is something which leads to waste also which we can ill-afford at the present juncture.

SHRI GIAN CHAND TOTU: Then there should be no need of the different banks. They should come under one umbrella.

DR. ASHOK MITRA: I think there is scope for better coordination of the activities of the different nationalised banks and, I feel, we have already wasted five years in not trying to integrate the working of the commercial banks.

SHRI SUBRAMANIAN SWAMY: Are you for separation or against separation?

DR. ASHOK MITRA: I understand the Bill is for separation and I am against the Bill.

SHRI SUBRAMANIAN SWAMY: Don't you think although all the term lending institutions are dealing with public resources some of them take money from the market? A traditionnal application of the economic theory would suggest that separation or multiplicity of lending institutions should help minimise risks and help maximum resources being made available.

DR. ASHOK MITRA: If you grant of the assumptions of free entry, free exist, perfect competition and sovereignity of sellers and buyers, perhaps what you suggest would come about but with the given rigidities in our system a proliferation institutions does not really work for competition and greater efficiency.

SHRI SUBRAMANIAN SWAMY: Do you in principle see a distinction between monetary policy and fiscal policy?

DR. ASHOK MITRA: No longer, Sir. By now, the central banking apparatus is a part of overall Government consciousness and in a regime of planning there must be perfect communion between monetary policy and fiscal policy.

SHRI SUBRAMANIAN SWAMY: Do you see the situations where there can be a conflict?

DR. ASHOK MITRA: In a planned regime I would not envisage a conflict, but accidents do happen. It should be the task of the authorities to see that damage from such accidents is minimised.

SHRI SUBRAMANIAN SWAMY: I would say that the IDBI as presently constituted was formed when the Banks were in private hands. It was at that time quite necessary to give the Reserve Bank complete responsibility. But since banks have been nationalised, there is no confrontation to resolve between the monetary policy and the fiscal policy—culture of that is the same as that of the Reserve Bank. Do you not think it hardly makes any differenec in terms of loss of efficiency but at the same time advantage is gained if the Commercial Banks are nationalised and the IDBI etc. are brought under one head?

DR. ASHOK MITRA: If we are prepared to go the whole hog to set up one single development bank—

IDBI, FCI, Unit Trust of India—under the umbrella of the Reserve Bank of India, I would support some such proposition.

SHRI SUBRAMANIAN SWAMY: You have been in the Finance Ministry for quite some time and after nationalisation also.

DR. ASHOK MITRA: Yes.

SHRI SUBRAMANIAN SWAMY: Have you seen the performance of the State Bank of India as compared to the nationalised banks?

DR. ASHOK MITRA: In the normal course of my activities I had to look at the operations of the State Bank of India and if I can add, it is my feeling, perhaps the State Bank of India should be nationalised second time.

SHRI RISHI KUMAR MISHRA: Do you think that culture, ownership pattern of economic activities including production, monetary control and others, do not make any change at all in implementation and in influencing policy formulation?

DR. ASHOK MITRA: I must certainly say that they do make a difference and I say that the Reserve Bank of India will reflect the Government's mind because the Reserve Bank of India as compared to State Bank of India is a 100 per cent subsidiary of the Government of India.

SHRI RISHI KUMAR MISHRA: Do you think it will make any qualitative difference?

DR. ASHOK MITRA: All that Government is to do is to send telex message to the Reserve Bank of India to ask IDBI to adopt a certain line of activity and in any case the Boards of IDBI and the Reserve Bank of India are identical

SHRI RISHI KUMAR MISHRA: De-linking of the Development Bank from the Central Bank of any country will have effect on the efficient management of investible monetary resources.

DR. ASHOK MITRA: I certainly make a conceptual difference between a Development Bank and a Commercial Bank—in terms of loaning operations as between long and short term loans. I certainly am for separate organic apparatuses here. But in the present context when I know that Development Bank of India is not just one entity, even when you set up the Development Bank of India as a *primas inter pares* there is some other agency in your system which is doing the same thing, this does not take you very far. For the same reason, from whatever little I have seen of the Development Bank operations it would need some further guidance for a while from the Central monetary authority of the country.

SHRI RISHI KUMAR MISHRA: You said that this step in itself is not sufficient. What other steps do you suggest?

DR. ASHOK MITRA: The Industrial Development Bank of India itself could give more attention to the Industrial Finance Corporation which was the original Development Bank that was set up in the country instead of trying to set itself up as a separate element. Then one can take a view whether this Development Bank should be nearer the Government or nearer the Central Bank of India. As far as I am concerned I do not see much qualitative difference flowing from such physical proximity to the Central Government as would make some difference; if you want to correct errors I would like you to adjust the first error rather than the second one.

SHRI RISHI KUMAR MISHRA: You criticised this Bill on the ground that it will lead to proliferation of the institutions. In fact it is an attempt to create a holding company which would bring about better co-ordination between the financial institutions. This could be looked upon as a better co-ordination.

DR. ASHOK MITRA: I ask myself the question, what can I do through passing this Bill? If you want more co-ordination, have more co-ordination. Within the present legislative ambit, I see no difficulty in having the type of co-operation which is asked for. I do not think that we really do need to set up IDBI as a separate body, or as has been asked for in the Bill.

SHRI RISHI KUMAR MISHRA: The argument that has been advanced is that the Development Bank requires specialised services not only for advancing credit but project preparation, project appraisal and other activities are also there. Government's decision, converting loans into equity, requires development of managerial expertise. The Reserve Bank of India having so many functions may not be able to do it to the required satisfaction of the policy objectives. Therefore, it is hoped that IDBI if it is separated may be able to do it.

DR. ASHOK MITRA: If you are interested in the problems of technical appraisal, what you need is to set up a Technical Appraisal Cell in the Industrial Development Bank of India. There is nothing in the present legislation preventing IDBI to set up such a cell. If one wants to do substantial work that can be done.

You mentioned a second point about the joint sector concept and how the IDBI, if it is given a primary role would co-ordinate the philosophy of the Government in actual translation in this sphere. Even if this legislation is passed the Life Insurance Corporation of India will remain by far the major financial institutions which will have the bulk of funds and I see nothing in the present legislation which would really compel LIC—to be somewhat more amenable to the discipline of the IDBI. You would be able to enforce this discipline only through Government. You can do it today is well.

SHRI RISHI KUMAR MISHRA: Will you suggest that the new IDBI should have a right of proxy on behalf of LIC and it is provided in the Statute so that they are able to intervene on behalf of the LIC?

DR. ASHOK MITRA: I cannot really answer this question in part. My misgivings about this Act are not just about this element, but I want a merger of the IDBI, LIC and UTI. After this merger is through, let these three together as one common entity operate for a period of five years. If at that point of time, I find that there are still lacunae, I might say, let us go a step forward. I would not take a step which would be irreversible.

SHRI RISHI KUMAR MISHRA: Are you aware of the NIMCO concept, a proposal which was put forth by the National Industrial Management Corporation?

DR. ASHOK MITRA: I do not know the details about it.

SHRI M. RAM GOPAL REDDY: Mr. Mitra, you have told us that in the long run, in every aspect, the wishes of the Government would prevail. I would like to know, whether the Government views are confined only to the policy or the Government is interfering and day-to-day administration and working of the Boards.

DR. ASHOK MITRA: So far as the general mode of functioning of a public financial institution is concerned, it obviously has to follow the directives of the Government of India. In the day-to-day operations, obviously there can be no question of continuous inter change back and forth between the Government and the public financial institutions because after all the Government is incapable of interfering directly with each detail of the operation of the institutions. But where any such activity goes against the basic tenets of the Government, certainly Government has interfered and will interfere in the future.

SHRI M. RAM GOPAL REDDY: You said that the will of the Government would prevail. If that is so, why should we have these Boards, etc., why not have these managed by Government?

DR. ASHOK MITRA: I have myself asked that question sometimes.

SHRI YASHPAL KAPUR: You wanted everything to be merged together. You said that all the banks must be brought together. What would happen, if all the banks are brought together and then the Unions there go on strike? Now at least some banks would remain open. Decentralization is one of the very important things in democracy. We function from Panchayats to the Parliament. You would like to abolish all the institutions downwards and keep one institution at the top. Is that what you want?

DR. ASHOK MITRA: When I made that point, I was not advocating total integration of all the banks. What I meant was that perhaps there is scope for some coordination of their activities. It has been seen that there are areas where there is excess presence of these banks, while in some other areas, there is paucity. Sometimes in matters of staff relations, in matters of lending policies, etc., there is a certain lack of harmony between their operations. This somehow goes ill with the concept that there would be centralised direction. Certainly it is not beyond our imagination, genius and capability to try to have some sort of centralization to achieve this end. We should have some sort of centralization, and at the same time should not throw away the main virtues of decentralization.

SHRI YASHPAL KAPUR: You have been Economic Adviser to the Government of India and you know much more than the ordinary people know in this country. You know how this country has progressed in industries, etc., and what the Reserve Bank was before and what it has has after Independence. Its activities have increased manifold. The IDBI had to come and you had to create a separate Department. You had to start ARC, REC, etc. As the activities increase more and more and the developmental activities are taken up, don't you think that it would be humanly impossible to dispose of or deal with the increased work with the same set of Directors and the same Chairman in the Reserve Bank? There would be innumerable cases for financial assistance for putting up industries, etc.

DR. ASHOK MITRA: I do realise that the country has progressed, and the industrial structure has become diversified. What I am worried about is the unnecessary proliferation of institutions

SHRI YASHPAL KAPUR: Will you like to close down all the State financial agencies?

DR. ASHOK MITRA: Where you need an institution, have it by all means. But perhaps one should think and pause, if we really need an institution. The system here is, first you create a number of institutions and then you think back and start another instrumentality in order to coordinate these institutions. I have a very concrete example in mind, i.e., the Industrial Reconstruction Corporation of India. It was set up three years ago. There was a certain purpose for this. But when one thinks in retrospect, one feels both wiser and sadder at the way it has operated. Let us create institutions where we need them, but let us not go ahead anticipating certain things, even where requirements are not there.

SHRI YASHPAL KAPUR: Is it not better to be on the safe side? We should gear up ourselves in advance so that we are able to face the problems when they come

DR ASHOK MITRA: From the limited experience I have, I think, the major problem today is to co-ordinate the activities of so many proliferating institutions. If we did not have so many institutions, the problems would have been less.

SHRI NOORUL HUDA: In your observations, you said that ours is still a primitive economic system. I would like to ask you, what exactly you mean by this term.

DR. ASHOK MITRA: By primitive economy, I mean that 70 per cent of our population still derive their livelihood from primary activity. Although we have a kind of industrial sector, the functions and activities of the industrial sector do not really permeate down to the life and living of the majority of the population. That is another reason that the decisions we take in the industrial sector are still in the nature of crude decisions—so that if you can operate on three or four simple instruments of economic policy we should be able to achieve quite a bit.

SHRI NOORUL HUDA: You have also been associated with the Government of India for quite a number of years; so I would like to put this question to you. What was your experience regarding the functioning of the Reserve Bank of India as the principal lending institute on of our country—whether there was any hinderance on the part of the authorities concerned to the RBI's functioning as the principal institution of our country and whether this delinking of the IDBI (you have observed that it might be autonomous also) will help in the development of our country in any way. I mean to say, during the last few years it has been generally agreed that in spite of the RBI's restrictions and so on and in spite of these other anti-monopolistic policies of the Government, we have found that mainly the big monopoly houses have been benefitting by the policies of our Government. Now, I would put this question to you whether there was any restriction by the Government on the functioning of the Reserve Bank of India and whether this Bill which proposes to separate the IDBI would help in the further economic growth of the country in any way.

DR. ASHOK MITRA: I would merely repeat myself. If, for example, the Reserve Bank of India had acted in a particular manner in the past, I don't think it did so because of the imposition of a separate will on the part of the Government or because there was a certain dichotomy between its own attitudes and the Government's. In this matter I don't think there are major issues of conflict and what has happened because of the combined will and the combined attitude of the Government and the Reserve Bank of India.

Merely by setting up another institution you don't really change the modality of attitudes and all that would happen is that instead of having one central, apex, monitoring institution you might run the danger of having two parallel institutions—and five years hence, the Hon'ble Members will have to worry about setting up a third institution for co-ordinating the activities of the IDBI and the Reserve Bank of India.

SHRI NOORUL HUDA: Thirdly, you also said just now that instead of delinking the IDBI it would be worth-while to push forward the Industrial Finance Corporation; that is what I understood from your comments. Now, I would like to put the question to you whether this encouragement to the Industrial Finance Corporation of our country would help in the growth of economic development unless, as you have said, the will and the policies of the Government undergo a fundamental change.

DR. ASHOK MITRA: Here, again, I will go back to what I have already said. After all, it is not a question of favouring the Industrial Finance Corporation at the expense of the IDBI. If I have shown a predilection for the IFC, it is because I think that once we have committed a blunder, we should not persist in repeating the blunder. We have committed a blunder in regard to IDBI and we are now not only repeating the blunder but are trying to give it Himalayan proportions by setting up a separate organic body which will have an overlap with the Reserve Bank of India's.

श्री बी० एन० मंडल : मैं हिन्दी में अपना सवाल पूछने के पहले कुछ बातें कहना चाहता हूं । मेरा कहना यह है कि देश का अब तक जो एकोनामिक डेवलपमेन्ट हुआ है वह लापसाइडड हुआ है और उसका नतीजा यह हुआ है कि इस देश की एकानामी स्टैग्नेशन में पहुंच गई है, प्रोडक्शन होने में गड़बड़ी पैदा हो गई है —एग्रीकल्चरल प्रोडक्शन में भी और इंडस्ट्रियल डेवलपमेन्ट में भी । कारण यह है कि अभी तक सरकार का जो दिमाग है उस दिमाग का ज़ोर ज्यादातर इंडस्ट्रीज़ पर पड़ा है और एग्रीकल्चर को नेगलेक्ट किया गया है । अभी यह जो बिल आया है इस बिल का जोर भी, इसका इम्फेसिस ज्यादातर इंडस्ट्रियल प्रोडक्शन के ऊपर पड़ रहा है । क्या आप इस बात को जरूरी समझते हैं या नहीं कि जिस तरह से सरकार इंडस्ट्रियल प्रोडक्शन के लिए एंग्शस है और रिज़र्व बैंक के सबार्डिनेशन से अलग करके इंडस्ट्रियल डेवलपमेंट बैंक को एक एक होल्डिंग कम्पनी बनाना चाहती है या जितने भी दूसरे फाइनेन्शियल इंस्टीट्यूशंस हैं जिस से मदद मिल सकती है उन से इसका सम्बन्ध जोड़ने की कोशिश इस बिल के जरिए की गई है, क्या ऐसा नहीं होना चाहिए कि उसी तरह से एग्रीकल्चर के लिए एक बैंक बने, एग्रीकल्चरल डेवलपमेन्ट बैंक—और जितने दूसरे फाइनेंशियल इंस्टीट्यूशंस हैं उनको भी इसी तरह से लिंक किया जाये जिस तरह से इस बिल के जरिए इंडस्ट्रियल डेवलपमेन्ट बैंक का लिंक जोड़ा गया है —क्या यह अच्छा होगा और आप सलाह देते हैं कि इस तरह से करना चाहिए ?

DR. ASHOK MITRA: I will agree with the Hon'ble Member that the country's economic development has been lop-sided only to the extent that the majority of the population—the landless labourers, the agriculturists and small farmers—has been completely left out of the development process and, as a result of the development that has taken place, the income distribution in the country has been further tilted against them

Without going into the advantages or disadvantages of having this kind of a holding company for agriculture I would try to answer the Hon'ble Member's enquiry about it. Unless I have satisfied myself that the results that flow out of such an institution would be exclusively ear-marked for the benefit of the small farmers and the landless labourers who constitute the majority of the country's population and an overwhelming majority of the agricultural community, and that the institutional, political and social advantages of any such institution set up in this manner would not be diverted to other elements of agriculture, whertby the landless labourers and small farmers would continue to suffer, I would not recommend the setting up of another institution because it will become another instrument for exploiting the rural poor.

SHRIMATI SUMITRA G. KULKARNI: I was not here in the beginning to hear your full views on the proposed Bill. I do have some comments to make about the working of the R.B.I. The R.B.I. has not been able to encourage the agricultural

sector as well as the backward regions of the country and that is the main reason why we are thinking on the lines of delinking the IDBI from the RBI. Would you subscribe to this view?

DR. ASHOK MITRA: I think there is some difference and if the Reserve Bank has opted for the suggestion of delinking the IDBI from the RBI it is because of certain institutional inhibitions within the Government itself. These institutional inhibitions are shared by the Government along with the R.B.I. for example there has been the apparatus of co-operative credit in the RBI. But we know what is happening. The bulk of the funds given to the co-operative sector has been siphoned away by the richer agricultural community and this is happening because of the particular institutional and social structure in the country-side and as long as we are unable to reform its structure I think, we, by setting up new devices, would have not really be able to any achievement.

SHRIMATI SUMITRA G. KULKARNI: You were saying about the institutional inhibitions with the Government. Now, Government is what it is and its structure continues to be the same and in this situation, how can we achieve the break-through?

DR. ASHOK MITRA: If the power is given to me I will see that the Government gets out of the institutional inhibitions.

SHRIMATI SUMITRA G. KULKARNI: I have not really understood what you mean by institutional inhibitions.

DR. ASHOK MITRA: This is an ancient story. Year after year the funds that have flowed from the R.B.I. for co-operative credit have been taken away by the richer segments of the community. This dates back to early 1950s or so. If the Government wanted to correct it, it could have done so long ago. But it has not done anything through all these years and my own conclusion would be that the Government has not moved in the right direction as far as removing the institutional inhibitions is concerned. Otherwise, such things would have been removed.

SHRIMATI SUMITRA G. KULKARNI: Don't you think that the delinking of the IDBI would bring desired results? This is one method of removing the institutional inhibitions.

DR. ASHOK MITRA: We have a category of human beings whom we recognise as known sinners. I think the R.B.I. and the IDBI belong to the category of known sinners.

SHRI DEORAO S. PATIL: Do you agree that there should be balanced development of agricultural industry in this country?

DR. ASHOK MITRA: Certainly there should be a balanced development. For example, agriculture cannot develop without industrial inputs and the production of industry must be absorbed by agriculture. Similarly industry will have to depend on agriculture for raw materials and other agricultural produce. So there must be a certain balanced growth as between industry and agriculture.

SHRI DEORAO S. PATIL: You have said that agriculture has been neglected during the last 25 years or so. Do you agree that now the R.B.I. is not in a position to ensure balanced development not only between different regions but also the two most vital sectors of economy, that is agriculture and industry? If so, do you suggest any improvement in the development of agriculture?

DR. ASHOK MITRA: I think I run with the danger of sounding extremely tiresome. We have set up new institutions to take care of agriculture but if the weak and backward sections of agriculture have remained in

the same position, it is not just because of lack of attention on the part of this or that institutionality but it is because of the general attitude of the Government as well. Therefore, I have said: 'Reform the Government before you go to reform the institutions.' What are these institutions? They are really the hand-maid of the Govenment. So, I do not see any relevance of changing the institutions when the Government remains unchanged.

SHRI M. S. SANJEEVI RAO: Mr. Mitra, in your statement you have said that the private sector is purely speculative and not production-oriented. But so far as the public sector units are concerned, they have been working since recently and they are not doing perfectly well. Probably the reason is that we all know that they have selected the most incompetent and inefficient managerial personnel. Probably they are hand in glove with the private sector thereby doing nothing at all in the public sector, whereas good industrialists like Tatas have done a remarkable job. I want to hear your comments on this.

DR. ASHOK MITRA: Sometimes we find that the private sector makes profit precisely because the public sector is not making profit. When we find that the State Power Units deliberately make a loss, it is because they do not charge for the electricity supplied to units like the Aluminium Company in the private sector. Otherwise the production in that sector would go down. But it is not done so in the case of public sector units. I do not make an absolute comment on the relevant merits of public and private sectors. Certainly I do accept your other point that after all, given the general ambit of activities, in our country there is scope for better management of our public sector units and in so far as it is given to us, and given to the Government, we should try to see that efficiency increases all along whether it is in the private sector or public sector.

SHRI M. S. SANJEEVI RAO: You all know that nearly 35 per cent to 40 per cent of the installed capacity of the units—whether they are in the private sector or public sector—is not utilised due to want of finance, raw material or some other reasons. Now, IDBI is coming into being at the appropriate time to set it right. What is your comment?

DR. ASHOK MITRA: Sir, I have some different views about the reason why there is so much of excess capacity in our system. You can create new capacities. You can create more capacities in areas where there is no demand. If the general level of income of the majority of our population does not increase, then there can be no demand for industrial commodities. The kind of stories that we read in the newspapers these days about excess capacity, shutting down of second or third shifts, economising on production etc., are perhaps symptoms, that we have allowed our economy to drift in a manner and have allowed income distribution in Society to be shaped in a manner, such that the bulk of the population of the country have little purchasing power, whereas, at the other end, a very small segment has very large incomes. But they by themselves cannot sustain the demand for the kind of industrial production that we have already set up in the country. If there is going to be a balance development in this country, the balancing should start with balancing the structure of our industrial sector, balancing of our agriculture and industry and finally, what is most important, balancing the structure of asset and income distribuion.

SHRI M. S. SANJEEVI RAO: Mr. Mitra, I have one more salient question. You know, the Government of India and the banks have started

giving a lot of importance to graduate engineers and technocrats, who have absolutely no experience at all. They are giving cent per cent loan and all that. As you know, in 95 per cent of the cases, it is a failure. I personally feel that without proper infrastructure and without a proper ancillary system, they cannot work. I understand from a section of the economists that instead of wasting so much money on this account, if only we could divert this amount to successful ventures, it would result in the establishment of more industries. I would like to know your opinion about it.

DR. ASHOK MITRA: Sir, after all, I consider our pool of technologists and engineers as so much capital that is there. If you are not utilising their services, that is again a waste of the capital that we have set up in our system. Whatever can be done to make use of their services, ought to be done. Again, the major problem is the problem of savings. Unless there are savings, genuine savings, which can be really used for developmental activity all along the line and unless there is also development of demand all along the line, this pool of technologists will remain unemployed. Merely by offering them technical advice, we canot really make them more useful etc. We may set them up in new ventures. But, there should be demand for the kind of commodities they produce; there should be a certain level of demand across the country. This in my view, will depend upon reorientation of the structure of income distribution in the country.

SHRI PILOO MODY: Since we have moved a little away from the central theme of the Bill, I am inclined to pursue this matter a little further. Would you, therefore, give your comments on a statement that I am going to make and that is, our institutions for development of industry far out-strip our institutions for development of agriculture?

DR. ASHOK MITRA: I would agree with you three-fourths of the way. Certainly, we have institutions intended for agriculture. But, most of them have been appropriated by a small segment of our agricultural community. So far as the majority of our agricultural community is concerned, we certainly need additional institutions. But, here again I will go back to my original proviso. Mere setting up of institutions will not really do the trick, unless there is a certain reorientation of the agrarian structure.

SHRI PILOO MODY: I will rephrase the balance of the 25 per cent by saying this. Would you agree that the top-most priority in our economy—this is in line with the thinking that you have been pursuing in the last few answers—should be given to making the marginal agricultural producer into a surplus producer?

DR. ASHOK MITRA: I am more interested in those who are below the margin than in these who are at the margin because it is those who are below the margin who are currently dying for lack of food, for lack of income etc. So, I will start with those who are below the margin and then slowly go up to the margin. I will start from the bottom and then go up, from below margin to sub-margin, from sub-margin to margin and then to medium etc.

SHRI PILOO MODY: What would be your strategy for turnning those farmers who are below the margin into, shall we say, marginal farmers?

DR. ASHOK MITRA: This is where my sense of value comes in because I honestly do not think that under the present administrative arrangements, whatever institutions you may have, you would succeed in reaching down to those who are below the margin.

SHRI PILOO MODY: And therefore?

DR. ASHOK MITRA: Therefore, I would come to my,....

SHRI PILOO MODY: May I continue? Therefore, instead of turning into a philosopher, can we restrict ourselves to what is feasible and that is, to turn the marginal farmers into surplus farmers, which in turn, in my opinion, will help people who are below that line to come up to a position which would be perhaps more humane than what they are now?

DR. ASHOK MITRA: My attitude is somewhat different. I may be completely without hope. Yet, I have a vote as much as those who are below the margin have a vote. I know that we should do something for those who are below the margin, and if institutional hindrances are there, I will first attempt to reach down to those who are below the margin. I may not succeed cent per cent; I may not succeed 90 per cent. I may succeed 5 per cent or 10 per cent. Still, I consider it worthwhile making.

SHRI PILOO MODY: I asked you whether you have a strategy for that and then you gave a negative answer. I put you back on to the.. ....

DR. ASHOK MITRA: My strategy would be, if there are some resources which have to go for agriculture, I will try to find out, is there any peasant organisation, is there any active political party that is working for the landless labour and small peasants and I will use their instrumentality to funnel funds to the poorest sections of the society.

SHRI SUBRAMANIAN SWAMY: We, in this Comittee, are very much concerned about the passage and implementation of this Bill and the likely effect it will have on the pattern of investment. From what I have been listening this afternoon, I get the impression that because of the institutional inhibitions that are operating in the system, there would not be much difference or there would not be any difference in the pattern of investment that exists today, which you consider very unsatisfactory. In view of the fact that you have been the senior-most technical adviser to the Government of India, as Chief Economic Adviser to the Finance Ministry, for a fairly long period, are you saying that your technical advice was never listened to or this revelation that you are having is after you left the Ministry?

DR. ASHOK MITRA: Sir, after all, a technical being still remains an officer of the Government of India. As a technical man, I used to offer my advice and it was up to the Government to accept or not to accept.

SHRI SUBRAMANIAN SWAMY: What happened most of the time?

SHRI PILOO MODY: He is asking about your job satisfaction.

SHRI SUBRAMANIAN SWAMY: I am very much interested to know how the culture of the Government operates so that I can form an opinion as to how the IDBI will manage things. This is a very relevant question. When the IDBI comes under the Finance Ministry, after the passage of the Bill, I would like to know, what happens to economists who happen to be in key positions. What happens to their advice.

MR. CHAIRMAN: Mr. Subramanian Swamy, you cannot compel him!

DR. ASHOK MITRA: I remain equally dissatisfied whether inside or outside. Even when I was in the Government I was dissatisfied. So far as the corpus of technical personnel are concerned, they can do no harm to the country but they can do no good to it either.

SHRI SUBRAMANIAN SWAMY: Why was your advice rejected, that was, about the change in the pattern of investment and all that? Was it so to say, political or bureaucratic? What was the policy in that respect?

DR. ASHOK MITRA: If I use the expression, institutional, I should have covered all the factors..

SHRI SUBRAMANIAN SWAMY: Who rejected your advice? What happened to your file regarding the kind of investment which you envisaged?

DR. ASHOK MITRA: There are various sorts of decisions reached after various consultations etc. May be some of my views might have been 'muted out' instead of being 'muted in'.

SHRI INDRAJIT GUPTA : According to you, are we living in a planned economy?

DR. ASHOK MITRA: No, Sir, we are living in an economy of *laissez faire* only certain privileged elements in the State are protected.

SHRI INDRAJIT GUPTA: In a planned economy, theoretically, if it was a planned economy, you can make these financial institutions do what the Government wants to do.

DR. ASHOK MITRA: That will be the hallmark of a planned economy. That is to say, the credit policy should be integrated with the general economic and planning policy.

SHRI INDRAJIT GUPTA: Then, I want to ask one thing. You said it is not going to make much of a difference whether this is in the form of one institution or several institutions. Because in any case all of them will have to do whatever Government wants them to do and all that. You said that Government were pursuing a policy with which you are dissatisfied. That is why you think that in this particular set up, Government's predomnance over these financial institutions is bound to have a sort of bad effect .

DR. ASHOK MITRA: Firstly, one could say, yes, what is the qualitative difference whether you have two separate institutions or one institution? But there is one difference. Why set up a new thing because it would mean a wastage of resources? But even for example, if I were satisfied that there is a particular sort of communion between my views and the Government's views, I would be still against this particular organic separation. I do not think that it is a terribly scientific one. If there would be to set up an organisation on which is a combination of UTI. IDBI, IFC etc., I would have said, all right, let us see for 5 or 6 years and if it does not work, let us come back. Let us then see why it is necessary to take out this composite financial institution outside the sovereignty of the Reserve Bank of India

SHRI INDRAJIT GUPTA: Do you think one super-bank is not necessarily a bigger evil?

DR. ASHOK MITRA: I am thinking about the cost as compared to the supposed additional benefits involved. The additional cost would be very much more compared to the additional benefits and so on. What I would submit is that there will be a certain overlapping of jurisdiction of the credit allocation and there might be a tendency for excess credit being pumped into the system. This is because IDBI has re-discounting and refinance facilities. There are certain parties, which turned down by the Government, that is the commercial bank— has surreptitiously come to another wing of the RBI—the IDBI—and offered facilities. There will be a sort of multiplication of this kind of exercise, as I said.

SHRI INDRAJIT GUPTA: To what extent do you think that the functioning and credit activities of the IDBI are influenced by the licensing policy of the Government? Is there any obvious tie-up between the two?

DR. ASHOK MITRA: There will certainly be, between the two.

SHRI INDRAJIT GUPTA: If you think that credit has been cornered in a particular way by a certain section of people, the same thing is apparently happening with regard to the licences too.

DR. ASHOK MITRA: You can see what happens if one look into their allocation of let us, say, industrial licences in terms of big houses and those outside, and so on. There are various types of allocation, of IDBI accommodation, favouring the big industrial houses. And to that extent I would say, there is a fair degree of correspondence between the two.

SHRI PILOO MODY: It is licenses that lead to credit and not credit that leads to licenses.

SHRI INDRAJIT GUPTA: It is only those who have received this licenses who can get the credit. What I wish to ask you is this. The broad policy is laid down by the Government and this policy has got to be ensured. Within the framework of that policy these financial institutions are expected to function. There are certain guidelines laid down or certain norms etc. But what we see is that the projected or the announced policy of the Government is just the contrary of the results which are to be seen. How do you explain this thing? The announced policy is one and the implemented thing is another. Is it that the institution carrying out that policy has certain degree of independence which should not be there, for which it has got to be pulled up?

DR. ASHOK MITRA: I have spoken and written about these matters. One can of course make a distinction between Government's declared intention and the flabbing nature of the Government machinery in implementation. In this particular instance I think one should not really try to make too great distinction. I will give one example. Take differential interest rates. It has been said that poor farmers and landless labourers should be offered special funds by banks at zero per cent or one per cent of rate of interest and so on. But since we do not want the overall profitability of banks to be affected, the suggestion was made, all right, you load your cost on the rich traders and speculators and industrialists who make fifty per cent or sixty per cent of profits. For the rich farmers, you charge a rate of 20 or 25 per cent. Then we are told, "You cannot do that; you cannot charge a rate of interest which is more than 11 to 12 per cent."

SHRI INDRAJIT GUPTA: Told by whom?

DR. ASHOK MITRA: Within the Government by people at all levels including the so-called policy-makers to the effect that this cannot be done. Why is it so? Because many of the State Governments have legislation which prohibits the rate of interest which is more than 11 to 12 per cent. I looked into it and found that in the 1940's or thereabouts, special legislation has been passed by many of the States in order to protect the small farmers against usurious rates of interest. Regulations were made that you cannot charge more than 12 per cent. So, an instrumentality which was intended to protect the poor farmers against the exploitation by the affluent eventually who sought to be turned round against them in order to deny them additional facilities. This happens not because the

instrumentality is wrong but because you have declared a policy and yet you are also winking at it, and the winking can be done inside the Government at different layers.

SHRI INDRAJIT GUPTA: It may be a hypothetical assumption at the moment, but, assuming that the Government was sincere in carrying out their declared policy, in such a case, would it make things better to have this kind of separate IDBI organisation which is envisaged in the Bill? Would it be a more effective instrument?

DR. ASHOK MITRA: Not really. I do not think that under the existing structure a new institution will make much of a difference. But if we say that the Government can really change its instrumentality, I would then say that there is nothing which prevents the Government from changing the instrumentality of the Reserve Bank of India. If the Government is all right and it is the instrument which is wrong, then it is up to the Government to change the instrumentality. For example, when the Government took over the 14 or 15 major commercial banks and nationalised them, it was up to the Government to get rid of the gentlemen who were managing the banks on behalf of the big industrial houses, but the Government did not do any such thing.

SHRI INDRAJIT GUPTA: You told us that there is a great shortage of technical expertise in this country. So, the Government's argument has always been that while they are going to get so many ready-made management people, sometimes they have to use the existing people and keep a supervisory control until such times as the new people are trained up, and then they are taken over. That was the Government's argument.

DR. ASHOK MITRA: Then it would be an additional reason why you should not allow the IDBI to move away from the Reserve Bank.

SHRI PRANAB KUMAR MUKHERJEE: You have suggested that there are reasons to believe that these two institutions, the IDBI and the Reserve Bank of India, in course of time may be competing with each other and the two apex bodies may reach that stage when perhaps the MPs may have to think of establishing a separate institution for coordinating the activities of these bodies I would like to know from you what provisions of the Bill in particular compelled you to come to this conclusion. You might point out what are those provisions and the arrangements in the amending Bill that may create the IDBI to be a competing apex organisation with the Reserve Bank of India.

DR. ASHOK MITRA: The general sense of the Bill is that this new institution will be a co-ordinating body, co-ordinating the long term financial accommodation facilities in the country. So, a conscious decision is being taken that from now on, the equities of the IDBI will be transferred from the Reserve Bank to the Government of India. The conclusion that one arrives at it that from now on, all responsibility, decisions, and functions concerning the grant of long-term accommodation will be concentrated in the IDBI and therefore, by implication, the Reserve Bank of India will be in charge only of the monetary policy which concerns the regulation of short-term accommodation as provided by the commercial banks. But then, it is very difficult to say where the long term ends and the short term begins, or where the short term ends and the long term begins. As I was mentioning a little while ago, we already have seen several instances where the IDBI, even though it is nominally under the tutelage of the Reserve

Bank of India, has been under pressure to offer accommodation which cannot really be defined or described as long term and which is really short term accommodation, and to that extent, it has created liquidity additional to what the commercial banking system has done. It is my apprehension that if you allow a completely separate sovereignty to the IDBI in the manner in which it is delineated in the Bill, depending upon the way the developments take place, within the IDBI, the staffing further on will play a very big factor. In the beginning, you will have personalities in the IDBI and the RBI who are really placed in a position of antagonism towards each other. So, nobody can gauge the question of personalities in such matters and things may come to a head.

SHRI PRANAB KUMAR MUKHERJEE: One thing is not clear to me. There are several other financial institutions and the IDBI will have an overall control; so far as the promotional aspect and credit control in financing are concerned, the Reserve Bank has certain other obligations. Some hon. Members put you the question, and I do not know whether you caught the point. That was, whether the same set of people sitting in the management of the IDBI and sitting in the management of the Reserve Bank can do justice to the enlarged areas of activity in both these institutions.

Secondly, there are certain other institutions which are working in the area and there is an overall control of the Reserve Bank. What particular provisions of the Bill are taking away all these powers from the Reserve Bank and entrusting them to the IDBI and in which way you can apprehend that the IDBI is running as a rival apex body controlling industrial financing?

DR. ASHOK MITRA: The IDBI will emerge as a rival apex body for the simple reason that it is now proposed to set it up as a parallel apex body. From now on, the Reserve Bank will have no responsibility at all for overseeing the long term financial accommodation problems. This will be entirely the jurisdiction of the IDBI. I may be repeating myself when I say that there could be areas where there is also the danger of overlapping, and overlapping is always a waste.

SHRI PRANAB KUMAR MUKHERJEE: The areas are earmarked for the IDBI and the Reserve Bank.

DR. ASHOK MITRA: Areas in the operational sphere cannot really be earmarked because it is very difficult. Something which you consider to be long term accommodation can be really short term accommodation. I am giving a concrete example. The IDBI was talking in terms of setting up a raw material centre or a raw material bank. his is a kin to offering working capital accommodation to private banks. I say it is really the jurisdiction of the commercial banks. Why should the IDBI enter this work? I know of other instances where parties like the Transport Corporation, the Electricity Board, etc., do come for accommodation to the Government and they have been denied, and they have gone to the commercial banks and have been turned away, and they have come to the IDBI and tried to plead their case. There is the danger that there could be a proliferation of this kind of thing. What I was suggesting is that one need not try to make history irreversible. The moment you pass an Act, you freeze the situation. Is there anything in the present legislation where you want to give a slightly different kind of orientation to the operation of the IDBI? You want to change the Board of the IDBI. With minor amendments here and there, this can still be done. I will come back to the original

point. I know that it will be said that there is no danger since you can change the composition of the Board. Once you set up a Board, you will be changing its composition. But you could have one Ashok Mitra on the Board of RBI and another Ashok Mitra on the board of IDBI but if the two Ashok Mitras come from the identical strata of society and hold identical views, you are not achieving much.

SHRI PILOO MODY: May I know whether the overlordship of the RBI over the IDBI has acted as a deterrent on the Government to arbitrarily allot financial credit through the IDBI and that this is a ruse to separate it and bring it directly under the Ministry of Finance?

DR. ASHOK MITRA: I do not think Government is at all worried about the Reserve Bank being an unwelcome intermediary between itself and the IDBI. If there has been an urge to set up a separate body, I think the intentions must be somewhat different.

SHRI PILOO MODY: I would only recommend to the witness that once bitten should be always shy.

MR. CHAIRMAN: Thank you, Dr. Mitra.

The Committee then adjourned.

RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973.

Wednesday, the 23rd October, 1974 from 15.00 to 16.00 hours

PRESENT

Shri K. Suryanarayana—*in the Chair*

MEMBERS

Lok Sabha

2. Shri Dinen Bhattacharya
3. Shri Chandulal Chandrakar
4. Chaudhry Dalip Singh
5. Shri Anadi Charan Das
6. Shri Indrajit Gupta
7. Shri Noorul Huda
8. Shri Ramachandran Kadannappalli
9. Shri N. S. Kamble
10. Shri Jagannath Mishra
11. Shri Piloo Mody
12. Shri Surendra Mohanty
13. Shri Pratap Singh Negi
14. Shri M. S. Purty
15. Ch. Ram Prakash
16. Shri Ram Swarup
17. Shri M. S. Sanjeevi Rao
18. Shri M. Ram Gopal Reddy
19. Dr. Govind Das Richariya
20. Shri Babu Nath Singh
21. Shri Somchand Solanki
22. Shri N. R. Vekaria
23. Shri Sukhdeo Prasad Verma

24. Shri Bhupesh Gupta
25. Shri B. V. Abdulla Koya
26. Dr. K. Mathew Kurian
27. Shri B. N. Mandal
28. Shri Rishi Kumar Mishra
29. Shri Lokanath Misra
30. Shri Deorao S. Patil
31. Shrimati Saraswati Pradhan
32. Shri Kameshwar Singh
33. Shri Subramanian Swamy
34. Shri Gian Chand Totu

LEGISLATIVE COUNCIL

Shri N. L. Vaidyanathan, *Additional Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE

(DEPARTMENT OF BANKING)

1. Shri N. C. Sen Gupta, *Secretary.*
2. Shri M. K. Venkatachalam—*Joint Secretary.*
3. Shri D. K. Sen, *Deputy Secretary.*

SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

WITNESS EXAMINED

All India Reserve Bank Staff Officers' Association, Bombay.

Spokesmen:

1. Shri O. P. Shukla—*President*
2. Shri V. A. Mahinkar—*Asstt Secretary.*
3. Shri R. P. Donde—*Secretary (West Zone)*

(The witnesses were called in and they took their seats)

MR. CHAIRMAN: The witnesses may please note that their evidence shall be treated as public and is liable to be published, unless they specifically desire that all or any part of the evidence given by them is to be treated as confidential. Even though they might desire their evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

SHRI O. P. SHUKLA: Unfortunately, our General Secretary Mr.

Elavia could not attend because of some unfortunate eleventh hour development and our Vice-President Mr. Mukherjee who was also to have come, could not do so because of the non-availability of reservation due to Pooja holidays. Another misfortune is that after coming here I felt ill yesterday; and with great difficulty, because the programme was already fixed, we have presented ourselves before you with the absence of these two members.

MR. CHAIRMAN: You have already submitted your memorandum. If you want to add anything to that, you may do so.

SHRI O. P. SHUKLA: The Reserve Bank of India employees belong to four different associations. I understand, three of them have already appeared before you. Only last month, Reserve Bank of India Officers' Association appeared before the Committee. They have submitted their memorandum. We have also submitted our memorandum. Almost everything has been covered in the submissions made by the other three associations. So far as our Association is concerned, we adopt all that has been said by the Officers' Association in their memorandum, excepting a few submissions, which we will presently make. I would not like to go into all the aspects that have already been covered. I would only touch upon the points, which we would like to make. So far as the technical aspect of this issue is concerned, separation of IDBI, I would not like to dilate on that. I would like to touch upon the other problems which our Association apprehends will arise in the wake of separation of IDBI. I will take up a little later the other aspect, the other problem that will be created as a result of this separation. Before that, I would like to invite your attention to one thing. Like other associations, our Association also feels about the obsence of any particular circumstance warranting this separation. IDBI has functioned right from 1964 to 1974. The figures already submitted to the Committee about lending, short-term, export finance etc. will explain the development side of IDBI. The total lending by IDBI to all the institutions has risen from Rs. 54 crores in 1964 to Rs. 1100 crores in 1974. This has risen within a decade. Our Association feels that this is quite satisfactory and does not warrant any change in the pattern, set-up and functioning of IDBI. There is also another point. Most of the members of our Association have actually performed duties in other departments and they have also the practical experience of working in the other specialised departments of the Reserve Bank of India like Economic Department, Statistics Department, Department of Banking Operations, Agricultural Department etc. They have also appeared recently before the Cadre Review Committee presided over by three eminent persons, of which you might be aware. Apart from their academic qualifications, they have also the expertise and experience gained during this long period of ten years. For your information, I may also say that assignment of personal from other departments of the Reserve Bank of India to IDBI has been a continuous process. It is not that some staff were sent by the Reserve Bank of India to IDBI and they continue to be there because talent is available in so many departments. Taking into account all factors, persons are selected from the various departments and posted to IDBI. We are putting all these things before you, as we see from our point of view, to explain how the separation of IDBI from the Reserve Bank of India will create problems. What we feel is this. I do not know whether we are entitled to lay such a claim. The creation of IDBI, the speech made by Mr. Krishnamachari, the then

Finance Minister in the Lok Sabha at the time of introduction of IDBI Bill and the opinion of the expert committee on IDBI, appointed by Government, all lend support to this view, which we also share sincerely, that this separation will not serve any purpose. Change will be there no doubt. But, we are not sure whether the change will be for the better. What we feel is, Reserve Bank of India is a central banking institution and in that capacity, it has to exercise overall supervision over all the departments. Coordination part is extremely important. It may function efficiently, but, the net result, a favourable result can be achieved only when efficient coordination is there. That coordination is not possible if an important wing like the IDBI is separated from the Reserve Bank of India. There are so many things like short-term, medium-term, long-term lending etc. The figure is quite convincing. I hope you will also agree that the increase in lending from Rs. 54 crores to Rs. 1100 crores in a decade is more than satisfactory performance by IDBI. These are some of the observations which we entirely share with other associations. We also fail to see the need for introducing this Bill, for separating the IDBI. In our view, it is not at all warranted by the present circumstances. The Board, as constituted at present, consists of many eminent men who are known to have a thorough knowledge of economics, banking and other subjects. They are authorities and masters in their own right. So, we feel that the re-structuring of the Board—if it is a question of a slight amendment or a little addition here or there, it is all right—replacing it by a completely new Board, is redundant. It is not necessary. These are the aspects whch have already been brought before you. We may kindly be permitted to place before you the aspects which have not been brought before you.

The Cadre Review Committee consisting of three eminent men—one, a judge from the High Court, Bombay, Shri Ishwaran, ICS, Secretary to the Maharashtra Government and Shri Ramaswamy, Chairman, N.I.T.T.I.—all of them are experts in their own light, was appointed for the first time in the year 1968 in the history of the Reserve Bank. Never before has any impartial or a third party arbitration or negotiation been made between the Bank and the Officers' cadre with the result that their emoluments and their service conditions continued to be arbitrarily decided by the Reserve Bank authority. Certain historical developments took place as a result of which, so many departments were opened by the Reserve Bank such as the Department of Banking Operations, Statistics and Economics. What happened was that these Departments were given a right of retaining their own strength with their own seniority. The result of all this was that the general side comprising the number of officers had lost their promotional avenues as the same have been blocked. And, the officers transferred to these new departments got early promotions and early confirmations not because of their extraordinary qualifications but because of sheer accident of history that somebody is posted in this department or somebody else in that department.

It was not because the staff was drawn from qualified personnel. So, the Cadre Review Committee recommended that there should be merger of groups. There are at present Groups I, II, III and IV in the Reserve Bank and the Industrial Development Bank is the Fifth Group. So, that Cadre Review Committee, after hearing the entire case regarding the compartmentalisation among the various Banks, recommended that there should be a merger of all the groups and a common seniority should be drawn up.

We know of this recommendation by the Cadre Review Committee. The

Bank also took certain decisions to proceed with the implementation of those recommendations. This separation of the I.D.B.I. from the Reserve Bank is going to create a big problem in the light of the recommendation given by the Cadre Review Committee. Why I say is this because the officers transferred at present—I may tell you for your information—number about 400 in Grades II and I working in the Industrial Development Bank of India. The proposed Bill contains that the right of option will be given to them. That is to go back to their department. But, the vacancies so caused by their going back to RBI are not proposed to be filled up by an equal number of officers working in the Reserve Bank in various departments, that is, officers working in both Grade I and Grade II in other Banking industries. These matters had been discussed before the various Tribunals. But, the Reserve Bank of India, as I submitted earlier, has decided for the first time, in the history of the Reserve Bank, to give some relief—partial relief—in the matter of promotional opportunities and their emoluments.

Before this relief could be given to the officers, I would request you to consider this thing. This separation IDBI is going to render a very serious blow to the members of our staff in both the categories. How this will happen is this. The moment they come back to the R.B.I., their seniority, their avenues of promotions, early confirmations etc. will be considered over the seniority of other officers who may, otherwise, be senior to them in the length of service there. So far as other departments are concerned, they are being separated from the R.B.I. And this problem does not arise because the C.R.C. has recommended that a merger should take place. We are occasionally meeting the bank authorities and discussing among ourselves as to how to proceed with this merger so as not to create any further problems as they used to exist before the appointment of this Cadre Review Committee. So, in the light of that, I may submit that our members of this Association number about 1500 in the whole of India. Out of this strength of 1500, you can imagine what will happen if these four hundred officers are displaced as a result of this separation. It will only create a problem for the Reserve Bank, for our organisation and for the members concerned. Apart from those considerations, you should consider the staff problems also as a result of separation of the IDBI from the Reserve Bank by passing this Bill. This will be an additional problem apart from the problem arising out of separation of this IDBI from the Reserve Bank. The other problems have already been covered by all our Associations.

MR. CHAIRMAN: Now, I would request the hon. Members to put their questions to the witness.

DR. MATHEW KURIEN: Mr. Chairman, Sir, the witnesses, in their Memorandum on page 2 have stated as follows:—

> "The role of the Central Bank of a country in a developing economy cannot be and should not be restricted to its traditional fields as a note issuing authority...."

They have further stated that the Reserve Bank has a responsibility of managing the credits to agricultural sector and also to look after the balanced development of agriculture and industry.

Now, I would like to seek a clarification from you. As we understand the Bill, it does not separate the agricultural finances from the Reserve Bank's responsibility. So, by implication, the Government does not go

against the principle. At least by implication, the short-term lending and longterm lending should really be integrated. But, in the case of an industrial finance, they are making an exception from this rule that it should be separated. It gives the impression that the Government is, on the one hand, accepting the principle that short-term and long-term lending should be integrated, particularly, for a developing economy and so on and on the other hand, for some mysterious reasons, the Reserve Bank wants to delink the industrial finance from it. We want to know what is their mysterious reasoning or economic reasoning for delinking the industrial finance. I do not see any basis for this while going through the Bill that the volume of credit will expand just because of this new amendment. How can the cost of credit go down just because of this delinking?

I do not see any increase in integration between short-term lending and long-term lending; actually there is a decrease. Therefore, according to me, there is no economic reasoning. Do you find any? If not, what is the reason and in what manner this Bill will help? Is it because the Department of Banking people want to increase their empire?

SHRI SHUKLA: I am obliged to you for putting this in a very clear way. As I submitted, it is the co-ordination part that is important, the overall control and supervision of the RBI over the functioning of the different departments dealing with agriculture, industry and export finance. You asked in what way this is going to be improved by separation. I wish to lay greater emphasis on the co-ordination aspect which can be exercised only by the RBI. Government can by taking over this department exercise greater care and adopt certain other measures. But the efficacy of these steps in open to doubt. The effective co-ordination which the RBI is in a position to exercise will not be there in case this is separated.

DR. MATHEW KURIAN: In page 5 of your memorandum, you say that the separation of the IDBI from the RBI would deprive IDBI of the continuous flow of efficient staff and guidance of men of prominence in various fields. Is it your contention that efficient staff cannot be newly recruited or are you making the point that the RBI already has through a number of years of experience developed a cadre of some experience in handling this and if this is continued, it will help?

SHRI SHUKLA: You have correctly put it. People with higher academic qualifications may be available to Government. But the expertise and experience which comes to an officer by associating himself for a pretty long time in doing a particular job will not be there. Here I would refer to the work undertaken particularly by the Statistics and Economics Departments. There is no time for me to go into details and I do not also wish to bother you with details, but I can safely say this. The Cadre Review Committee also, on the basis of the material put before them, had come to the conclusion and recommended to the Bank that these two departments, the Statistics and Economics departments, should be kept out of the purview of merger of groups. They had recommended merger of all the groups, but because of the nature of work and the expertise possessed by the officers working in these departments, they should not be subjected to the disturbance of transfer from one department to another. The sole idea was that the expertise gained by them is so valuable that the Bank can hardly afford to dispense it.

DR. K. MATHEW KURIAN: In page 4 you have admitted that it does not mean that there is no scope of improvement in the work of the IDBI and in that connection you have stated that it is yet to be seen that

the wealth and prosperity generated by the implementation of projects aided by the IDBI do not concentrate in the hands of a few and widen the gap and disparities between the rich and the poor and do not lead to monopolise acquiring more economic power. This relates to the growth of monopolies. Our experience is that the IDBI and all other public financial institutions, whether under the umbrella of the RBI or otherwise, have been influenced by the monopoly houses, and a larger share of the investments has gone to them. Therefore, I criticise all these institutions for helping monopoly growth. While this is a fact, will the new arrangement improve matters or worsen them? By handling over IDBI to the Department of Banking which is strictly under political leadership, will the link between monopoly houses and IDBI increase or decrease? In other words, under the umbrella of the RBI as compared to that of the Department of Banking, would you consider the RBI relatively more independent and therefore the pressures are likely to be lesser?

SHRI SHUKLA: This will not improve matters. Licensing Policy is the monopoly of Government. Lending policy, as exercised by the RBI, has up to a certain extent, upto a certain percentage, been liable to a certain discipline, but the moment it comes under Government, there will be another co-ordination—between the licensing authorities and the authorities governing the board of the IDBI. The discipline and restraint which the RBI is in a position to exercise today will not be available if the licensing policy and lending policy are both controlled by the Government. This sentence has been put in under that impression. This has happened. I need not go into details. Hon. members are already award of it.

SHRI JAGANNATH MISHRA: It is apprehended that in case IDBI is delinked from RBI, it will lead to bureaucratisation of the organisation, will create chaos and disorder and thirdly the entire credit control system will be affected. Do you agree?

SHRI R. P. DONDE: We have not so clearly stated it. But overall, we agree with that.

SHRI JAGANNATH MISHRA: How far do you agree?

SHRI DONDE: As regards bureaucratisation, our President has stated that expertise is divided into various departments. There is the Department of agricultural credit which has agricultural expertise, there is the Department of banking operations and development where commercial banking experience is available, there is the Economics department where economic research is carried out, there is the Statistical department where statistical research is carried out—like that. If you look at the officer strength of IDBI today, you will find that officers from all these departments are now concentrated in IDBI. As a result, a mixture of all this different expertise is available in the IDBI. It is not that tht IDBI officers come in directly. It is after taking the experience from the various fields that they come to the IDBI. After this Bill is passed, and the IDBI is separated from the Restrve Bank, this type of expertise will not be available, and that is why I agree with your observation.

SHRI JAGANNATH MISHRA: In coming forward with the Bill the Government is of the opinion that they are bringing about a better and efficient co-ordination in the functions of the financial institutions. Do you disagree? If 'Yes,' what can be your points of disagreement?

SHRI DONDE: What is stated in the Bill, is nothing new. When the Bill was introduced in 1964, the same

thing was put before the Government. The IDBI has functioned as an apex lending institution so far. It has been doing that job quite well. It has got the co-ordinateion with the LIC, SFC and other dominating institutions, and we fail to understand what better type of co-operation can be envisaged after the IDBI is separated from the Reserve Bank. No further thing can be expected from separating the IDBI from the Reserve Bank.

SHRI SHUKLA: May I add one thing? My friend has said that it will not improve. Not only that. On the contrary, though we may not be taken as correct, our apprehension is that the position will be worsened.

SHRI JAGANNATH MISHRA: In what respect the position will be worsened? Please elaborate and explain.

SHRI SHUKLA: As I have already stated, in my earlier two submissions, the expertise, the knowledge and the experience acquired during the long years of service in very important departments have made it possible for the Reserve Bank to enthuse those talents in the Industrial Development Bank.

Secondly, as I have already submitted, the co-ordination part will not be possible, going by experience only by constituting a separate Board.

By itself it is not likely to improve matters. It is the overall supervision and the co-ordination and the extent to which it will not disbalance the lending policy to important sectors. The lending policy will have to be governed by the social environment from time to time. Today, this sector needs lending; tomorrow, the industrial or the agricultural sector may need lending. So, balancing is possible only by the Reserve Bank. It is governing all the lending sectors and is at the commanding heights.

MR. CHAIRMAN: We are happy to have your evidence. Now you may withdraw.

SHRI SHUKLA: I am obliged to all the Members of the Committee for the patience with which they heard us.

[The Committe then adjourned.]

RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973.

Wednesday, the 5th February, 1975 from 15.00 to 17.45 hrs.

PRESENT

Shri K. Suryanarayana—*in the Chair*

MEMBERS

Lok Sabha

2. Shri Dinen Bhattacharya
3. Chaudhry Dalip Singh
4. Shri Anadi Charan Das
5. Shri B. K. Daschowdhury
6. Shri Jagdish Chandra Dixit
7. Shri Madhu Limaye
8. Shri K. M. Madhukar
9. Shri Piloo Mody
10. Shri Surendra Mohanty
11. Shri Pratap Singh Negi
12. Shri Rajaram Dadasaheb Nimbalkar
13. Dr. Laxminarayan Pandeya
14. Shri M. S. Purty
15. Shri Ram Swarup
16. Shri Babu Nath Singh
17. Shri Somchand Solanki
18. Shri N. R. Vekaria
19. Shri Sukhdeo Prasad Verma

Rajya Sabha

20. Shri K. B. Chettri
21. Shri Babubhai M. Chinai
22. Shri Bhupesh Gupta
23. Shri M. S. Abdul Khader
24 Shrimati Sumitra G. Kulkarni
25. Dr. K. Mathew Kurian

26. Shri Rishi Kumar Mishra

27. Shri B. N. Mandal

28. Shri Deorao S. Patil

29. Shrimati Saraswati Pradhan

30. Shri S. Ranganathan

31. Shri Kameshwar Singh

32. Shri Subramanian Swamy

LEGISLATIVE COUNSEL

Shri N. L. Vaidyanathan—*Additional Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE

1. Shri N. C. Sen Gupta, *Secretary.*

2. Shri M. G. Balasubramanian, *Additional Secretary.*

3. Shri M. K. Venkatachalam, *Joint Secretary.*

4. Dr. D. N Saxena, *Joint Secretary.*

5. Shri V K. Shunglu, *Deputy Secretary.*

SECRETARIAT

Shri H L. Malhotra—*Legislative Committee Officer.*

WITNESSES EXAMINED

I. Ministry of Industry and Civil Supplies (Department of Industrial Development), New Delhi.

Spokesmen:

1. Shri R. V. Raman, *Secretary.*

2. Shri Bimal Jalan, *Economic Adviser.*

II. Planning Commission, New Delhi.

Spokesmen:

1. Shri V. G. Rajadhyaksha, *Chief Consultant and* Ex-officio *Secretary.*

2. Shri M. Satyapal, *Additional Adviser (I & M).*

3. Shri D. R. Gupta, *Chief (Economic Growth & Policy).*

I. Ministry of Industry and Civil Supplies (Department of Industrial Development), New Delhi.

Spokesmen:

1. Shri R. V. Raman, *Secretary.*

2. Shri Bimal Jalan, *Economic Adviser.*

(The witnesses were called in and they took their seats)

MR. CHAIRMAN: You may kindly note that the evidence you give would be treated as public and is liable to be published, unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire the evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament. You may say what you want to say and then Members would seek some clarifications.

SHRI R. V. RAMAN: I thought I might respond to any points that you may have. When the Bill was being drafted, we had given some comments and our views had been taken into account. The Bill has our full support.

DR. MATHEW KURIAN: I want to know whether the witness agrees with the view that under the present dispensation the Reserve Bank has a majority shareholding in the IDBI and so at least in theory it is somewhat more independent compared to the banking department which is a direct creature of the Government of India itself. It is well known that most of the public financial institutions have given large chunks of money to the monopoly houses. Will it not therefore be better to have an apex agency which is relatively independent? Of course the Reserve Bank cannot be fully independent but compared to the banking department is a little more autonomy and freedom of action, at least in theory. Will it not be better to continue the existing arrangement, rather than delinking the IDBI and other institutions?

SHRI R. V. RAMAN: On the question whether an apex industrial financing institution like the IDBI should be located under the umbrella of the Reserve Bank or should be directly under the Government is a subject on which both in theory and practice one can have different views. In the first instance the IDBI was created as a subsidiary of the Reserve Bank. Since then we have reviewed the position. One view is that the Central Bank should really be responsible for monetary policies and credit, currency and exchange and should not be involved in lending to specific organisations in the public sector or the private sector and in that sense many believe that the Central Bank should not be involved in this kind of operation. It should supervise long term and short term credit rather than be in the direct business of lending. But quite apart from this theoretical point, we have in the course of the working of these institutions found that in the present context much greater co-ordination between the policies and practices are necessary. Priorities which change from plan to plan and from time to time have to be observed and as between different institutions also much greater co-ordination has to be brought about. It is from that point of view that there are many provisions in this Bill. It is not just that the IDBI had been removed from the Reserve Bank and brought more directly under the Government Institutions engaged in term financing at the State as well as the Central level, ICICI, IFC, UTI, LIC and SFCs are brought to function in a co-ordinated, effective way. From the point of view of industrial development and the priorities drawn up, this will have to be looked into.

There were certain other aspects also, which were the objectives of the IDBI in which some attempts have been made to improve, namely, regional development, promotion of new enterpreneurs etc. In many of these things a much closer link between the Government and development banking is, we felt, quite necessary.

Lastly, there is one other important thing which does not arise so much from the provisions of the Bill but which is underlying the change that has been brought about. This is

in regard to evaluation, appraisal and management. One of the points has been that Institutions lend money to companies but the management of these companies is not always on sound lines; so, the units go sick and thereafter the Government is compelled to take over those companies under the Industries (Development and Regulation) Act and spend considerable amounts in modernisation and rehabilitation and so on. In recent years this has become an important problem because many industries are going sick. A point has been made that these Institutions can play a more active part, not only in trying to deal with the sickness that has arisen, but also in keeping a watch, in trying to take preventive rather than curative action. The moment they see that repayment is getting delayed, or in some other way they can get quick signals and take some action. It is obviously a part of the arrangement that the IDBI and these institutions will set up some sort of expert agency, which will monitor the progress of industrial undertakings and take this action. So, from the point of view of industrial management also it is very important.

In other words, all these aspects take us somewhat further than pure credit and financing functions. They bring in planning, priorities, evaluation of a technical nature and management functions. From these points of view *viz.*, the advantages of keeping it under a purely central banking institution, as distinct from an arrangement under which it is much more responsive to government policies and functioning, we thought that this was a desirable change in the present context.

SHRI B. K. DASCHOWDHURI: Do you think that under this Bill the IDBI should be given more power so as to consult at the planning stage in the different processes in the State sector? Then, apart from the broad principles which you have enunciated and mentioned in the Bill, do you think that the IDBI should go into aspects like removal of regional imbalances?

SHRI RAMAN: In some of these aspects the role of the IDBI is that of an apex organisation rather than as an operational organisation. Even originally the IDBI was not meant to be a direct financing agency for the most part; it was meant to be a resi-dual financing agency, a re-financing agency. But because it is an apex institution, it has the ability to influence the policies and operational programmes of the other institutions. In regard to regional development, particularly in regard to the functioning of the State level institutions, it is not the idea that the IDBI will function as a direct entity in the States at the local level. But it can, through its re-financing powers and through setting down guidelines and through setting up or promoting consultancy agencies, help in local development, help local institutions. In other words, it will function more as a focal agency to stimulate action at the regional level rather than directly get involved in these matters. Naturally, the State level institutions are best-suited to look after regional development, promotion of small entrepreneurs and so on.

SHRI B. K. DASCHOWDHURI: In order to have proper coordination at the time of screening and licensing do you suggest that one person should be attached to the Licensing Board so that after getting the licences for setting up these industries, either in the backward States or regions, they may not have to face difficulties of double scrutiny by the IDBI whether finance should be given or not? In order to expedite the whole measure, could one person from the IDBI be attached for coordination in licensing at the time of processing?

SHRI RAMAN: We certainly do feel that there must be much closer coordination between the approval

process and the financing institutions. It is not merely a question of an officer from the Bank being in a committee or an officer of the Government being on the Board of Directors of the Bank. What is really important is that there should be close communication, close contact, close understanding.

I might add that among the various licensing processes in Government, one that is most relevant in this particular context is the Capital Goods Committee, which deals with foreign exchange approval for import of equipment. We have an arrangement by which the IDBI, the IFC and the ICICI have standing invitation to attend the Capital Goods Committee, which meets every week. They cannot attend every meeting, but whenever they feel necessary they always attend. There we discuss the kind of industries we should promote, the sources of supply and so on. Also the Economic Adviser, who is in the Ministry, goes to Bombay fairly frequently, sits with the institutions and goes over the list of the cases approved by the Capital Goods Committee, whether the parties have applied to the IFC, IDBI or the ICICI and what is the latest position. We think that this is the answer and that should be increasingly resorted to.

SHRI MADHU LIMAYE: How long have you been in this office?

SHRI RAMAN: I have been the Secretary in the Industrial Development Ministry for the last two years. Previously, I was the Joint Secretary for seven years, though the name of the Ministry varied from Commerce and Industry, Industrial Development to Heavy Industry.

SHRI MADHU LIMAYE: I will draw your attention to clause 11, which is the key clause. You have just now said that there are a number of concerned mills which are sick. We were having a discussion on the sick textile mills and we had to take over more than 100 mills. Similarly there are sick units in the sugar industry. There are also a number or engineering concerns which are sick. You spoke of some preventive action. There are a number of companies in the private sector where the public financial institutions have a large stake both in terms of equity participation as well as in terms of term-lending. Can you tell us the proportion of the companies in which the public financial institutions have equity participation over 25 per cent? There must be a fairly large number of such companies.

SHRI RAMAN: I would not be able to give the figures off hand. But there are a large number of private concerns where between them one or the other of financial institutions have a significant proportion of equity.

SHRI MADHU LIMAYE: Also in terms of loans?

SHRI RAMAN: Yes.

SHRI MADHU LIMAYE: What measures do you suggest, specially after the passage of this Bill, to enable the public financial institutions to exercise control over these companies in which they have a large stake, so that, because of dishonest business practices or mismanagement, the concerns do not become sick?

SHRI RAMAN: There are two particular aspects in which we feel that the financial institutions can contribute. One is that—and this has been pointed out by various bodies and committees which have gone into it—there is not enough coordination between the different institutions which are involved in the same company. LIC may have something; some bank may have some share; but between them they do not always keep in touch with what is going on. If they pool together their knowledge, they will have a better idea as to

what goes on. The second thing is that merely having a director on the Board has not brought us such results. All these institutions have the right of nomination and sometimes they do nominate. But what is more important is that these institutions must have some capability in technical and economic evaluation. Without that, one really cannot judge whether it is a normal vicissitude in the industry as a result of which something is happening or whether there is a deep-rooted cause or whether there is mismanagement or metal power shortage or something like that. Unless this capability is built in, it is very difficult to monitor and take preventive action. The idea is that these institutions will join together and develop this capability; they will set up a technical evaluating and monitoring organisation. If one of the institutions finds that things are not alright in a company and it is beyond its ability to analyse this, it will refer the matter to this organisation and this organisation will undertake a proper appraisal of the company's management or production problem or whatever it is, will discuss with the company also and tell them that they have not made a proper appreciation of the market changes or they do not have a proper technical control of the cost of production; then the company concerned might try to improve things; and if it does not then by using the instrument of financial power, it should be possible for these institutions to do the needful. But unless we are able to identify the problem and suggest a solution, merely having voting power is not of much use. We feel that, provided these agencies can coordinate, it can be done.

SHRI MADHU LIMAYE: Do I take it that you are not in favour of having directors on these companies?

SHRI RAMAN: I did not say that. I only said, it has limitations.

SHRI MADHU LIMAYE: Have you ever suggested to your Minister that instructions or guidelines should be laid down for the directors representing the various financial institutions on the Board of Directors?

SHRI RAMAN: I believe there are guidelines.

SHRI MADHU LIMAYE: If guidelines or instructions have been formulated, will the Minister be good enough to tell us what instructions have been issued? I will give an instance to illustrate. We had the National Rayon's case. As far as National Rayon is concerned, it is known that one group tried to seize control, and strictures were passed by the High Court against the directors belonging to this Group. The Public Financial Institutions were opposed to the control being handed over to them and yet, the Ministry of Company Affairs were at cross purposes with the public financial institutions. That is why I raised this question. You are having this Bill. You want centralised coordination in the IDBI. But unless there is coordination among the various Ministries in the Government, what can the IDBI do? I have given only one instance. There are several such instances. The public financial institutions and the Company Affairs Ministry work at cross purposes. How do you overcome that? I do not see any provision in this Bill to meet a situation like this.

SHRI RAMAN: I would not be able to comment on this particular case.

SHRI MADHU LIMAYE: I am not expecting you to comment on the National Rayon case. I am only discussing the principle involved. If you hand over control of companies to people who are known to be crooks the High Court has said that they are men of doubtful antecedents—how are you going to achieve your objective of promoting and Financing development of industries?

SHRI RAMAN: The only point I might make is this. Practically there

is no ill in an industry or in an industrial undertaking which will not quickly reflect itself in financial performance. If anything is really wrong, invariably it will be shown up fairly quickly. In that sense, if there is a sharp eye kept on the financial working of the company, it should be possible to see or sense what goes wrong even before anything serious of the kind that you were mentioning takes place. But, as I mentioned, the real problem is that the information available with these institutions on the inner working of the company and the ability to judge how to deal with a particular situation is not adequate.

SHRI MADHU LIMAYE: I am seriously concerned about this because the financial institutions are investing in the equity of these companies; short-term lending is also being done. The mismanagement need not immediately reflect itself in the financial condition. But the objective of the Bill is larger—promoting the development of industry. If that is the objective, how do you prevent this? How do you achieve coordination between the different departments of Government on the one hand and the public financial institutions on the other? That is why, I have raised the question of instructions and guidelines.

SHRI PRANAB KUMAR MUKHERJEE: The normal practice is this. When the financial institutions, including the IDBI, provide some assistance to the individual units concerned, they issue the guidelines to their nominees as to in what way they could look into the affairs of that particular company. But if Mr. Madhu Limaye wants to suggest that, for looking into the developmental aspects as a coordinating apex body of all financial institutions, there should be some general guidelines also, that comes after this Bill is passed. But so far as the present practice is concerned, the financial institutions issue certain instructions in the form of guidelines to their nominees in that particular concern.

SHRI MADHU LIMAYE: My point is how do you prevent the Department of Company Affairs and the public financial institutions working at cross purposes? Who are the directors nominated by these institutions representing these public financial institutions? What are they supposed to do when the meetings of the Board of Directors take place because many a time certain vital information is withheld from them?

SHRI BABUBHAI M. CHINAI: I hope that at present also the IDBI has a committee of the financial institutions which consult amongst themselves and then iron out each case. What we are now doing is instead of informal consultation which we are having it would be a statutory obligation to have consultation under the umbrella of IDBI.

SHRI RAMAN: We have gone a little farther. At the present moment the IDBI convenes meetings of the inter-institutional group. This applies to projects which apply to more than one institution for finance and they coordinate. In practice the appraisal is not identical. Each institution has to decide for itself but more important than that is that after the loan is sanctioned or equity purchased there is not adequate coordination for watching the performance of the company and so on. Lastly, the capability for doing this is not integrated. The idea here is to create an agency which will be subsidiary of the IDBI in which ICICI, IFCI, etc. Will here shareholding and this subsidiary will do the evaluation and monitoring for all institutions.

SHRI BABUBHAI M. CHINAI: At present Reserve Bank is a statutory body. IDBI also under the Bill would be a statutory body. Would you like that statutory body to take decision for itself or would you like the Government to guide them time and again?

SHRI RAMAN: In regard to individual cases I expect the institutions will take their decisions because they have certain responsibility e.g. in

regard to profitability. Government will lay down policies and priorities. But I would say it is not merely a question of Government laying down priorities. Development banking is not something which can be done by some sort of broad directive valid for the next five years. Developmental banking is much more complex and much more closer understanding is necessary with Government.

SHRI BABUBHAI M. CHINAI: At present the Reserve Bank functions in so many ways. They have been put right from 'P' form to so many things. So, should we take out or keep the share of IDBI with the Reserve Bank? Have you got any views on this?

SHRI RAMAN: Under the Act a fairly close link with the Reserve Bank is envisaged and this is necessary. After all it is the Central Bank of the country and this institution is the Central Apex Body and it is good that there is some close linkage. Substantial part of the resources of the IDBI will come from the long-term operations of the Reserve Bank of India. When this bank was first set-up the then Finance Minister in introducing IDBI had said that they were introducing a change and long-term fund will be utilised for industrial development as it had been used for agricultural development previously. We want close link with Reserve Bank whether the capital is owned by Reserve Bank and through the Reserve Bank by Government. I am not very sure there are great pros and cons about this. I think it is a matter of convenience. If you want a tidy structure the equity should be owned by Government.

SHRI BABUBHAI M. CHINAI: We are given to understand that at present the Reserve Bank is holding cent per cent shares of IDBI. I would like to know if you take away the Reserve Bank completely out and it is owned by the Government then the Reserve Bank will lose the interest in IDBI.

SHRI RAMAN: I am not so sure whether Reserve Bank's interest in this institution should necessarily depend on their owning the equity. I would credit the Reserve Bank with much broader sense of national responsibility.

SHRI BABUBHAI M. CHINAI: May I enlighten Mr. Raman, we have got information here that the Reserve Bank was not prepared to part with the equity of the IDBI and ultimately they have said we will part with 100 per cent and we do not want anything. Does he know this?

SHRI RAMAN: My understanding is that Reserve Bank perhaps had a view on the merits of the proposal and not as to whether equity should be held by Reserve Bank or not. They perhaps felt there will be some advantage in keeping it under Reserve Bank. If it is not to be kept under Reserve Bank I do not know whether Reserve Bank will make an issue of it.

SHRI BABUBHAI M. CHINAI: They have not made an issue but they have surrendered.

SHRI SUBRAMANIAN SWAMY: While replying to Mr. Limaye you expressed dis-satisfaction with the way the IDBI has functioned so far. You said at one stage merely directors of Reserve Bank were on IDBI and it did not yield much results.

I would like to be clear. Are you satisfied with the way IDBI functions today?

SHRI RAMAN: I did not say that we were dissatisfied with the performance of the IDBI looking at what they have done in the last ten years in terms of contribution to the industrial development. I think, they have also taken some steps in terms of surveys of backward States, sitting

up consultancy agencies etc. That is not to say that they cannot do more and they should not do. The situation has also changed and they ought to be doing much more.

SHRI SUBRAMANIAN SWAMY: How has the situation changed?

SHRI RAMAN: If one looks at the Industrial Policy Resolution of 1956, one can say that they have not changed, because in a broad sense, we want economic development, we want production, we want regional dispersal, we want dispersion of enterprenurship in medium, large and small scales. But the emphasis has changed. The concern today about regional backwardness is much more strong. It is not a question of Government policy so much, but among the people, as we hear in the Parliament, the concern about equality is much more powerful today than before. Therefore, we felt that the direction of the banks and the institutions should be pushed more in these respects.

SHRI SUBRAMANIAN SWAMY: The new objectives are greater development of backward areas and greater attention to small industries. Much attention has not been given hitherto. Is that what you are saying?

SHRI RAMAN: I would have put it somewhat differently, but that is a fact. These objectives were assigned to the IDBI earlier; they have been trying to do something, and the feeling has been that in these directions, we have to do much more than in the past. I would perhaps add that it is not only regional backwardness and helping the smaller and the medium man. For example, modernization and rehabilitation of industries, in a sense, is a new problem. It was there in some degree, but it has become more acute. This means soft financing. When you give loan to a sick company, you have to finance for a much longer period. For that, certain financial institutions like IRCI etc. were set up. But it does look as if we have to spread modernization and rehabilitation of industries in a much bigger way. I would also mention another points. The unit costs of investments have shot up tremendously. A Cement project used to cost four crores, it costs 8 crores now. A paper plant used to cost 20 crores, now it costs 50 crores. This means, residual financing of the last resort has become much more important for a project. In many ways, the role of the IDBI has become much more critical.

AN HON. MEMBER: Is it proposed to re-structure the IDBI under the Ministry of Industrial Development?

SHRI RAMAN: There is no such proposal. Today, the Industrial Development Ministry has no direct contact with the IDBI. I am a Director on IFC, ICICI, but I am not on the IDBI. Now more Directors are provided in the Bill. May be that there is an idea that Industrial Development Department is represented Or the Ministries connected with Industrial Development.

SHRI SUBRAMANIAN SWAMY: By virtue of the fact that now IDBI is going to come under a much greater control of the Central Government, it will be better able to implement some of the politically accepted objectives such as you underlined. The IDBI presently has five/six functions; to provide direct assistance, refinance, rediscounting of bill, export finance, subscription to financial institutions etc. You are also thinking of entrusting the question of backwardness and small industries to IDBI.

SHRI RAMAN: As I mentioned earlier, in today's circumstances, perhaps we need additional modes of financing. Even today, the IDBI has a fund called the Development Assistance it is a soft fund. This, of course, depends on Government

loans. At least I feel there should be more scope for the kinds of things I referred to earlier. I also feel that effective participation especially in the field of small and medium entrepreneurs is necessary. This need not be done by IDBI directly. If the State Finance Corporations are to do this work, then it will be helpful. I really do not think that the modes of financing would wholly answer the problem of regional development, to the problem of middle or medium entrepreneurs. Financing is one of them. What is necessary is that some amount of promotional work, some surveys, investigations encouraging consultancy and concessions and so on and these are not considered purely as financial functions. In the world over it has been found that development financing really goes beyond financing. By and large though the IDBI has made a good beginning, they have been mainly financial functions. That means lending money to development schemes. HUDCO as you know, has been set up with the support of IDBI. For example, one can say that those States which are finding difficult to do it, want money, men and experience. So here IDBI can help; in North Eastern Region it has helped in setting up a consultancy organisation.

SHRI SUBRAMANIAN SWAMY: From your observation, it may be noticed that the IDBI may be removed from the control of the R.B.I. and brought under the Finance Ministry. If you say it, well. It is not a question of finance but it relates to other matters. Are you satisfied that by doing so a good proportion of finance will go to the backward regions and small industries?

SHRI RAMAN: It has been brought out in the report.

SHRI SUBRAMANIAN SWAMY: I tell you that there are about 30 backward regions and about 65 per cent of the small industries are in the backward regions. Then what percentage of the finance would you like to be allocated to the backward regions?

SHRI RAMAN: This depends upon the way by which one defines the backward areas.

SHRI SUBRAMANIAN SWAMY: According to the present definition, Colaba (Bombay) region is backward area. Do you think if greater attention is given to backward region, it should necessarily be for small industries in the backward region?

SHRI RAMAN: No, Sir. So far as development of backward area is concerned it is not a question of smallness and it is not a question of largeness. If we have many large industries in backward areas, that alone will not help. The important characteristic of the industry has to be its backward and forward linkages as we call it, related to raw materials, processing ancillaries and so on. Agro-industries, Engineering, Industries, Electronic industries are industries which can produce more and more income and employment. So we have to choose those types of industries provided resource is there.

SHRI SUBRAMANIAN SWAMY: In one sense, nationalisation of banks may be considered as transfer of authority from the R.B.I. which was controlling these banks, to the Finance Ministry. Now, are you satisfied with the performance of the banks? Are you satisfied with the way the banks are functioning for the last five years under the Finance Ministry?

SHRI RAMAN: I would say that some of the negative evils have been removed. Gross abuses arising from links between industrial ownership and control over finance have been removed. I would not say that the positive part to which we are looking forward have yet been adequately achieved.

SHRI SUBRAMANIAN SWAMY: Your Ministry is issuing the licences for setting up industries. I think the pattern of financing is not determined by the way the licences are issued. Now, would you tell us that the licences that are issued by the Ministry of Industrial Development, are issued by and large on political considerations?

SHRI RAMAN: I can confidently say that they play no part at all.

SHRI SUBRAMANIAN SWAMY: Do you expect me to tell that?

SHRI RAMAN: None of us is immune from the politics of the country. But what I meant was that it is not subject to personal political influence.

SHRI S. RANGANATHAN: You suggested that there is going to be a common evaluating body, common to all these financial institutions. There is no provision in this Bill for such a body. Don't you think, as I feel, if such a body is necessary, there should be some kind of provision made in this Bill or at least an undertaking given not only here before the Committee but before Parliament that Government will set up such a body?

SHRI RAMAN: Sir, I believe there is a provision perhaps enabling this, because IDBI can set up subsidiaries. The real reason why it is not being put is that we want to be quite sure whether this evaluation body will operate without taking away the power and the discretion of the Financial Institutions to take decisions. For example, if the evaluation body, after evaluating a project, says that this is good and economically should, we recommend the loan, the institution is still free to accept it or not accept it. A person who gives the money should have the final say. I think this is the intention of setting up such a body.

SHRI RANGANATHAN: Somewhere there must be an assurance that such a body should be set up with whatever safeguards to preserve the right and so on, to refuse the loan or grant the loan. If you agree to that, I am satisfied.

SHRI RAMAN: I agree.

SHRI RANGANATHAN: The other question is that if the Directors nominated on the bodies of these companies by the lending institutions are unable to find out if something is going wrong, how do you expect any other body outside really to find out the fact that things are going wrong?

SHRI RAMAN: Of course, a Director normally goes by the proceedings, agenda and so on. If there is anything explicit, he can find out. If he happens to be an expert in finance, he will be able to find out from the financial statement. But very often the Directors are not experts on these matters. As I mentioned earlier, generally the monthly cash statement and the liquid position of the company is a fairly good indicator. We can have some arrangement by which this kind of information is sent to the institution, so that one can pinpoint the problem when there is some financial problem. It does not mean that there is something wrong in the company. For this reason, we want an agency to which it can be referred. A reference to this agency does not mean that there is something wrong.

SHRI RANGANATHAN: There must be some mechanism by which somebody should be able to tell that there is something wrong. I have also some experience about these financial institutions as you have. Has any directive been issued by the lending bodies to the Directors that they should try to find out some such thing?

SHRI RAMAN: I think this should be done.

SHRI MADHU LIMAYE: What do you expect these Directors to do? What role should they play?

SHRI RAMAN: I was thinking of the policing and the investigation part where they are not able to do constructively and positively. In companies which are well run, they want some advice and decisions taken on administrative matters; there these Directors do play a part. If there is anything wrong which the management has withheld from the Board, they are not always in a position to detect it.

SHRI MADHU LIMAYE: If the concern is well managed, then there is no problem. The problem arises where there is mismanagement.

SHRI RAMAN: The appointment of Directors by financial institutions is not merely for finding out what is wrong. Even when a company is doing well, there are many problems which these Directors can solve. That part of it, I believe, they are doing. But as far the other part, that is, where it is required to find out if there is anything going wrong, we have not been able to achieve it effectively under the present arrangements.

SHRI RISHI KUMAR MISHRA: While development financing is very important no doubt for our economy, an analysis of the present economic difficulties that we are facing, indicates that strict credit planning is also of paramount importance. There is a fear that the amendment that is proposed under the Bill will loosen the link though the controlling link between the RBI and the IDBI will continue to discharge all responsibilities of managing credit. How do you ensure that, in the present phase as our economic development where credit planning is of paramount importance, a very effective link between development finance and credit planning should be maintained?

SHRI RAMAN: I think credit planning in the sense in which I believe, you may be referring to really relates to production planning and production credit. We are rather talking about development finance and investment finance which relates to investment planning. So far as investment planning is concerned, it is much more closely related to planning itself both in the private sector and in the public sector. In the creation of investment, in the establishment of an undertaking, there is a relationship between planning, licensing, import of capital goods and development finance. This link is important and we think that this will, in fact, more effectively, bring about sound investment planning.

SHRI RISHI KUMAR MISHRA: During the last ten years, some expertise has been built in IDBI even while it continues to be a subsidiary of the Reserve Bank of India to deal with various functions. Of course, that expertise may not be adequate; it can be increased. Is there any difficulty in doing it while it continues to be a subsidiary of the IDBI? As you have pointed out and it is also written here, a subsidiary company for a common approach should be created. Well, it can be created even now while IDBI continues to be a subsidiary of the RBI. What exactly is the difficulty? Why it cannot be done? The expertise that you have built up during the last ten years, that itself can be further strengthened. So, that will enable closer link with the RBI also and improve the effectiveness of the IDBI to discharge its international functions.

SHRI RAMAN: In regard to IDBI being able to have more expertise, I agree with you that this is not material, whether it is under the RBI or Government. I also agree with you that so far as coordination among institutions is concerned, nothing prevents them from coming together and agreeing upon any arrangement of policy and so on. As I mentioned

earlier, the reason that we feel why this should be under the Government are different. Firstly, it is whether it is a good thing for the Central Bank to undertake investment financing directly as distinct from central banking functions. Secondly and more importantly is the need for bringing about closer coordination between planning priorities and investment finance.

SHRI RISHI KUMAR MISHRA: It is a very difficult and valid point. I was really surprised when you said that the Industrial Development Ministry is not at all concerned; it does not have a direct link with the RBI. This problem can really be solved if the Ministry of Industrial Development is given representation; after all, in the new set up also, the linkage will be in the form of a directive. It can be done even now, without bringing about a change in the relationship between the RBI and the IDBI. That Ministry and other Ministries can be associated. Nothing prevents the Government from doing it. What is it that the IDBI cannot do now, because of its association with RBI? You can tell us if there is any obstacle. Alongwith the Ministries, other institutions can also be given representation now.

SHRI RAMAN: It would still require the amendment of the statute. It can be done. For example, if the directorship in the IDBI is to be altered, the Reserve Bank can be asked to nominate 'X' or 'Y'. Even if representative of the Ministry of Industrial Development is to be there, the Governor of the RBI can be told. If only the ownership and not the composition is to be with the RBI, I do not know what is the advantage in having it under the RBI.

SHRI RISHI KUMAR MISHRA: The advantage is that the RBI will continue to be the source of funds. There is an integral relationship between the two. This will be a very distinct advantage; and in fact, the processes of industrial development will be shortened to that extent, because funds will be available readily. This will be a distinct advantage, apart from other minor advantages.

SHRI RAMAN: If everybody agrees, many things can be done. If the composition of the board and operational matters as also our ability to advise the IDBI and convey them our priorities are acceptable to the RBI, it can be done.

SHRI RISHI KUMAR MISHRA: It is presumed that the RBI is proceeding, not contrary to the national goal.

SHRI RAMAN: I think the Reserve Bank has a special position not only in this country, but in every country. Governments, are usually hesitant to give directions to a Central Bank especially in the matter of extending trans. The Reserve Bank is somewhat different from a development bank.

SHRI DEORAO S. PATIL: In Clause 6, there is a provision for an independent board for the IDBI. But there is no special provision for adequate representation for industries. Do you agree that there should be an adequate representation for them?

SHRI RAMAN: Yes, Sir; I believe that it provides for representation in the executive committee.

SHRI DEORAO S. PATIL: There is a provision in clause 6 for not more than 5 members, for people with scientific, technological and industrial background; there is no specific provision for adequate representation. I want more representation.

MR. CHAIRMAN: But there is no necessity to vote.

SHRI PRANAB KUMAR MUKHERJEE: If you want the opinion of the witness, he can give it; but as far as the provision in the bill is concerned, I think there is adequate represen-

tation. If the industries have more representation, it would mean that they are influencing the IDBI.

SHRI BHUPESH GUPTA: Mr. Raman had said that he is not dissatisfied with the work of the IDBI. Is he dissatisfied with the working of the RBI? He did not say that he was satisfied with the work of the IDBI. Since IDBI is a subsidiary of the RBI and since separation is sought, it stands to reason to ask him whether he is satisfied or dissatisfied with the work of the RBI.

SHRI RAMAN: If I may be permitted to say this, there are occasions when I would say that we are dissatisfied with our own performance in the government.

SHRI BHUPESH GUPTA: We are concerned with the objective position. I know that many government officers are dissatisfied with the government; but when it comes to writing notes, they satisfy somebody or the other.

SHRI RAMAN: I do not mean it in any facetious way. I regard myself as part of the government.

SHRI BHUPESH GUPTA: I again come back to the proper question. If you are not dissatisfied with the work of the IDBI as a subsidiary of the RBI; and if you are not dissatisfied with the work of the RBI either, what brings you to think that separation would be better?

SHRI RAMAN: As I had explained, something positive and useful has been done through the way things have been working. We feel that more can be done. I would not say that it is a question of putting blame on this or that agency. For giving the push in the direction in which we ought to do it, in the present context, we felt that a change of the kind proposed, would be helpful. It is not that IDBI was wrong, or that the RBI was wrong.

SHRI BHUPESH GUPTA: Whatever government decides to do, must be good. You can have that view. Take the case of your Ministry. There is the financial aspect. Your Ministry is concerned with another very vital aspect of industrial development, including location, regional dispersal and other developmental aspects of the industry through the policy of licensing or permission for expansion. A fear has been expressed that if these institutions are brought under bureaucratic control or departmental control, the same thing will happen as is happening with the Ministry of Industrial Development. Your Ministry has been well known for patronising big business in connection with regional dispersal, regional development etc. No matter what the Industrial Policy Resolution says, they do it and that resolution of 1956 is so capable of being interpreted that anyone can get away after doing anything you nationalise—that is industrial policy resolution; you denationalise—that is also industrial policy resolution. The other day I wrote a letter to hon. Minister Pai about India Scooters Ltd., why equity participation from the private sector was invited. He gave an interpretation of the Industrial Policy Resolution to justify it. Statements are issued every day from your Ministry which show a clear bias for the big business. Would not the same bias be displayed in regard to financial operations in relation to industries?

SHRI RAMAN: Am I required to answer that question? I think the point that Mr. Bhupesh Gupta made was that in licensing the Ministry is under the influence of big business houses. I am the chairman of the licensing committee for the last two years and if my explanation means anything I can very clearly say that there is no question of patronage or influence by anybody.

SHRI BHUPESH GUPTA: I did not know that you were the Chairman. I now remember that normally you would be the Chairman. Perhaps be-

fore you came. one of your people headed a committee and it gave a report. The chairman of that committee said a lot of things about how licensing had been abused and the licensing policy had been administered with a view to help the big business element. I am not interested in indicating your Ministry. Everybody knows that two Secretaries sanctioned the expansion Mohan Meakin and although they did that in violation of the Industrial Development and Regulation Act—I can name them, B. B. Lall and Subramaniam—the Cabinet approved that and those who wanted to prevent that had been prosecuted. I can cite many more examples. I am not enamoured of the Reserve Bank of India; some people may feel happy about the way it has functioned. It is just as bad as any other institution where big money has any influence. I am trying to explain how his separation is bad, whether it will not be vulnerable to the influences that work in the Ministry of Industrial Development here we find that substantial patronage is being shown to big business element in the name of regional development. For Manipur development, Birlas must go. For the development of Tripura paper mill, big business must go. A licence is taken, not implemented. Dog-in-the managers policy is pursued by these people. I want to know whether such kind of tactics would not be pursued in the matter of industrial financing and difficulties created.

SHRI RAMAN: I personally do not think that structures provide immunity from political influences. If political influence is there, it can be there against the RBI and its subsidiary.

SHRI BHUPESH GUPTA: I am not suggesting that you should be immune from politics. All I am concerned with is this: whether the wrong type of political pressure and influence will not work much more effectively than at present.

SHRI RAMAN: I am not sure that wrong type of political pressures can be cured by structures, by having it in Bombay or here. One of the reasons why public undertakings were set up as public undertakings as distinct from departmental undertakings was that they would be autonomous and have operational flexibility. It is also a question of management, national discipline, etc.

SHRI BHUPESH GUPTA: Moral and philosophical answer to the question!

I can appreciate his predicament. If he had been a retired officer, he would have been more forth-light. But he is not. So, I do not want to embarrass him. I want to know whether he is aware of the fact that there is a fear in some sections of the public that it may not work satisfactorily when it is brought under departmental control. What guarantee has he to suggest against this?

SHRI RAMAN: My answer will, of course, be commented upon by you as you have done earlier. One guarantee is public vigilance.

DR. MATHEW KURIAN: The hon. witness, at some stage of his oral evidence, did say that the new change involving delinking of the IDBI from the Reserve Bank involved more direct control and coordination by the Government. And that was considered to be a value. On his own admission, according to him, it is better to have a direct government control. He has also said that, according to his information, his Department and the Licensing Committee are not subject to control and political pressure from big industrial houses. But objective facts show that the 75 monopoly houses not only increased their total share in the non-government, non-banking investments from 46.9 per cent in 1963-64 to 54 per cent in 1970, in the three years 1970-71, 1971-72 and 1972-73 a large number of licences were issued by your Ministry to the monopoly houses as a result of which there are now 93 monopoly houses and not 75. Is it true or not that, during the last seven years, the number of monopoly houses has

increased in number and also in terms of total share? If that is so, the substantive point that I am coming to is this. The financial institutions have always an excuse when they say, "What can we do? We have to give long-term finance to monopoly houses; once licence is given to monopoly houses for extension of a new venture, then the financial institutions have to follow suit". Therefore, I am suggesting that these maladies are directly arising from the licensing and investment policies of the Government. Therefor, if there is mal-distribution of resources, more in favour of big monopoly houses the root is the Government itself. You are contradicting yourself when you say the same Government, which makes this mal-distribution, should be given more powers in order to change the present situation.

II. Planning Commission New Delhi.

Spokesmen:

1. Shri V. G. Rajadhyaksha, *Chief Consultant and Ex-Officio Secretary.*
2. Shri D. R. Gupta, *Chief (Economic Growth and Policy).*
3. Shri M. Satapal, *Additional Adviser (I & M.)*

[The witnesses were called in and they took their seats.]

MR. CHAIRMAN: I welcome you all to the Committee. The witnesses may please note that the evidence that they give would be treated as public and is liable to be published unless they specifically desire that all or any part of the evidence tendered by them is to be treated as confidential; even though they might desire that evidence to treated as confidential, such evidence is liable to be made available to the Members of Parliament.

SHRI RAMAN: If Government itself does a wrong thing or licences in a wrong way, I do not think that any solution by financial institutions will help. But as a matter of information, I might mention that, after the announcement of the Policy in February 1973, defining what larger houses were under the provisions of the MRTP Act, the proportion of licences issued to MRTP houses has, in fact, gone down. This is a question of fact. The figures are published.

MR. CHAIRMAN: Thank you very much. It was a very helpful evidence that you have given, and I thank you on behalf of the Committee.

(The witnesses then withdrew)

Now, if you want to say anything about the Bill, you may. Then, members will ask questions.

SHRI V. G. RAJADHYAKSHA: The object of the Bill is to restructure the Industrial Development Bank of India in certain respects so as to enlarge its role as the principal financial institution financing industry and for coordinating the work of the other financial institutions engaged in the financing or promotion or development of industry.

Historically, the financial institutions have extended long-term financial assistance for the development of industries were set up from time to time in the light of the expanding needs of such funds. The IDBI, when it was set up in 1964, was made a subsidiary to the Reserve Bank of India primarily from the point of view of giving it an effective start on the basis of financial managerial and technical expertise available with the Reserve Bank.

Since then, the operations of the IDBI have substantially expanded,

both in volume and in the complexity and range of its activities. Apart from a mere lender of long-term funds to set up new industries, its activities now cover a wide range of other functions, including the provision of assistance to other lending institutions through refinance, re-discounting of bills, export finance, etc. Additionally, tht IDBI has also made some beginning in the matter of acting as a promotional institution through carryig out industrial surveys in association with other financial institutions, in the establishment of inter-institutional technical consultancy organisations, in the preparation of feasibility reports, and on the identification of prospective entrepreneurs, etc. With the experience already gained by the IDBI and in the perspective of its expanding role, both as an apex organisation for promoting industrial development as well as an instrument to translate Government policies, a stage has now come when an independent status to the IDBI, divested from its subsidiary status of the Reserve Bank, needs to be accorded.

In this context, it is necessary to distinguish the functions of the Reserve Bank of India, as the Central Bank of the country and those of a development bank concerned with promotion of industrial development. The Central Bank is primarily concverned with the management of monetary and credit policies, which are becoming more complex with the changing situation of the economy, and should not be burdened with the task of initiating and promoting developmental activities of a kind which are legitimately the functions of a development bank. The basic outlook and managerial culture of a Central Bank and a Development Bank, I would submit, are essentially different. To the extent the IDBI, in its initial stage, has required the support of the Reserve Bank, there was some merit in its being linked with the Reserve Bank. With the nurturing it has already received, a time has come when its functions and its management could now be delinked from those of the Reserve Bank of India.

The IDBI has a dynamic role to play in bringing about necessary structural changes in industrial development and management and filling in any gaps that might exist or emerge in the industrial structure of the country in the light of the changing conditions. In a mixed economy, with a significant role allotted to the private and co-operative sector in industrial development, credit policies followed by development bank have a major influence in directing investments in accordance with the Plan priorities. Furthermore, apart from performing a somewhat passive role in terms of dealing with applications for industrial finance as they come the development bank has also to act as a promotional agency not only in terms of safeguarding investments it has already made in various industries, but also in a continuous study of the prospects of development of new industries, in assessing the status of different industries as they exist, in preventing mis-management, in taking preventive action against industries becoming sick and in developing new entrepreneurs and diversifying the industrial base in different parts of the country. All these call for a positive role within the broad guidelines of governmental policies. It would be easier to strengthen the managerial, technical and economic expertise in the industrial development bank so as to discharge this positive function and for the Government to issue the necessary directives to the Industrial Development Bank in conformity with its policies, if the Industrial Development Bank is made an independent agency outside the control of the Reserve Bank of India.

In this positive role, the IDBI will have to undertake certain kinds of risks which are associated with

normal entrepreneurial activities In this respect, it would be regarded, in a sense, as a lender of the last resort amongst financial institutions taking risks in the long-term public interest which otherwise will go by default if left exclusively to the other subsidiary lending organisations or to the commercial banks.

Amongst other things, this is particularly relevant from the point of view of the development of domestic research and development activities and the upgradation of indigenous technology. Projects based on domestic R. & D. often encounter insuperable problems of financing as they often involve more than their usual commercial risks. Similarly, investments in backward areas and lending to the new entrepreneurs are fields where more than ordinary risks are involved and which normally could be undertaken only by a development bank working in the framework of national policies. Particularly under the current situation of constraint on resources, the need for close attention to investment in areas of high priority is much greater and closer coordination between the various term-lending institutions is necessary .

In view of these considerations, the primary objective underlying the Bill is one which the Planning Commission consider worthy of support.

SHRI SUBRAMANIAN SWAMY: When you introduced yourself, you said that you were also the acting Secretary. What exactly is your role in the Planning Commission?

SHRI RAJADHYAKSHA: My normal role in the Planning Commission is to head a new section which was set up called the Monitoring and Evaluation Section of the Planning Commission. I am now acting as the Secretary, in addition to this, because the present Secretary is on leave.

SHRI SUBRAMANIAN SWAMY: Have you come to the Planning Commission from outside or have you been in Government service all through?

SHRI RAJADHYAKSHA: I have been in government service only for the last one and a half years.

SHRI SUBRAMANIAN SWAMY: Where were you before?

SHRI RAJADHYAKSHA: I was with the Hindustan Levers.

SHRI SUBRAMANIAN SWAMY: That means, you have the experience of both the private sector and the public sector. In your experience, while you were outside government, did you find the functioning of the IDBI wanting in some respects?

SHRI RAJADHYAKSHA: If you had a large project which required investment from a number of different financial institutions, it was, sometimes, time-consuming to go to a large number of different organisations to get the financial support that was required. So, the question of time was something which did bother me as someone associated with a private company.

SHRI SUBRAMANIAN SWAMY: You made out a case about the incompetence of the Reserve Bank to handle the requirements of the present situation, in moulding the IDBI in accordance with the present situation. But you have not made out a case as to why the Finance Ministry is more competent. In what respect, do you think, the Reserve Bank has acted outside the framework of government policy that leads you to suggest that the Reserve Bank is incompetent to make the IDBI do things which you wanted to do?

SHRI RAJADHYAKSHA: It is, perhaps, an exaggeration to say that it is incompetent. I only tried to

bring out the fact that, if the term-lending institutions were more closely associated with government *per se* and did not have to deal with them through the agency of the Reserve Bank, then the kind of lending priorities that it would be able to establish would be more in conformity with the priorities of the country.

DR. MATHEW KURIAN: In your speech you have made a reference to the managerial culture. It occurred to me that this whole concept came to the Planning Commission when Mr. P. L. Tandon, also of the Hindustan Lever, made a study of how the Planning Commission's organisation should be changed, and he introduced this managerial culture into the Planning Commission. I would like to ask this in this background of the whole concept of managerial culture having been introduced both as an idea and also in terms of personalities into the Planning Commission. You have very forthrightly pleaded for a type of dichotomy—short-term monetary credit policy to be given to the Central Bank and development finance to be given to some other agencies. It seems to me that this contradicts with the general policy framework underlying the Plan documents themselves. I think, the general principle accepted by the Planning Commission is that short-term and long-term credit should be integrated and the Central Bank in a developing society should have the role of co-ordinating long-term and short-term lending. I would like to know whether this is true or not.

You also said that the IDBI and the RBI, initially, had to role to play in nurturing industrial finance but now a stage has come when this need not necessarily be so. You also expressed your idea that for domestic R. & D. and for lending to new entrepreneurs and for other objects, it would be better if the Bill is passed. I would like to know in this connection whether you are aware of the fact that, despite the pronounced policies of the Government regarding control of the monopolies and reducing regional imbalances, industrial licensing by the Government has gone in a direction in which the monopoly houses have increased their number from 75 to 93; their share in the total non-governmental, non-banking sector has also increased. Therefore, Government, by its day-to-day policy, has been strengthening the hold of the larger industrial houses. Would you, in that context consider that, compared to a statutory body like the RBI, it is better to hand over this function of coordination between industrial and long-term finance and even development finance to a Governmental creature? Will it not further strengthen the monopoly trend in the economy? Will it not further strengthen imbalances between regions and so on?

SHRI RAJADHYAKSHA: We feel that if the right start is made in funding right kind of projects then to some extent the Plan priorities would be observed. Then coming to the question of short-term working capital, I believe, if basically the industries which are fostered are in the right areas then providing the short-term finance for these can be taken care of by the Reserve Bank of India. Secondly, the Reserve Bank has an important role to play in ensuring—once these investments are made in the right areas—that the kind of working capital and short-term credit is properly directed so that it does not lead to building up inventories and does not add to the general inflationary trend.

As regards the second question whether the industrial licensing policy of the Government of India has fostered the growth of monopolies and by taking out the lending activity from semi-independent institution like the Reserve Bank will we be in any way reversing the trend? Basically, the only projects which the

Reserve Bank or the IDBI can fund are those which the Government have licensed. It cannot exert independent influence in this regard. Our belief is that because licensing covers such a wide range of actitvities and it is not always possible to determine which entrepreneur will come up when, licensing has not served wholly the purpose for which it was created, one of which was to stop the growth of monopoly houses. One of the reasons for this was that the control of the funds on which this growth could be continued was not fully under the control of the Government. In other words, if Government could get more teeth into its licensing policy by channelising flow of funds then, to the extent it really wants to encourage the growth of new entrepreneurs and channel funds in underdeveloped areas, it will have another important instrument for doing so.

DR. MATHEW KURIAN: Can you say the Government policy has been in the direction of encouraging new entrepreneurs?

SHRI RAJADHYAKSHA: Unquestionably, this is so. The question is how best to implement that policy.

SHRI BABUBHAI M. CHINAI: May I know if IDBI acts as Central agency for long-term finance and Reserve Bank for short-term finance will a coordinating agency become necessary?

SHRI RAJADHYAKSHA: The coordination will automatically come provided the basic investment decisions are taken in the proper areas because then supporting them with adequate quantities of short-term credit which is the role of Reserve Bank will follow. If the basic policy in terms of which the projects are allowed to go through goes astray then the banking support for this will also go astray.

SHRI BABUBHAI M. CHINAI: As you know this policy detaches the RBI completely and it becomes either a statutory body or controlled by the Government. Therefore, the Reserve Bank would not be in the picture at all for coordination as you have suggested in your evidence. Under these circumstances, would you not envisage anything?

SHRI RAJADHYAKSHA: I believe this is a role which the Reserve Bank does play now. What one could argue is whether it plays this role effectively. That is a matter of debate and dialogue between the Government and the Reserve Bank .

SHRI BABUBHAI M. CHINAI: To what extent should Government exercise its right as share-holder of the IDBI in its day-to-day work?

SHRI RAJADHYAKSHA: I believe once you make a statutory body the Government should not interfere in day-to-day management. It should give whenever necessary, a directive and lay down the policy.

SHRI BABUBHAI M. CHINAI: The IDBI acts as a central coordinating agency. Will not competition with other financial institutions get affected?

SHRI RAJADHYAKSHA: In the present state of affairs the question of competition does not arise because there is such tremendous constraint on resources, there is no question of funding either this or that. There are a number of critical projects which are required to be funded in the Five Year Plan period.

Even for these, one sees that there is going to be a constraint on resources. Therefore, the problem of different institutions competing for business in the traditional sense would not be there.

SHRI BABUBHAI M. CHINAI: People go to several institutions for their requirements and whoever gives better terms and conditions, they encroach upon them. But there are institutions which are left out at State level. Would you like them to come under the IDBI?

SHRI RAJADHYAKSHA: Institutions like State Finance Corporations are under the RBI. To the extent the IDBI takes them, it will also have a role in the channelling of investment of all moneys that are being funded by the State Finance Corporations.

SHRI BABUBHAI M. CHINAI: The Bill provides for an arrangement for rationalization of personnel structure in the RBI and other financial institutions. What specific difficulties do you envisages in this regard? Can these not be adequately met while dissociating the IDBI from the RBI?

SHRI RAJADHYAKSHA: In the initial stages, whenever you detach a son from his parents, some difficulties and pangs of separation will be there. I think, the kind of arrangement that has been proposed whereby an employee has an option to make up his mind within a specified period to which of the two institutions he will belong will help to overcome these difficulties.

SHRI BABUBHAI M. CHINAI: Several representations have been received. I would like to know your views.

SHRI RAJADHYAKSHA: I would not be able to say much, because I come from Planning Commission.

SHRI BHUPESH GUPTA: When the finances are advanced by these institutions or even by banks, these are not always utilised for the purpose for which they are advanced, *i.e.* industrial development. In many cases, they are used for speculatitve and other purposes. What is the guarantee that the same practice will not be followed when these institutions come under departmental control?

You said that the policy is not to allow the monopolies to grow, but the fact is that monopolies are growing. You said that your policy is there. What should be the test of the policy. I think, the test of the policy should be the outcome. Don't you think that on both these counts, things have gone wrong? Whatever measures are taken, these are frustrated. A fear has been expressed that once this is brought under the bureaucratic control, it will meet the same fate as the licensing policy has met. I am not suggesting that Reserve Bank is above Board. Reserve Bank also belongs to the same category.

SHRI RAJADHYAKSHA: I would not like to comment on the policy. I believe, that is the policy of the Government.

SHRI BHUPESH GUPTA: I am asking you to explain, how is it that the outcome of the policy is like this.

SHRI RAJADHYAKSHA: To some extent, the capability of the Government to direct finance into areas which it regards important as also the hands into which it should go, for instance to the under-developed areas and to smaller entreprenours will be considerably strengthen if both instruments which are required to implement this policy namely, licensing and finance are more directly under its control. At present when a licence is given, it is not possible, when it actually comes to the issue of funds, that these priorities will always be observed. By bringing IDBI under Governmental control, in addition to licensing also, the financing policy would be more directly under the control of Government and they

would be able to implement their policy by not allowing the monopoly houses to grow. At least all the tools would be in their hands.

SHRI BHUPESH GUPTA: This is the most favourable interpretation. There are people, who think that because they are coming closer together and having regard to the experience of the Industrial Development Ministry, there may be a collusion in order to help the big business houses. That is a fear which has been expressed. Will you totally discount that?

SHRI RAJADHYAKSHA: I am not in a position to totally discount that. The fact that long-term lending has remained under the control of the RBI has also not been wholly effected in his regard.

SHRI BHUPESH GUPTA: It will be a case of the devil and the deep sea. I am apprehensive of the deep sea. I forget the devil. I have the greatset apprehensions about the Reserve Bank. This is as good as any other institution. What precautions should be taken to prevent malpractices under the new arrangement?

SHRI RAJADHYAKSHA: If I am not exceeding my jurisdiction, I would say that the policy directions that are given to the IDBI can be made more specific than they are now.

SHRI BHUPESH GUPTA: How do you fancy the idea of eliminating big business interests being represented on the Board which will be created or the management pattern which will be set up under the new arrangement?

SHRI RAJADHYAKSHA: Are you referring to the proposed Board of the IDBI?

SHRI BHUPESH GUPTA: Yes.

SHRI BABUBHAI M. CHINAI: Representatives of the financial institutions will be there.

SHRI BHUPESH GUPTA: They may be there. But, we may put a limit, pick and choose there also as to who should be brought in.

SHRI RAJADHYAKSHA: I must confess that I have not given thought to who should constitute the Board of Directors. But, there is no reason why there should be any business interests represented on it at all.

SHRI DEORAO S. PATIL: Agricultural Refinance Corporation has been kept separate. It is with the Reserve Bank of India. Do you think that agriculture financing policy should be under the direct control of the Government and do you suggest that the separation of the ARC from the Reserve Bank would benefit the agriculturists?

SHRI RAJADHYAKSHA: This question is somewhat outside the scope of this Bill. But, if you want my personal opinion, I think, it would be advantageous if we separate the activities of the Agricultural Refinance Corporation also. They are again very specialised and they again require a different type of approach to that normally followed by a Central Bank.

MR. CHAIRMAN: Thank you very much, Mr. Rajadhyaksha. We are very grateful to you for your valuable evidence. We will consider your views. You may withdraw.

[The Committee then adjourned]

RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973.

Thursday, the 6th February, 1975 *from* 11.00 *ot* 12.50 *hours.*

PRESENT

Shri K. Suryanarayana—*in the Chair*

MEMBERS

Lok Sabha

2. Shri Dinen Bhattacharya
3. Chaudhry Dalip Singh
4. Shri C. T. Dhandapani
5. Shri Jagdish Chandra Dixit
6. Shri Noorul Huda
7. Shri K. M. Madhukar
8. Shri Piloo Mody
9. Shri Pratap Singh Negi
10. Shri Rajaram Dadasaheb Nimbalkar
11. Dr. Laxminarayan Pandeya
12. Shri M. S. Purty
13. Ch. Ram Prakash
14. Shri Ram Swarup
15. Shri M. Ram Gopal Reddy
16. Shri Sukhdeo Prasad Verma

Rajya Sabha

17. Shri K. B. Chettri
18. Shri Babubhai M. Chinai
19. Shri Bhupesh Gupta
20. Shri M. S. Abdul Khader
21. Shri Rishi Kumar Mishra
22. Dr. K. Mathew Kurian
23. Shri Deorao S. Patil
24. Shrimati Saraswati Pradhan

25. Shri S. Ranganathan

26. Shrimati Maimoona Sultan

27. Shri Subramanian Swamy

LEGISLATIVE COUNCIL

Shri N. L. Vaidyanathan, *Additional Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE

(DEPARTMENT OF BANKING)

1. Shri M. K. Venkatachalam, *Joint Secretary.*

2. Shri R. Rajamani, *Director.*

3. Shri V. K. Shunglu, *Deputy Secretary.*

SECRETARIAT

Shri H. L. Malhotra—*Legislative Committee Officer.*

WITNESS EXAMINED

I. **Shri R. G. Saraiya,** *ex-Chairman, Banking Commission.*

II. **Indian Merchants Chamber, Bombay.**

Spokesmen:

1. Shri Arvind Kilachand—*Vice President.*

2. Shri V. B. Haribhakti

3. Shri S. N. Desai

I. **Shri R. G. Saraiya,** *Ex-Chairman, Banking Commission.*

(The witness was called in and he took his seat).

MR. CHAIRMAN: While welcoming you, I want to bring to your notice that the evidence that you give would be treated as public and is liable to be published unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential, even though you might desire your evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

You can give your views on this Bill. Then the Members will ask questions.

SHRI R. G. SARAIYA: In the first place I welcome some parts of the Bill which we are discussing. I welcome the expansion of the scope of the definition of 'industrial concern'.

Another point which I like is that it is clarified in this Bill that, in the discharge of its functions, the Development Bank shall be guided by such directions in matters of policy involving public interest as the Central Government may give to it in writing. This may not be quite relevant, but my feeling is that many public sector undertakings—and I have been in charge of some of them—have not got a clear definition

as to what 'business principles' are; how 'business principles' and 'public interest' should be reconciled. This Bill specifically says that Government will give specific directions in writing, so that it is a good thing that this clarification has been made.

There are some aspects of the Bill to which I would like to make a reference. One is that there appears to be a complete severance of the Development Bank from the Reserve Bank of India. In the new Board there will be only one director from the Reserve Bank—the Deputy Governor. That, I think, is not quite in the interest of the development of industry and the Development Bank itself. If you will permit me, I would recall what Mr. T. T. Krishnamachari said in 1964 when he introduced the Bill:

"We are envisaging the new Industrial Development Bank as a central coordinating agency, which ultimately will be concerned, directly or indirectly, with all problems or questions relating to the long and medium-term financing of industry, and will be in a position, if necessary, to adopt and enforce a system or priorities in promoting future industrial growth."

"The Reserve Bank, I think, is today the institution which can most appropriately guide a development bank of this kind. The Reserve Bank is, and I hope it will continue to be, free from the pressure of political or other influences. It is in a position to take purely objective view of our needs."

I feel that the Reserve Bank is connected with the nationalised banks; it is directing them and controlling them. Therefore, two separate institutions, one dealing with medium-term and the other dealing with short-term are not necessary. There should be a closer liaison between the Reserve Bank and the IDBI than is envisaged in the Bill. There are many ways in which the Reserve Bank can be of assistance to it. The Reserve Bank have a well-developed department of economics and statistics besides other departments, like the Department of Banking Operation and Development. The department of industrial finance will be taken over by the new Development Bank, but the day-to-day guidance which may be given by the Reserve Bank would be more to the point than can be given by the Central Government to a bank which is a new institution, although there will be one representative, the Deputy Governor, from the Reserve Bank.

Referring to the composition of the Board, I would like to point out that there is not enough provision for entrepreneurs. The Board which has been contemplated in the Bill provides for—I refer to Clause 6 of the Bill:

"a chairman and a managing director appointed by the Central Government; a Deputy Governor of the Reserve, Bank nominated by that Bank; not more than eighteen directors nominated by the Central Government of whom two directors shall be officials of the Central Government, not more than five directors shall be from financial institutions, not more than six directors shall be from the State Bank, the nationalised banks and the State Financial Corporations, and not less than five directors shall be persons who have special knowledge or practical experience in science, technology..." and so on.

I feel that there can be an improvement on this set-up by having more directors with special knowledge and particularly representatives of the entrepreneurial class. There is no specific provision for entrepreneurs in this, although in the five directors it has been mentioned that they shall be persons who have special knowledge or practical experience in science, technology, and so on. I would also

like to point out that there is no specific provision for cooperative banks to be represented. Cooperative banks are playing an important part these days...

MR. CHAIRMAN: 'Industrial co-operatives' are there.

SHRI R. G. SARAIYA: The Chairman of the Federation of State Co-operative Banks which finance industrial co-ops should be put on the Board. I have made a suggestion that the Board of the new Development Bank might include:

1 Chairman, nominated by Government;

3 Dy. Governor of RBI and 2 officers of the RBI with special knowledge or experience of banking and industrial finance;

1 Chairman, State Bank of India;

1 Chairman, Indian Banks' Association;

1 Chairman, State Co-op. Banks' Federation;

1 Representative of the SFCs;

6—8 persons chosen for their expert knowledge of industry which should include two entrepreneurs and those with knowledge of management, finance and technology; and

2 Central Government officers as proposed in the Bill.

Then there is some reference to the State Finance Corporations which will now be guided, according to the Bill, by the Development Bank. These should be guided by the Reserve Bank of India because the inspection function will be duplicated otherwise by the Reserve Bank and the Development Bank.

Finally, there is some reference to the staff. There will be water-tight compartments, one the Reserve Bank and the other the Development Bank, after an option-period of 18 months proposed in the Bill. The option looks to be fair, but the transferability should be continuous. It will be an advantage to the Development Bank itself because it can draw upon the pool of experts from the Reserve Bank and it will also be an advantage to the staff themselves because they can develop their initiative and interest in their field of specialisation. That pool should be continuously open so that we have a bigger pool of talents to select from.

These are the main points that I have made, and I would try to answer, to the best of my ability, any questions that the hon. members may like to put. I have tried to be very brief considering your precious time.

SHRI SUBRAMANIAN SWAMY: You have very lucidly presented your arguments which represent your way of thinking about this Bill. However, some people can take objection to some of the things you have said and I would like to know how you would answer those objections.

You quoted Mr. T. T. Krishnamachari in order to define the close relationship between the IDBI and the RBI. People concede that what he said at that time was right. Since then, ten years have passed and indeed the situation has very dramatically changed. The RBI's own functioning in its traditional areas such as monetary and regulation of fiscal policies should occupy the bulk of its time. In order not to burden the RBI and deflect it from its main purpose, the time has now come to separate the IDBI; the Reserve Bank cannot be saddled with the responsibility of conducting the monetary policy, overseeing the fiscal policy, and at the same time getting into development finance. How do you answer this question?

SHRI SARAIYA: The times have changed, but the Reserve Bank has still to regulate the monetary and

credit policies of the country. If the same machinery deals with short-term finance and also the medium-term or even the long-term, it will be better.

SHRI SUBRAMANIAN SWAMY: Don't you think that the objectives underlying the short-term finance—even from the entrepreneurs' point of view—and long-term finance are different and, therefore, can be separated?

SHRI SARAIYA: No, Sir; I do not agree. The industry does not know when its requirement will overflow from short-term to medium and even from medium to long-term. Therefore, it would be better if the same institution regulates both.

With your permission, I would like to add one word. We need not have the same Board for both the RBI and the IDBI. I have served on both. My personal feeling is that it becomes too much of a burden on the Board of the Reserve Bank. You can have a separate Board for the IDBI but a closer link or association with the RBI and not constituent it in such a manner as is contemplated in the Bill. I am sorry I had overlooked that. This is an important point that I would like to make.

SHRI SUBRAMANIAN SWAMY: You say that the basic control should be that of the RBI and that it should not come under the executive control of the Finance Ministry. Let me take you on to another point which is made frequently that, while the IDBI has functioned above criticisms, still the time has now come to do more promotional activities and undertake greater risk and investment—to go into areas where risk and investment are higher; and the Reserve Bank, by its very nature, tends to be conservative in this area; therefore, if the IDBI is in the direct hands of the Central Government, it will be in a position to undertake and encourage investments in areas where the return on the investment is uncertain and more risk is involved. Would you think that this is a tenable proposition and if not, why?

SHRI SARAIYA: It is difficult to suggest that. After all, we do want control of inflation, control of prices and all that. A body like the RBI alone can do that. Otherwise, there is a danger that, in their zeal for promoting industry all round, you may be led to a situation of inflation and people will blame the RBI. The two cannot be separated that way. This is my reply to your question.

SHRI SUBRAMANIAN SWAMY: I have one more question. Some people say that prior to 1969, the scheduled banks, specially the fourteen, were more or less under the control of the Reserve Bank, under the social control legislation, and once those scheduled banks were transferred from the overall control or supervision of the Reserve Bank to the Finance Ministry, that is, they were nationalised, they have done wonderfully well and they say that here is an example of what the banks can do, how they can change the investment climate in the country, if they come under the control of the Finance Ministry. Do you think, having been the Chairman of the Banking Commission, that nationalised banks have done a good job which in retrospect justifies nationalisation and if you think they have done a good job, what are the indicators by which you say that they have done a good job, and if you think they have done a bad job, can you tell us, what are the indicators on which you base your judgement?

SHRI SARAIYA: This is a long question. Nationalised banks have done something which the banks before nationalisation were not expected to do, say, financing of agriculture in which they have entered in a large way and the opening of branches and so on. To that extent, nationalised banks have functioned well. That could have been done

equally well with the Reserve Bank or with the Central Government control or supervision. To me, both are Government. Reserve Bank also belongs to the Government of India and it is not an independent fifth wheel of the coach. That is one part of the reply. What was your second point?

SHRI SUBRAMANIAN SWAMY: If you think that the nationalised banks have not done well....

SHRI SARAIYA: I would like to say that there has been a fall in the efficiency in regard to the working of the nationalised banks, may be because the cream of staff efficient has been spread, officers and workers. There are too many branches and too much work, and of course, there is the general climate in the country which prevents efficient work. But, I do feel that to the extent nationalised banks....

SHRI SUBRAMANIAN SWAMY: Does the general climate affect only public sector or it affects all sectors?

SHRI SARAIYA: It affects both.

SHRI SUBRAMANIAN SWAMY: Do you think that there is no difference between public and private banks in regard to efficiency?

SHRI SARAIYA: If you ask me, I would put it that nationalised banks have not been able to rise above the general climate.

SHRI SUBRAMANIAN SWAMY: Do you think that efficiency today is worse than it was five or six years ago?

SHRI SARAIYA: Yes. Earlier, they were more efficient. Now, they are doing more work but less efficiently. It is difficult to categorise all these..

SHRI SUBRAMANIAN SWAMY: May I ask you another question? You have mentioned about the increase in agriculture investments. It has also been mentioned by somebody that they have given more money to small industries. But, if you compare the performance of these 14 scheduled banks which have been nationalised with the remainder, God knows how many, with the non-nationalised scheduled banks since 1969, do you find any difference in performance?

SHRI SARAIYA: It is difficult to say. Non-nationalised scheduled banks are not called upon to do what the nationalised scheduled banks are called upon to do

SHRI SUBRAMANIAN SWAMY: Do you think that non-nationalised scheduled banks are giving less money to agriculture than nationalised scheduled banks?

SHRI SARAIYA: I do not have the figures, Mr. Subramanian.

SHRI NOORUL HUDA: If you want to make this a debating point whether nationalised banks are performing well, whether they are performing better than non-nationalised banks and so on, I think, it would be rather stretching our work too far. Is it not? At the present moment, what we are concerned with immediately is that, whether IDBI should be separated from the Reserve Bank or whether IDBI should function as a part and parcel of the Reserve Bank as it has been doing for the last so many years. Of course, it is also relevant how these nationalised banks are working for the last so many years and all that. But, at the same time, we should not debate for any length of time as to the utility or the very wisdom of nationalisation.

SHRI SUBRAMANIAN SWAMY: You have a valid point. But, the question is, many witnesses have come here before and have argued that after nationalisation, the investment climate has been changed by the mere fact that they were taken out of the social control of the Reserve Bank and brought under the control of the

Finance Ministry. The change proposed here is the same type. The point here is not in regard to IDBI. He has been the Chairman of the Banking Commission. Here, I would like to know the difference between the nationalised banks and non-nationalised banks largely because non-nationalised banks are very much under the overall supervision of the Reserve Bank. The Chairman of the non-nationalised banks are still appointed in consultation with the Reserve Bank. They have representatives of the Reserve Bank on their Boards. Here, we are neither examining private sector versus public sector nor examining nationalisation versus non-nationalisation, but, examining the difference in approach that does result between Reserve Bank supervised and technically guided Banking performance and Government guided public institutions. This is the reason why I have asked him this question. I know the figures. I have done some study on it. There has not been any difference in performance. Non-nationalised banks are giving as much money to agriculture, their credit deposit ratio is as good or as bad as the remainder and their loans to the small industries is as large or as small. This is what I want to bring out.

SHRI S. RANGANATHAN: Mr. Saraiya, will it be right for the Committee to infer from what you said that if the Board of Directors proposed in the Bill is altered in the manner suggested by you your point would be met that there will be greater nexus between the Reserve Bank and this Bank, and therefore, the question whether it has to be taken out of the Reserve Bank or not does not arise. Will that be a right conclusion? My second question is, you suggested that there should be a representative of the State Bank I think I have heard you say State Bank.

SHRI SARAIYA: Chairman of the State Bank of India.

SHRI S. RANGANATHAN: Why do you want to distinguish between the State Bank and other nationalised banks? Do you have any objection if it is put down like this that there will be one representative from the State Bank and other nationalised banks, all taken together?

SHRI SARAIYA: I mentioned, Chairman of the Indian Banks Associations in addition to the Chairman of the State Bank of India so that the Indian Banks Associations will represent the other banks.

SHRI S. RANGANATHAN: Both nationalised and non-nationalised?

SHRI SARAIYA: I hold no particular distinction between nationalised and non-nationalised banks for this purpose. I think the Chairman of the State Bank of India represents both. I am speaking subject to correction.

SHRI S. RANGANATHAN: I was only wondering whether there is any particular point in getting the Chairman of the State Bank of India to be on the Board. You can say only one or two representatives of the Indian Banks Associations.

SHRI SARAIYA: I mentioned State Bank of India because of its size and its importance in the banking field.

SHRI BABUBHAI M. CHINAI: Mr. Saraiya, you said that the present arrangement of IDBI under the control of Reserve Bank should be continued. Now, I would like to know, whether you can specifically mention even one country where the Central Bank is loaded with all the functions which they have today including the 'P' form, looking after industrial development, promotion of full employment, price stability, external payments position, etc. etc.?

SHRI S. RANGANATHAN: He says that if the composition of the Board of Directors is altered so as to include two other officials from the Reserve Bank in addition to the Deputy Governor being on the Board, he is not pressing for any separation or continuing the present arrangement. He is in agreement with this.

SHRI BABUBHAI M. CHINAI: My question is quite different. Reserve Bank is loaded with this responsibility and the main job of the Reserve Bank is to regularise money and credit supply. No doubt IDBI is its subsidiary, but under the new Bill the Reserve Bank will not hold share of IDBI, it will be the Government of India which will be holding shares. Therefore, to that extent both will be separate bodies. In reply to Shri Ranganathan's question you said that to have control on IDBI there may be two Directors from the Reserve Bank on IDBI.

SHRI SARAIYA: I said there should be three Directors to have closer link. I am not worried about the capital

SHRI BABUBHAI M. CHINAI: In that case IDBI without having any link with the Reserve Bank can work.

SHRI SARAIYA: The staff should be common and inter-changeable.

SHRI BABUBHAI M. CHINAI: Do you think that the institution which is now under the control of IDBI has been able to have the development of the country?

SHRI SARAIYA: India is a peculiar country and has many exceptions as compared to other countries. RBI has done a good job in developing the Industrial Development Bank.

RBI should continue in close association as at present. It can have separate Board of Directors. The two can work in the same building and in the manner they are doing. The broad policy, guiding and controlling should be done by the Board suggested by me, so that you can bring in more expert knowledge on the IDBI Board and take advantage of the existing facilities and functions available with the Reserve Bank of India.

IDBI or Development Bank automatically gets control over the credit. You cannot separate long, medium and short-term loans. Otherwise it will lead to more complications and duplications.

SHRI BABUBHAI M. CHINAI: Will it not be more correct to say that if the financial institutions are made independent of the RBI, Indian capital market will develop on healthier lines.

SHRI SARAIYA: I have my doubts. It is a question of the future.

SHRI BABUBHAI M. CHINAI: In your observation you said about the representation of the entrepreneurs. Over and above persons having special knowledge, practical experience in science, technology, then come economists, industry and industrial co-operatives. If I am not mistaken, Economists and Industry will be having one member each.

SHRI SARAIYA: There are 9 classifications but there are five Directors. That does not give necessary weightage to commerce and industry.

SHRI BABUBHAI M. CHINAI: You prefer that there should be more representatives of industry or entrepreneure out of the said classifications.

SHRI SARAIYA: Definitely. Instead of 5, you may increase the number to 8 and put more entrepreneurs in this category.

SHRI RISHI KUMAR MISHRA: You have put forward two arguments for not separating the IDBI or for having closer links between the Reserve Bank and IDBI. For successful

zeal in the industrial development, IDBI may pursue a policy which may lead to an inflationary situation. Our experience has been that in spite of the fact that credit control has been with the Reserve Bank of India, we have had a serious inflationary situation in the country. There is no guarantee that simply because IDBI is within the control of RBI, it would not lead to an inflationary situation.

SHRI SARAIYA: Ultimately the entire situation in the country will be governed by factors causing inflation. RBI is responsible for only a part of the entire monetary and economic situation in the country. RBI has control to an extent it was influenced by the Government and *vice versa*. It stands to reason that the body which is reponsible for maintaining the credit policy of the country and value of the rupee would look forward to check inflation.

SHRI RISHI KUMAR MISHRA: The fact that IDBI is within the control of RBI gives no guarantee that it would not pursue a set of policy which would lead to inflationary repercussions. As you yourself said it is the Government's policy and everything that goes on in the country and in the world is effective. With the minimum control on IDBI, would things not be better than otherwise?

SHRI SARAIYA: I cannot be categorical and nobody can be so.

SHRI RISHI KUMAR MISHRA: Some witnesses have pointed this out that the functions of Development Bank are different from purely banking functions, in the sense that it is not merely giving finance and loan to the industry but development banking includes promotional activities. It includes identifying entrepreneurs giving them advice and also monitoring their performance. Reserve Bank is engaged in its normal function as a central banking institution. It would be difficult for them to develop such an expertise. It can be done better if IDBI is developed as a holding company of all the financial institutions and it gives them the benefit of developing expertise.

SHRI SARAIYA: The reply to that is that the RBI itself has got the basic material, basic data and everything. In order to meet the point which you are making, I have already suggested that there should be a separate board for the IDBI with more specialised representation on that board, for other disciplines, other interests than is available to the Board of the Reserve Bank of India at present.

SHRI RISHI KUMAR MISHRA: The Bill envisages representation for RBI. You want to increase that representation?

SHRI SARAIYA: There should be some entrepreneurs brought into it. Co-operative banks should be definitely in the picture.

SHRI RISHI KUMAR MISHRA: You also suggested that there should be interchangeability?

SHRI SARAIYA: There should be more interchangeability of staff. I do not want that this should be stopped at one point. 18 months after the Bill becomes law, you have the IDBI people and the Reserve Bank people and they will develop their own vested interests and their own rights. I want that their scope should be broadened.

SHRI RISHI KUMAR MISHRA: At the moment there is no link between those agencies of the Government which are engaged in the grant of industrial licensing and other institutions such as the IDBI.

SHRI SARAIYA: That could be brought about in the new board which we had suggested, in the modified set up.

SHRI RISHI KUMAR MISHRA: You do not think that it will make any material difference, whether the

equity of the IDBI is held by the Reserve Bank of India by the Government of India?

SHRI SARAIYA: To my mind it is an academic question.

SHRI NOORUL HUDA: Unless drastic policy changes are brought about regarding licences, etc. the mere separation of the IDBI would not solve the economic problem of the country. Compared to the advanced capitalist countries in Europe, do you think that the policies followed by the IDBI or the Reserve Bank would in any way minimise the influence of the industrial monopolies in the country?

SHRI SARAIYA: I do not think I am competent to reply to questions about licensing policies. But I may say this. The development of the backward areas depends not merely on the pouring in of money. If you take two years to get a telephone and three years to get a road, how are you going to develop the backward areas? Infrastructure counts. Merely putting the blame on financial institutions is not fair. The same applies to monopolies. Unless a person is able to run an industry, it is no use giving him money. Training and development of entrepreneurship is a difficult job and it takes time. Whether it is agriculture or co-operatives or backward areas development, unless you have the basic background, competent personnel and infrastructure you cannot develop. This country needs all the development that it can get.

SHRI NOORUL HUDA: The whole exercise becomes academic unless we go to the root of the problem. In spite of all our efforts, we have not been able to call ourselves an industrialised country. What are the basic reasons for non-development of infrastructure? Does not the question of the separation of the IDBI or continuation of the present set-up merely become an academic exercise? That is why I want an answer, if it is possible for you to answer. The present policies of the Government are also important.

SHRI SARAIYA: You are suggesting something which will be an improvement in the present position. The entire economic development of the country raises too many issues beyond my capacity or scope.

SHRI NOORUL HUDA: Would you not agree with us that all the policies enunciated by the Gvernment had by and large benefited the larger interests, which we call the monopolists?

SHRI SARAIYA: It is very difficult to give a definite reply.

SHRI DEORAO S. PATIL: My question will not be directly related to the Bill. I would like to know, what the financial institutions connected with the agricultural development are.

SHRI SARAIYA: The State Cooperative Banks are there. The Maharashtra State Cooperative Bank has an industrial development section and some other States are following that.

SHRI DEORAO S. PATIL: They are connected with the financing of agriculture.

SHRI SARAIYA: And industry also.

SHRI DEORAO S. PATIL: Are there institutions connected with agricultural development as such?

SHRI SARAIYA: Agricultural Refinance Corporation is there. This is under the Reserve Bank with a Dy. Governor as its Chairman. They are doing this job.

SHRI DEORAO S. PATIL: My question is this. As far as the Industries are concerned, there is an industrial development bank. I wanted to

know, if you suggested that there should be an agricultural development bank.

SHRI SARAIYA: As I said, there is the Agricultural Refinance Corporation. If you want to reconstitute it, it is a different thing. I have not examined this in detail. They have got big financing projects for cashew nuts, rubber etc.

SHRI C. T. DHANPAPANI: This Bill envisages transfer of certain functions from the RBI to the IDBI. You have said that the performance of the nationalised banks has not been upto the expectations of the public. In this context, I would like to know, whether the control of monetary policy should be vested with the IDBI, because the industrial development, price policy and circulation of currency are all inter-linked. Do you suggest that the control of currency should be vested with the IDBI?

SHRI SARAIYA: RBI has got statutory responsibility for controlling the currency and there is no suggestion to alter their in this Bill. There is no point in calling the IDBI as RBI, it is the same thing. RBI have got the expertise and experience and economic statistics, bank inspection department and so many other things. They would be the proper authority for this.

SHRI C. T. DHANDAPANI: Please refer to clause 17(IA) on page 8 of the Bill. Do you agree that the State Financial Corporations and State Cooperative Banks should be included in IDBI?

MR. CHAIRMAN: He has already suggested that some representation of the cooperative banks should be there in the Board.

SHRI C. T. DHANDAPANI: The State Cooperative Banks and the State Financial Corporations are very close to the agriculturists. If they were to accept directives from the Central Government, will it not hamper the functions and activities of these two organizations?

SHRI SARAIYA: They should be under the RBI and they should be given due representation.

SHRI C. T. DHANDAPANI: Will it satisfy the agriculturists and should it meet their requirements?

SHRI SARAIYA: Perhaps it should.

SHRI M. RAM GOPAL REDDY: You said that the nationalised banks are not working upto the expectations, but can you say that the banks were working to the advantage of the agricultural people when they were privately owned?

SHRI SARAIYA: The nationalised banks have undertaken agriculture on a large scale which they did not do before and they were never asked to do as before nationalisation. The Government policy was that the financing of agriculture should be left to the cooperative banks. They were not able to meet the needs of the people, and therefore, this nationalisation came in the picture. By and large, they have entered the field to the best of their ability.

SHRI M. RAM GOPAL REDDY: As a farmer, I can say that nationalised banks have succeeded in giving credit to farmers; they have gone to the remotest villages.

SHRI SARAIYA: There have been more branches, and to that extent, they have gone into the villages and financed agriculture. But they have not been able to meet the entire requirements. This is a big country.

SHRI M. RAM GOPAL REDDY: To meet the entire requirements, there must be money. Now they are giving more money to agriculture.

SHRI PILOO MODY: That is not true.

SHRI M. RAM GOPAL REDDY: It is true.

SHRI SARAIYA: The nationalised banks were not asked to do agriculture before. Now they are, and they are going into the field of agriculture in a larger way than before. But there is no financier for the whole country.

SHRI PILOO MODY: A propos what has just now been said, as a result of the vast expension in the rural areas ordered by Government to the nationalised banks, they have been able to collect deposits of over Rs. 650 crores or so. Out of this amount that the nationalised and other banks have collected, they have lent back into the rural sector only about 25 per cent, the balance having gone into the industrial sector. To that extent, money has actually been withdrawn from the rural sector and pumped into the industrial sector by virtue of allowing the nationalised banks to have branches in the rural areas. As a result, the rural economy has been further starved of funds. Your comment?

SHRI SARAIYA: It is difficult to support your proposition because the money brought into the nationalise banks has entered the organised monetary field. It was not there before. It requires some study to say what extent and in what proportion the money that was floating round, which was not available to the organised monetary sector, has now gone into it. But both agriculture and industry have benefited.

SHRI PILOO MODY: How agriculture?

SHRI SARAIYA: They have financed agriculture. There are figures—I do not remember them now.

SHRI PILOO MODY: Suppose a farmer had Rs. 1,000 which he kept under his pillow. As a result of the expansion of banking operations, this has been taken in; out of it, only Rs. 250 has been lent back to the agricultural sector. The other Rs. 750 which would have remained under his pillow—and would have gone into agriculture—has now gone into the organised industrial field. From the point of view of mobilisation of resources, you may have an argument in favour of the exercise, but as for getting credit and money into the rural economy, which I consider to be the principal problem of this country, putting inputs into the rural economy of the country, I think it has done great damage.

SHRI SARAIYA: The 25 per cent goes back into agriculture, but the Rs. 750 remains under his pillow. How does it help agriculture?

SHRI PILOO MODY: It will go into agriculture. Today the farmer is not able to get loans from the nationalised banks which tell him that there are no funds available. Yet the rural economy has not even been given back what it contributed to the monetary funds of the country.

SHRI SARAIYA: It is difficult to support your statement.

SHRI PRANAB KUMAR MUKHERJEE: Regarding your comments on the absorption of staff in IDBI and the period of 18 months provisional time given, you will notice that sub-sec.(2) of the main Act has not been touched by this Bill. You suggest that IDBI should have the benefit of expertise developed in the RB. Sub-section(2) of the main Act provides the same thing. It has not been touched by this Bill. In view of that, I would like your comments on what has been suggested in the proviso in cl.16—sec. 26 of the main Act. This affects only employees already working in the IDBI. If they want to go back to the RB, they may; if they want to be absorbed in IDBI, they may stay. So far as deputation from RBI is concerned, the provision already exists in the main Act. It has not been touched by the amending

Bill. Sub-section(2) of sec. 26 reads:

"Without prejudice to the provisions of sub-section(1), it shall be lawful for the Development Bank to utilise and for the Reserve Bank to make available, the services of such of the Reserve Bank staff on such terms and conditions as might be agreed upon between the Development Bank and the Reserve Bank".

SHRI SARAIYA: Free interchangeability is there already.

SHRI PRANAB KUMAR MUKHERJEE: Yes. It will not be touched by the amending Act.

SHRI SARAIYA: From IDBI to RB and *vice versa*. Let the staff develop on their own knowledge, interest etc.

SHRI PRANAB KUMAR MUKHERJEE: I think it serves your purpose.

SHRI SARAIYA: Yes.

MR. CHAIRMAN: Thank you very much.

[*The witnesses then withdrew.*]

II. Indian Merchant Chamber, Bombay.

Spokesmen:

(1) Shri Arvind Kalichand, *Vice- President*.

(2) Shri V. B. Haribhakti.

(3) Shri S. N. Desai.

(*The witnesses were called in and they took their seats*)

MR. CHAIRMAN: You may kindly note that the evidence you give would be treated as public and is liable to be published, unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire the evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament. Apart from what you have stated in your Memorandum, have you got anything further to place before this Committee?

SHRI ARVIND KILACHAND: In addition to my Memorandum, I would like to repeat that we have five points to place before the Committee. One is that we in principle welcome this Bill so that it will centralise the operations. However, we have slight misgivings on the score that perhaps centralisation may not remove the flexibility of considerations of various proposals. The other aspect is that since this is going to be a Central body, is it not practicable to consider having some sort of minimum limit below which projects could be considered by other institutions. So for projects upto 1½ crores of rupees, it is no use going round the main institution. Then if some sort of powers are given to the State Corporations or other Financial Institutions say upto Rs. 1.5 crores project may be dealt with by them; it would help so much and it will encourage the medium entrepreneurs. The other point is when the guidelines that will have to be framed, we suggest that there should be some guidelines for operations of this Bank. The rules will of course be framed but if suitable guidelines are given, the entrepreneur himself would be able to follow them and put in this application accordingly. Once these basic guidelines are made, it is a matter of negotiations between the entrepreneur and the Development Bank, if not the paper work will go on and everything will have to be delayed.

Another very important point which we have mentioned is that nowhere in this Bill a provision has been made

for looking after the marketing organisations. In our country today the more we industrialise, and especially the emphasis is on the medium and small scale sectors, the more the companies and the projects are finding themselves in a situation where they are unable to market their goods. We have the same problem in the small scale and medium scale sectors except very large organisations who have their own markets. Otherwise it is a very difficult process and because of that maldistribution which has followed from the absence of marketing organisation we find all these artificial difficulties. I am not taking into account the consumer products. We find there is maldistribution in other products. I think your Committee will consider this point and recommend the creation of marketing organisations which could be regulated just like the Industrial Development Regulation Act for industries. Each in our export field, we find that we are today suffering from the same difficulties due to the international monetary fund. If you see the Japanese model—of course they are more aligned to big industrial groups but they have internal trading companies—you will find that their industries do not face any monetary difficulty. Nowhere in the country trading has been accepted as part of the economic activity of the country. There has been a biased view that trading is more or less a speculation. This is a sort of historical concept but in industrial society distribution of goods by trading itself is a very viable part and I thought that from our Chamber we wanted to emphasise on the point that the Committee may consider the long term capital aid to trading companies. Now, we are glad to answer any questions that you might put to us.

SHRI SUBRAMANIAN SWAMY: What is the particular function of the IDBI which makes you support the Bill?

SHRI KILACHAND: We do not find anything objectionable as such. The point is today there are so many institutions where we have to go for financing. Secondly we find that in practice all these institutions cross-check with each other. It is much better to have one body where we can submit and make their own adjustments and discussions and come to us with a unified approach. I have prepared a case study which will show how five different institutions for one project are asking for terms.

SHRI SUBRAMANIAN SWAMY: I would like to see it. Now, if it is a question of duplication of work, then the R.B.I. might have made it clear that those agencies which today are helping the IDBI should make project evaluation. Further, more when the IDBI goes to the Finance Ministry, the R.B.I. will be left with agricultural finance. It is going to be left with short term financing. So, in a sense, you are going to have the same problem. Another witness who argued on one point was that today business did not make a clear distinction between short term and long term financing. So, are you in favour of the R.B.I. losing its agricultural financing as well as short term financing and giving them to the Finance Ministry?

SHRI KILACHAND: When we talk of it, we are talking of the nationalised banks. Really, it is the depositors' money that they are giving. To the extent the development bank will certainly help in going ahead, I would imagine that it is not practical for the nationalised banks to give long term loans.

SHRI SUBRAMANIAN SWAMY: Don't you think that if the IDBI comes under the control of the Finance Ministry, its efficiency may go down?

SHRI KILACHAND: I don't think that its efficiency has gone down because of this. It is rather an internal problem.

SHRI SUBRAMANIAN SWAMY: Don't you think that today the non-nationalised banks are functioning in the same way as the nationalised banks do?

SHRI KILACHAND: Both are the same.

SHRI SUBRAMANIAN SWAMY: Is it your opinion?

SHRI KILACHAND: It is a sort of feeling which has been spread.

SHRI M. RAM GOPAL REDDY: Do you think that they are competing with each other to present a good account of themselves?

SHRI SUBRAMANIAN SWAMY: I am very happy to see that the gentleman from the private sector thinks that their efficiency is on par with the public sector.

SHRI KILACHAND: I have already answered it.

SHRI M. RAM GOPAL REDDY: It means they are having some fear that if they do not work properly, they will also be nationalised. On account of that, they are working efficiently.

SHRI KILACHAND: The nationalised banks themselves are competing against each other to show better performance.

MR. CHAIRMAN: Competition means more service.

SHRI BABUBHAI M. CHINAI: Our friend in the beginning said that there is no task assigned in this Bill so far as marketing financing is concerned. It seems they are very keen on it and they would like to incorporate it in the Bill. May I ask from them, if it is to be included in the Bill, in what way they would like the IDBI to function; if they have to function, what would be the natural growth, both internal as well as external, according to your estimation?

SHRI KILACHAND: Today, in our country, the emphasis is almost on industrialisation. The way our banks are functioning, they are more security conscious. In trade, we are really generating a medium of distribution all over the country. We are manufacturing goods. Are we able to make them reach the consumer from north to south and east to west at reasonable prices? This sort of tendency is lacking internally. Today, the cost of marketing even by big companies of their products is very high. If we generate marketing companies, this will require long term finance. There is really no development in the sense of strong trading companies. Unless we have an equally good marketing organisation, we find ourselves all the time in this crisis of shortage of goods and so on. So, we would urge that in this Bill a provision should be made for marketing companies to be financed on long term basis. This should be done more on the export front. Today, there is no company available which can give you internal rates about 'x' commodity. If you write to any trading companies of Japan, they will give you a comprehensive world report. We have no such company. But it is very difficult to develop such companies. But if such companies are developed, the distribution can be very well regulated by the Government as it is done today under the Industrial Development Regulation Act. Today, under this Act, we are able to supervise the development of industries or control even mal-practices. I think it will help the Government in seeing that the goods reach the consumer at very reasonable prices.

SHRI DINEN BHATTACHARYA: This marketing organisation will be organised by the Government or will it be a private organisation? It may give rise to more unhealthy and corrupt practices.

SHRI KILACHAND: If there are companies which are financed by the public sector financial institutions, their management and control will also be under the same supervision as it is being done today in the case of industries. Why should you differentiate between an industry and marketing? I am also running an industry.

SHRI DINEN BHATTACHARYA: You are not in a position to hold the stock.

SHRI KILACHAND: I am talking of financial assistance in the shape of capital, not for stocks. The bill is meant, to give capital loans, but not short-term ones. I am eliminating food-stuffs from this. It is a completely different aspect of marketing.

SHRI BABUBHAI M. CHINAI: It has been provided in the bill that there will be 5 directors from people with knowledge of and practical experience in science, technology, economy, industry, industrial cooperatives, law, industrial finance, investment, accountancy and other matters. There are nine industries mentioned. Would you like to have 9 directors to represent these 9 industries or would you like to be selective? Or, would you like your suggestion of marketing also to be included? If so, why? How many of them do you want?

SHRI KILACHAND: In the clause of the bill, drafted as it is, there is no scope for it. It would be helpful if the committee accepts the recommendations of the Chamber, in due course. If the suggestion regarding marketing is accepted for inclusion in the bill, then automatically experts in it will be there in the board. I do not know why cooperatives are included here; they are outside the purview of the industrial development bank. I do not understand why science and technology are given separately. We are laready having industrial finance experts in these bodies. I do not know in what way people with background in accountancy would be useful in the development bank. The decision in regard to appointment of the directors is, of course, that of the Government. It is not clear as to when it is going to give loans, whether to the private sector or to the public sector. There should be a closer association between the marketing branch of the private sector and the board. There should be certain number of members earmarked, to be drawn from the private sector. In the nationalized banks, you do not have any private-sector-man who knows the situation about commodities for which banks are advancing money. As such, many problems have arisen. If necessary, you can increase the number from 5 to 8, but there should be representatives from both industry and trade, in the private sector.

SHRI BABUBHAI M. CHINAI: When you say 'trade', do you mean the representatives of the trade or the representatives specilized in marketing?

SHRI KILACHAND: I mean people specialized in market research or development.

SHRI C. T. DHANDAPANI: It has been stated at page 4 of your memo. that the "Life Insurance Corporation is not a financial institution in the sense in which other financial institutios are functioning for the specific purpose of assisting industries." But the LIC itself gives financial assisteance to the industries and making investments therein. Why should you not, therefore, consider it as a financial institution?

SHRI V. B. HARIBHAKTI: The intention in our memo. is to suggest that the LIC is not primarily a financial institution; its primary business is that of transacting life insurance

business. Incidentally, it has got public funds which it invest. It, therefore, stands on a footing different from other financial institutions.

SHRI C. T. DHANDAPANI: Of course, it is correct; but its activities have been extended towards welfare as well. Anyway, we agree that the money cannot be left lying idle.

SHRI V. B. HARIBHAKTI: The board of directors will ensure that this money will be utilized properly. We do not suggest that those funds should not be used for industrial development. We suggest that since it is not a financial institution in the sense of its investing government funds, the LIC's board of directors and investment committee are competent to deploy its funds in the most useful fields.

SHRI C. T. DHANDAPANI: Would you define a financial institution?

SHRI V. B. HARIBHAKTI: It is an institution whose primary objective is to render financial assistance, either long-term or short-term. We want to draw the distinction that the LIC is primarily an institution transacting life insurance business. Its investing money in industries is incidental to its carrying on the main business. As such, the LIC need not be brought under the omnibus purposes of this bill.

SHRI PRANAB KUMAR MUKHERJEE: You suggest that LIC need not be brought under the purview of this bill. One of the objectives of this bill is to ensure better co-ordination of all the lending institutions for industrial development and certain other objectives. If you keep the huge funds of the LIC outside the purview of the IDBI, don't you think that it would frustrate the purpose of the latter? You had also said that various financial institutions are having various criteria for lending. It is, therefore, necessary to have an unified approach. In view of this, how can you suggest keeping LIC outside its purview?

SHRI KILACHAND: The LIC handles the money of the policy-holders. It is generally making very long-term investments, of the surplus funds. They try to invest on the basis of long-term yield. The LIC's role to-day should be more towards building infra-structures.

If you are going to have an Industrial Development Bank Bill and the IDBI is going to look after the industrial side, LIC should really concentrate on the infra-structure.

SHRI PRANAB KUMAR MUKHERJEE: Why make such water-tight compartments?

SHRI KILACHAND: Today you are wanting industry to go to backward areas. Who will do the infra-structure? For going into backward areas, they get a maximum subsidy of Rs. 15 lakhs. In spite of that, why have backward areas not received much industrialisation? Because infra-structure is lacking. The housing schemes which LIC is having have a larger earning potential than merely investing in an industry which cannot yield dividends for 5—7 years. Their funds are locked up. LIC should have a completely different yardstick to measure its investment opportunities. So we suggest it should concentrate on infra-structure which in the long run gives better results. I believe this is the present policy also.

SHRI BABUBHAI M. CHINAI: I would like to refresh the memory of the hon. Minister. When LIC came for evidence, they said: 'We are happy; we have no objection to your having a director on our board because otherwise there is nothing

going to happen in this Bill which comes in our way'. We gulped it. I think we should stop at this.

SHRI PRANAB KUMAR MUKHERJEE: We will discuss it.

MR. CHAIRMAN: You have mentioned in your memorandum regarding organising marketing organisations; there is a lack of financial assistance to various marketing associations. So far as I know, manufacturers themselves started their own marketing organisations with their family members. To avoid these things, would you suggest a corporation for distribution of consumer goods on the lines of the Food Corporation?

SHRI KILACHAND: If you have a centralised marketing organisation like STC, how is it going to sell Tata soap, Lever soap and Godrej soap? Who is going to distinguish and say how much of Tata's, Lever's or Godrej's for a particular store? Today to overcome the shortage of consumer goods, Government rightly started the super bazars, apna bazars etc. But what has happened? Inventories have built up.

MR. CHAIRMAN: The super bazars are only for the cities we are more interested in the rural people.

SHRI KILACHAND: Big industries have started their own distribution organisations, not one company for one product, but a group of idustries under one group. Instead of that, the other alternative is to have a professional marketing organisation which only markets products manufactured by others right up to the villages. Today the companies which have specialised in this are only the cigarette companies which have done a tremendous job of getting the smoking habit into the villages. Apart from that, the number of hands which changes in marketing adds up to the cost. So our suggestion is that having a centralised body is not going to help matters; it will complicate them. Today too much of centralisation in STC or other bodies has led to rigidity in their working. If I am a soap manufacturer, I do not want my soap to be sold by a company which is also selling my competitor's soap.

SHRI DEORAO S. PATIL: On page 1 of your memorandum you refer to 'additional costs involved in completing such formalities'. Does it refer to unlawful payments also?

SHRI KILACHAND: I would like to go on record that there is no suggestion on our part that there is any unlawful payment for consideration of any proposal. If that were so, a lot of proposals would not be dying away for want of finance. In our experience, in financing institutions, there is no such practice or acceptance of it by the business community.

I forgot to mention one point, which is there in our memorandum also, that there should be some provision for the review of rejected proposals. Now once an institution says 'no', the project is gone.

MR. CHAIRMAN: The entrepreneur should be given a hearing.

SHRI KILACHAND: Yes.

MR. CHAIRMAN: Thank you.

(The Committee then adjourned.)

RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973.

Friday, the 7th February, 1975 *from* 10.30 *to* 13.20 *hours*

PRESENT

Shri K. Suryanarayana—*in the Chair*

MEMBERS

Lok Sabha

2. Snri Anadi Charan Das
3. Shri B. K. Daschowdhury
4. Shri C. T. Dhandapani
5. Shri Jagdish Chandra Dixit
6. Shri Madhu Limaye
7. Shri Jagannath Mishra
8. Shri Shrikishan Modi
9. Shri Piloo Mody
10. Shri Pratap Singh Negi
11. Shri Rajaram Dadasaheb Nimbalkar
12. Shri M. S. Purty
13. Ch. Ram Prakash
14. Shri Ram Swarup
15. Shri M. Ram Gopal Reddy
16. Dr. Govind Das Richariya
17. Shri Babu Nath Singh
18. Shri N. R. Vekaria
19. Shri Sukhdeo Prasad

Rajya Sabha

20. Shri K. B. Chettri
21. Shri Bhupesh Gupta
22. Shri Yashpal Kapur
23. Dr. K. Mathew Kurian
24. Shri Deorao S. Patil

25. Shrimati Saraswati Pradhan

26. Shri S. Ranganathan

27. Shri Kameshwar Singh

28. Shri Subramanian Swamy

LEGISLATIVE COUNSEL

Shri N. L. Vaidyanathan—*Additional Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF BANKING)

1. Shri N. C. Sengupta—*Secretary.*

2. Shri M. K. Venkatachalam—*Joint Secretary.*

3. V. K. Shunglu—*Deputy Secretary.*

SECRETARIAT

Shri H. L. Malhotra—*Legislative Committee Officer.*

WITNESSES EXAMINED

I. Shri Bhabatosh Datta—*Ex-Member, Banking Commission.*

II. Shri B. Venkatappiah—*Ex-Chairman, All India Credit Review Committee.*

I. Shri Bhabatosh Datta—*Ex-Member, Banking Commission.*

(The witness was called in and he took his seat)

MR. CHAIRMAN: You may kindly note that the evidence you give would be treated as public and is liable to be published, unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire the evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament. Now, have you submitted your Memorandum in this connection?

SHRI BHABATOSH DATTA: I have sent my Memorandum, but I understand that it has not been received at your end.

MR. CHAIRMAN: You may please read out your Memorandum now.

SHRI DATTA: I am now reading out the contents of my Memorandum.

My basic position is that it will be advisable to continue the link between the R.B.I. and the IDBI with some changes at the level of top direction. The present arrangement offers both the bodies the conditions of a common pool of highly qualified staff who have, or can acquire, experience in all branches of strategy, commercial as well as developmental and also the advantages of a common pool of information and statistical service. This is all the more important because the distinction between the term finance and working capital finance is becoming less and less clear in India and also in the countries from which we have borrowed most of our banking practices. Commercial Banks now directly provide medium term credit. The term financial institutions means that they are to provide loans to meet the working capital requirements and

they cannot in any case prevent the use of a part of their credit for working capital requirements. From the standpoint of economy as a whole, credit extended by the Commercial Banks and that extended by the Financial Institutions have practically the same expansionary effect. The effect depends on the pattern and time of the use of the credit and not on the source of credit. The argument that term financing comes out of the voluntary savings of the community is simply not correct in the present Indian conditions. The financial control over the quantum of distribution of all deposits of credit should rest with one single body and that body can only be the R.B.I. While emphasising the need for putting the IDBI directly along with the Reserve Bank, I would also emphasise the fact that the Board of Directors appropriate for the R.B.I. is not suitable for the IDBI. The RBI requires on the Board people who can take a particular view of the whole country *vis-a-vis* monetary policy. The IDBI requires people with industrial financing and management experience. There should be no difficulty in keeping the IDBI as a subsidiary of the RBI and still providing the former with a separate Board of Directors. The case of the Deposits Insurance Corporation provides an excellent precedent. I would suggest that the Governor of the RBI should continue to be the Chairman of the IDBI Board, and the two Dy. Governors incharge of industrial finance and of banking operation should also be there. The other Members of the IDBI Board may be as proposed in the draft Bill.

There will be no need for a Managing Director in that case. The Dy. Governor, incharge of Industrial Finance can function effectively as Mg. Director.

The provisions in the Bill substituting Development Bank for R.B.I. in the State Finance Corporations Act or the UTI Act could be retained. The Industrial Finance Department of the RBI should be transferred to the IDBI.

That is what I wanted to submit.

DR. MATHEW KURIAN. You have suggested that the present arrangement might remain with appropriate changes for the Board of Directors. It seems, your main point is unlike in some of the advanced capitalist countries, in a developing economy, there is need for encouraging long-term and short-term credit. In any case, distinction is getting thinner. This kind of dichotomy is, in practice, not advisable in any case. Arguments have been raised against this particular suggestion. One of the arguments against your proposal is that industrial financing has become very sophisticated and complicated and therefore, the Central Bank should not be burdened with such complicated financing operations. The R.B.I. played a role in nurturing industrial finance in the beginning; it has reached a stage where it has become a full grown adult and should be left and married to somebody else. The other argument against your suggestion is that, industrial financing is getting increasingly tied up to managerial functions, culture and problems of consultancy and other things. They are nearer to management functions rather than financing functions. Therefore, it should be with people who understand the industrial and managerial culture better, and should be given to a separate holding company. How do you comment on this suggestion?

SHRI DATTA: I would like to develop a little further what I said. The main point, if I can re-emphasise is that the credit policy should not be broken down into compartments. The idea that is floating round

is that you require separate credit facilities for exports and imports, you require separate credit facilities for industries and then you require separate credit facilities for various other activities. This is causing a great difficulty in the ultimate control of the total amount of credit circulating in the country. The main reason for this is that we look at these problems from the standpoint of money supply. Money supply is a very curious sort of subject. In the Indian context, a loan given by a commercial bank for a five-year period will be regarded as causing an increase in money supply, while a loan given by a State Finance Corporation for seven years will not be taken as money supply. I think, it will be much better not to look at these problems from the money supply, but from the standpoint of credit. If you look that way, my main submission would be that control over the aggregate amount of credit in the country should not be compartmentalised; the ultimate control should be in the hands of one single body. While it has been in one single body, it can be either the Govt. or the RBI. I think, the RBI is the only authority which can do this. I think, if this position is accepted, there would be some difficulty, but we have got to adjust ourselves.

Secondly, it was mentioned that the industrial finance has become a very complicated and sophisticated and specialised sort of work which the RBI would not be able to undertake. I would submit that the sophisticated or technical work will not be taken up by the Board of Directors but by the technical staff of the IDBI. All that is necessary is that there should be further strengthening of the IDBI technical staff for the purpose of performing this function. The sort of organisation that I have in view is that at the top level, there would be Governor of the RBI together with the two Dy. Governors in charge of banking operations and industrial finance. This arrangement will be practically not federal, but at least a confederal authority will be there and below that, there will be two different Boards. The two Boards will be separate bodies. The two bodies will have technical staff. I would like that the technical staff of the IDBI should have some training for banking operations, just as I would like the technical staff of the RBI to have some knowledge of the industrial finance.

The first objection can be easily met, if it is a serious objection, by strengthening the technical staff. It is not a function of the Board of Directors to provide technical services with regard to sophisticated industrial finance work. The same thing would apply to management. In fact, the IDBI at the present moment, is taking some part in management because in the case of Units, the IDBI is providing their own Directors and so the IDBI is keeping in touch with this. If by management, we mean simply not management in the sense of direction, but in the sense of technical staff; that also has become very common in the institutes of management. Here again some of the RBI people can be given proper training and can be sent over these institutions. In the course of six months' training or deputation at one of the institutes of management, I don't think that these objectives would be really achieved.

DR. MATHEW KURIAN: In the Rural Credit Survey Report, there is a reference to the nationalisation of the Imperial Bank. It is also mentioned here that the State Bank of India should be a subsidiary of the Reserve Bank of India. Now, the experience of the last several years very clearly shows that the Reserve Bank controls the State Bank of India and there is an expansion of the State Bank of India's branches in agricultural credit and so on. Of course, one could say that the Reserve Bank is not completely without

fault. I am not, at the moment, having a soft corner for the Reserve Bank. But the question has been raised whether it is better to have a control over the industrial financing or not. The argument raised here is that we have reached a stage where integration of short-term and long-term loan be better effected by the policy making agency, which is the Government itself. This is one argument. But I am not supporting this argument. There is a concerned Ministry where political, economic and social policies are decided. The Ministry of Industrial Development controls the licensing policy, that is, where the licences are given. Once the pattern of licensing is decided upon by the Ministry of Industrial Development, financing follows on the pattern of investment licensing. Once the organisation is so certain about the type of industry, then they have all legitimate claim for the total pool of finance available for industrial development. Therefore, they naturally oppose the banking system or the various financial institutions for credit. Therefore, the pattern of industrial financing is determined on the basis of the type of industry and the pattern of investment licensing is determined by the Government of India itself. If that is so, why not give that responsibility directly to the Government? After all, Government decides and originates the pattern of future financing, because they control the investment licensing policy. He has said that licensing and credit be incorporated according to certain national priorities. Let the Government do it. Therefore, the concerned department of the Government be handed over the ultimate function of the control.

SHRI DATTA: My feeling is that I am not quite clear about the way in which Government would undertake the function. The Bill merely provides that the ownership of the IDBI would be transferred from the Reserve Bank of India to the Government of India. The Government of India will not function directly regarding the controlling of the IDBI. The IDBI will have a Board of Directors. Of course, they are mainly nominated by the Government of India itself. In fact, the Reserve Bank is also owned by the Government. At present, what we have seen is that Government owns the IDBI as a second ownership. Government is practically a holding company for the Reserve Bank and the Reserve Bank is a holding company for the IDBI. If the Government exercises full control over this, in that case, part of the work will have to be done by the Industrial Ministry, part of the work will have to be done by the Finance Ministry and part of the work will have to be done by the banking department. It may be, sooner or later, exactly on the same ground, that a demand will come for a separate Agricultural Development Bank of India. Government can function only through certain bodies. All that I am suggesting is that the Reserve Bank continues to be owned by the Government and the IDBI continues to be owned by the Reserve Bank. But in the case of the IDBI, it should be done on the lines of the Deposit Insurance Corporation with a separate Board of Directors and the Governor of the Reserve Bank as its Chairman. Government can lay down its policy. That, of course, is a basic principle in any democratic Government. But the credit control is a matter which requires a decision from week to week and month to month. I have seen that whenever the Reserve Bank introduces a credit scheme, at the same time, because of lack of coordination, certain other bodies are advancing funds. At the present moment, we are experiencing a credit squeeze introduced by the Reserve Bank of India certainly with the full consent of the Government of India. The principle being that given the present supply of credit facilities and the present needs and the present inflationary conditions, there should be a limit on the canalisation of the credit resources in a particular way.

But this is opposed by companies accepting deposit, which practically speaking, runs contradictory to what the credit control policy is. If the Government has got to adopt a general policy in regard to credit control, the Government will have again to create some sort of a body. If that body grows, that body becomes the Reserve Bank and the IDBI.

About the last point which you have made, I have got one point to make. It is true that if an industry has been given a licence by the Government, in that case, that industry can go to financing institutions and try to get some fund. There may arise a situation, actually such a situation has arisen, that if all the units which had been given the licences would have approached these institutions and commercial banks for the fund, in that case, they would not have have got it. It is only because all of them do not go that fund is available. I think some discretion is necessary in this regard. Whatever be the body like the IDBI, it has got to have a second look in respect of a particular industry which has been given a licence.

DR. MATHEW KURIAN: May I ask you one more question, picking up the clue from what you have said just now, that if individual Ministries were to look after various aspects of credit landing, then, you will have a much more difficult situation than what it is today? Now, as you are aware despite the professions of the Government to control the growth of monopolies, monopolies in India have grown not only in terms of their share in the total non-Government non-banking investment—it has gone up from 47 per cent to 70 per cent but, the number of monopoly houses has also increased to 93, according to the latest report. Therefore, despite the professions of the Government, the number of monopoly houses and their strength in the total assets of the country have been growing. This cannot be linked from the Government's actual policy-making and decision-taking. After all, it is the Government which gave the licences to these companies. Despite the policies announced by the Government, the concerned Ministry, that is, the Industrial Development Ministry or whatever is the Ministry, which is concerned with it, they have been, in fact, strengthening monopolies. It is a fact which seems to be correct at least from the objective data, whether desires were to the contrary or not. Would you say that handing over the functions of the IDBI and the public financial institutions to a holding company which will be under the direct Government control will worsen the situation compared to the situation where the control over industrial finance is left with a relatively independent body like the Reserve Bank? There is an implication from what you said that the Reserve Bank and the IDBI means the second order type of control. Ultimately, Government controls everything. It cannot be otherwise. Reserve Bank also is a creature of the Government in the sense of general economic policy. But, to the extent it has relative independence as the second order category, to that extent, it may be good. But, the Bill seems to create a new situation where monopoly houses would have direct control over the pattern of industrial financing and more ability to get finance compared to the present situation. The present situation is bad enough because public financial institutions are giving more and more finance to these houses. But, will that position not be worsened later on rather than improved in the new dispensation under the Act?

SHRI DATTA: If I could divide your question into two parts, about the fact of growth of monopolies and secondly about the possibility of the situation being worsened if it comes under the direct control of the Government. I would say about the first point that I am aware of the fact that at least monopoly as a whole has not

become smaller; probably, it has become larger. I have recently completed an enquiry report which will come before Parliament within a short time, on the economics of the newspaper industry. It is a small field. But, wherever we go, we find that these have become very important. Now, this is a point in regard to which the Government can take some steps. If the Government thinks that there is nothing to be done about it and if the Government is not firm about its decision in regard to monopolies and other things, no authority can do anything. About the possibility of the position becoming worse, in regard to this type of creation of monopolies or encouragement of monopolies or the financing of monopolies, if they come under the direct control of Government, I am not exactly in a position to say what the ultimate result will be, but, I can at least say this much that it is much easier for an autonomous body ultimately under the control of the Government to make independent observations, to make independent assessments and to make independent judgements than for a Government firm sometimes. So, I think that if the control over the IDBI is transferred directly to the Government, in that case, the position would not become better than it is now. It may become a little more difficult.

DR. MATHEW KURIAN: Do I take it in conclusion that according to you, there is no economic reasoning for this Bill?

SHRI DATTA: If I put it very precisely, I would go a little further and say that there is no special economic and administrative reason for this. I do not see any urgency about this matter now when there are much more urgent things to be done in the country. It is the commercial banks which are required to be looked into more fully than this type of thing. If you are to consider the priorities, in that case, restructuring of the commercial banks in the country is a thing which should be done much earlier than all these changes that are thought about.

DR. MATHEW KURIAN: If that is so, will I be wrong if I come to the conclusion that if there are no economic or administrative reasons or urgency, the only reason left over which I can think of is that, the Banking Department wants to enlarge its empire and wants to create some positions for the retired people?

SHRI DATTA: On that, I am not competent to pass an opinion. I do not think so.

DR. MATHEW KURIAN: You cannot rule out the possibility?

SHRI DATTA: I do not think that we should draw conclusions of this nature. I am only pointing out the negative side of it. I won't draw any positive conclusions from that.

SHRI MADHU LIMAYE: I have three questions. You have been a Member of the Banking Commission. You must be aware that the public sector financial institutions have a large share in the private sector, both in terms of equity as well as long term loans. Can you say, how much is this share today? My second question is, what steps do you suggest for strengthening these public investments, in the private sector? My third question is, what role do you envisage for the re-structured IDBI in the so-called joint sector and the small scale sector?

SHRI DATTA: About the first question, I have not come prepared with figures. I will give you a rough order of magnitude. I would not be able to give you the exact figures. Public financial institutions are now the major providers of finance to the private sector. I do not think, outside the socialist bloc, there is any coun-

try in the world in which the Government financial institutions provide so much funds to the private sector. During the last few years—partly may be their fault and partly may be due to other factors—the private sector has been depending less and less upon the equity sales in the market, new issues, and depending more and more upon these public financial institutions. If I remember correctly, the ratio between new issues and the loans granted by the public financial institutions, is about 1:5. That is, the loans granted by the public financial institutions, so far as the private sector industries are concerned, is about five times,—may be a little more than that,—more than the total amount which these bodies are receiving from public issues or through other means. At present, the situation is becoming a little different on account of these company deposits. I do not know. I do not think anybody does, as to what is the total amount of deposits that these big companies have been collecting. After a year or so, we shall be getting the balance-sheets and we shall know the position. The Reserve Bank data on this are coming with a certain time lag. We do not have up-to-date figures; but the fact remains that the public financial institutions are providing the major portion of the funds. It means that if such funds are available easily, these private sector industries would not really try at all to go to the new-issue-market. If a private sector industry were to provide the maximum dividend now permitted, viz. 12 per cent on the paid-up capital, that company would have to earn an internal rate of return of 20 per cent or 25 per cent. Otherwise it would not be able to pay a dividend of 12 per cent. My submission is about the development, equity and other ratios. These bodies can get loan from the public financial institutions at 9 per cent, 9½ per cent or 10 per cent; or, if once an industry can show that it has become sick, it can get it at a lower rate of interest.

SHRI MADHU LIMAYE: There is a premium on sickness.

SHRI DATTA: Sickness has probobly become a second-order disease in the country. It now pays to be sick, in certain places. There is the low rate of investment, as a result of which we have come to a peculiar position. The private sector is given funds by the public sector. I would say that it was inevitable to that extent—but not to the whole extent. If you bring all the banks under government control together with all the public financial institutions, naturally their share in the total amount of financing would be fairly large. Now about the protection of investments of the public financial institutions in the private sector; I am not quite sure about the real prospects. Under the law at the present moment, a public financial institution which has lent money to the private sector, can convert a part of its loan into equity. That right is not exercised always. I do not know of a single case where this has been done, so far. I do not say I am fully informed about each one of these problems. They may be there; but I am not aware. In any case, it has not been on a very substantial scale. Even when the loans are converted into equities, the public financial institutions do not always exercise their voting power in the manner which is socially desirable. This has been a problem in our country. I say this, because this forum is one in which I can express myself freely and frankly. There has not been full coordination present between the public financial institutions and the Government. There were, in recent years, 2 or 3 cases in which the desired coordination between them was not there in the exercise of the voting power. I know of one case where the UTI and other bodies wanted to do something; but they could not do so, because the necessary cooperation from the Government was not available.

SHRI MADHU LIMAYE: Is it only due to lack of coordination or lack of will? Or do you suspect some political factors coming into play?

DR. MATHEW KURIAN: I would like to know the details of the case relating to the UTI.

SHRI DATTA: I try to confine myself to observed fact, which is that the type of coordination which some of us had expected, did not come about. It is not exactly for me to say whether it was due to any faulty governmental machinery or lack of will or deliberate policy. I would think that one way of giving protection to the public financial institutions is to provide for their own directors on the private bodies. There again, voting comes in; and if it is not exercised properly, difficulty will be there. I am being fair to either side. I have been on the boards of IDBI and IRCI for sometime. I have found that in all cases, the major difficulty in putting directors on the boards of these private sector companies lies in finding out the right type of directors. Very often, they have to be chosen from a very limited range. It means that the same person becomes a director of many companies. Moreover, in many cases, the person chosen does not know as to what the policy of the public financial institution is. That is a real and serious difficulty.

SHRI MADHU LIMAYE: I am inclined to agree with you that the right type of persons to serve on the boards of directors is not available. A few competent individuals that you have, are saddled with too many responsibilities. What steps do you suggest for recruiting people for this job? If the IDBI were to play its role with increasing effectiveness, you would be faced with this problem of personnel. Have you heard—and have you anything to say about the directors representing the public financial institutions function as sleeping directors, leaving things to the real managers of the private sector?

SHRI DATTA: I have heard two opposite things. May be, both are true, each in a particular set of conditions. I have heard that the directors nominated by these institutions do not really pull their weight or are unable to do so. As such, they do not perform the functions desired of them. But the other extreme I have heard about is that in some institutions, the directors nominated by the RBI or the Government of India exercise practically the veto right. They decide practically every thing.

SHRI MADHU LIMAYE: Would you suggest any definite guidelines or instructions?

SHRI DATTA: I would not be able to lay them down. I think that people can evolve them, sitting together.

SHRI MADHU LIMAYE: Can you send your suggestions to this Committee in writing? If we can have them before we deliberate on the clauses of the bill, it would be good. The Chairman of our Committee can fix the time-limit.

MR. CHAIRMAN: You can write to us.

SHRI DATTA: I think you must submit your report within a short period. I think it would be better for a few persons to sit together and draw up a set of guidelines; and make them available to the directors appointed by the government and by the public financial institutions. They come under the same category, practically. These may be utilized fully.

SHRI MADHU LIMAYE: This suggestion may be addressed to the Minister and not to me. The idea of the witness is good. I cannot do it; it is for the Minister to do.

SHRI PRANAB KUMAR MUKHERJEE: When somebody is appointed from IDBI in any of the assisted units, guidelines are issued to him. Earlier it was decided that these guidelines would be circulated.

SHRI BHUPESH GUPTA: He said that some people should sit together and draw up guidelines. Who should they be?

MR. CHAIRMAN: The Committee will decide.

SHRI MADHU LIMAYE: Let us have a look anyway. He suggested some people should do it, *i.e.* some people who have knowledge of these things.

MR. CHAIRMAN: We will discuss.

SHRI BHUPESH GUPTA: He made a general suggestion which is plausible. But the question is: who are the kind of people who will sit together?

SHRI DATTA: The Minister has said that there are guidelines now. But it is desirable that there should be an independent check on those guidelines. If someone can suggest improvements, that is all the more desirable. I have been an academic economist all my life; I do not have detailed knowledge about industry. I speak with a full awareness of my limitations.

About small industry, the IDBI does not come in for financing them; its main purpose is to finance large-scale industry.

SHRI MADHU LIMAYE: It was felt by several members that small industry is being neglected and in the reconstructed IDBI some attention should be given by Government to this.

SHRI DATTA: Subject to correction, the SFC are expected to take care of at least the medium sized industries. But the IDBI can refinance the SFCs. This procedure can be expanded.

About the joint sector, I do not think I can give an answer; I have never understood what it is.

SHRI B. K. DASCHOWDHURY: While initiating the discussion, Dr. Datta said that in view of the difficult administrative problems, both in regard to term finance and working finance, it is better the IDBI should have a separate board of directors to have an autonomous status; but he also suggested that the Governor RB, should be made Chairman of IDBI. It is true that in view of the greater role to be played by IDBI and in view of the need to remove imbalances in regional development, the public financial institutions have a positive, objective role to play. With that end in view, the main purpose of the Bill is that it should have more or less comprehensive powers. But when Dr. Kurian put a critical question, 'Should I presume that this Bill is not on the basis of economic necessity but to create an empire for the Banking department?'. Dr. Datta willy-nilly agreed. Is this not a contradiction in terms? Will he clarify?

SHRI DATTA: I did not agree with the statement that the Banking department wants to expand its empire. I only pointed out that I did not see any economic or economic-administrative reasons for bringing about this change.

The residual conclusion one can draw from it depends upon one's concept of the aggregate. It is aggregate minus two which would be the residue. My concept of aggregate is different from the concept of aggregate of others.

SHRI B. K. DASCHOWDHURY: Increasingly it is being heard that the public financial institutions are giving finance/more facilities to a particular class of people, industrialists or private sector. It is also being heard that in the selection of areas for assistance, some areas are more benefited. For example, very recently in the meeting of Eastern Zonal Council, the CMS of Bihar, Orissa and West Bengal alleged that the public financial institutions are neglecting these three States. Should there be a guideline for IDBI and other public financial institutions in regard to financing priority sectors without giving much importance to the private sector?

SHRI DATTA: There is substance in the factual complaint that of the total amount of assistance granted by term finance institutions, the share of some states has been very large and of some others very small. Confining myself to the limited subject we are discussing, the ground for this complaint will not immediately disappear if control is transferred to Government because these states which complain that the term financing institutions have not been helpful to them are almost exactly those states—I was a member of the Fourth Finance Commission—which complain that the Central Government has not been properly generous in regard to transference of funds for supporting the budgets of State Governments. Complaints of unbalanced allocation of funds against public financial institutions are as common as complaints against the Central Government. These complaints are sometimes not really correct; sometimes there is some basis for them.

In fairness to IDBI, up till now it has mostly acted on the basis of applications received. Real promotional work where the IDBI itself goes forward to find out where investment opportunities lie or where there are some potentials is only of very recent growth. In fact the number, type and quality of applications coming from some states has been much better and larger than in the case of others. Whether IDBI is controlled by Government or it remains in its present form with a separate board of directors, this problem will remain. The solution lies in identifying areas which has been done to some extent. At least backward districts have been enumerated; certain lines of industry where these term financing institutions should go have been identified. The difficulty in identifying backward areas has been—to speak frankly—that there has been a competition among state governments to get as many districts declared as backward as possible. The result is that out of some 340 districts, about 250—I am not quite sure of the number—have been declared as backward. This is as good as saying that the whole country is backward. If you have to adopt certain specific policies for backward districts, you should find out the most backward among them. Here one has to go from district to district, from area to area taking a stricter line of analysis.

There is one State in India where there is a river flowing. On one side there is a big industrial complex; on the other side is a backward district. This sort of thing has happened. If this policy has to be fully implemented, much more care has to be taken in the selection of backward districts. We can plan much better with a smaller number of backward districts than 250. The present position is that the most forward among the so-called backward districts get the largest share of the funds.

SHRI RAM GOPAL REDDY: You said that the Bill is quite unnecessary in its present form. If so, do you suggest the abolition of all banks, their amalgamation with the RB, with every bank functioning as a branch of the RB?

Secondly, the private sector is allotted funds in the ratio of 1 to 3. You also said that they are giving more money to the monopoly houses. Are there other people who have been deprived of licences, these being given to only some?

SHRI DATTA: The first question is directly relevant to my suggestion of a link between RB and IDBI. I did not suggest the Bill is unnecessary. It is necessary to the extent it provides for a separate board for the IDBI. But the question whether in the light of what I have said the commercial banks should also be amalgamated with RB is one which I could answer very freely. If there had been only one commercial bank in the country, that would have functioned as one body controlling the others. They could have come very close to one another. There could have been even a combination of these with different departments. But we have a number of commercial banks. The number within the government sector is now 22.14 nationalized banks plus the SBI and its subsidiaries. Then there are quite a number of non-nationalised banks. So as long as these commercial banks are there in large numbers, it is necessary to have some sort of coordinating authority deciding credit policy. So I would say that in the extreme case, if there is only one commercial bank for the whole country, there is no need for a central bank as well as a commercial bank. The same bank could perform both functions. But in present Indian conditions, that would not be desirable. IDBI is not like an ordinary bank. It is an apex institution. It is at the apex of the apex to provide better coordination.

About monoply houses and licensing, I do not have full information because this comes after a long time interval. But my impression is that licences are taken out by big houses and not utilised very often. This non-utilisation on the one side and the fact that others cannot get them because some have been issued is creating a problem.

SHRI RAM GOPAL REDDY: You said there is no coordination between Government and the financing institutions. As a member of the Banking Commission, have you given any suggestion to Government?

SHRI DATTA: I said that the desired cooordination between Government and the public financial institutions in regard to policies to be followed in controlling these private sector bodies through equity holdings or appointment of directors has not been seen in many cases, not that there is no coordination at all.

SHRI SUBRAMANIAN SWAMY: First, I would like to correct a point made by you that Government makes policies. It is Parliament which makes it and Government executes it.

SHRI DATTA: I used the word in a wide sense.

SHRI SUBRAMANIAN SWAMY: In reply to a question of Dr. Kurian, I think you overdrew the point that there is no economic substance to the Bill. Actually, of course you can argue that it does not matter. But I think there is one solid economic point behind the Bill, that the approach to investment by the IDBI and the approach to investment of Government tend to be different specially in regard to risk-taking. The IDBI today has preferred refinancing for a variety of reasons. Basically the risk is taken by the lending institutions and resources are provided by the IDBI. Do you agree that the Reserve Bank's approach and the Central Government's approach to investment, as far as risk taking is concerned, are fundamentally different? Is this not seen from the investment pattern of

banks when they were under social control of the Reserve Bank and now under the direct departmental control of the Government?

SHRI DATTA: I have not seen any clear cut statement of the Government in regard to risk taking policy. Suppose the Government has a policy in regard to risks on socially desirable enterprises I am qualifying it that way, there is nothing to prevent the Government to tell the Reserve Bank of India that that is their policy, and this is what you should do. One difficulty with regard to these institutions is that on the one side there are exhortations that they should take a new approach and go in for risk investment and not confine themselves to merely what they consider as bankable by their standards. On the other side there is panic in the country if the total amount of profit earned by a bank falls from three crores to two crores. You cannot combine the two.

SHRI PRANAB KUMAR MUKHERJEE: You say that you are not aware of any definite policy enunciated by the Government about risky investments? How do you justify the policy of taking sick units in various sectors? You are a director of the Industrial Reconstruction Corporation of India and I think a large number of investments which you have made may be termed as risk investment.

SHRI DATTA: What you suggest proves my point. Personally I think the IRCI should not have been started. It shows that the entire risk taking function has been put in a different, separate compartment under the IRCI. Its own share capital is small. It is trying to raise loans but that also will be small. It has budget finances. It is not a banking institution in the sense of the term. It is financed ultimately out of the deficits of the Government of India. The risky elements do not enter into the operations of other financial institutions. My membership of the board sometimes leads to funny situations. Something comes to IDBI and we find there is a risky element. We pass it on to IRCI. Three members—Sengupta, myself and the representative of the IDBI are common to both and we see that this sort of thing goes on.

SHRI S. RANGANATHAN: Would you concede that there is an optimum limit to which any one institution could take direct administrative responsibility as distinct from a supervisory role? Because if you say that the proposed IDBI should also be under the chairmanship of the Government of India and the Reserve Bank, the responsibility for the decisions of the IDBI will still be with the Reserve Bank. Will it not be better to have a distinct body in which there could be representation to the Reserve Bank but the Reserve Bank will have a supervisory role?

SHRI DATTA: If you put in a Reserve Bank man on the Board of directors, that is not of much help. In fact when the Government representative sits on a committee that does not in any way commit the Government. I have that experience all my life. A common Chairman for the Reserve Bank and the IDBI would give IDBI the status which the IDBI may find difficult to attain otherwise. This brings me, incidentally, to another point. We are multiplying our institutions. It has become extremely difficulty to find top level men for heading these instituntions. If in the course of a single calendar year we require a new Governor of the Reserve Bank, a new chairman for the IDBI, UTI, Export Import Bank, etc. I do not know wherefrom these men are going to come. If you get the right man, it is better to make him head of both the institutions. I have been watching the work of the Reserve Bank during the last there years. The Reserve Bank Governor could easily shed off a part of his responsibility and confine himself only to the major problems analysing and deciding on credit and monetary policy. The Governor of the Reserve Bank is

the Chairman of the National Institute of Bank Management. I do not see why it is absolutely necessary. But that gives a status to the National Institute of Bank Management. Having the Governor of the Reserve Bank in such cases helps. It is a question of priorities. If the work of control of credit in the country has got to be done properly, the Governor of the Reserve Bank should be allowed to devote his undivided, undiluted attention to this matter. There are a number of subsidiary things which should be coming up to the Governor of the Reserve Bank.

SHRI S. RANGANATHAN: So, following that particular line of argument which you have just elaborated, that you should not have a separate institution to control agricultural credit, in the new IDBI there will be representation given to the Reserve Bank and the Reserve Bank will have a supervisory role.

SHRI DATTA: No, I am sorry, I did not say that the Reserve Bank will have a supervisory capacity over these banks. Suppose we have an export and import Bank, a separate IDBI—and very soon a demand will come for an Agricultural Finance Bank—If these are separate and if the Reserve Bank is not a part of it but a supervisory body, then the Reserve Bank will become a centralised bank in relation to these bodies, and the Reserve Bank will have the same position in regard to these bodies as the Reserve Bank has in relation to the State Bank of India. I think that would be rather lowering the status of the other bodies. If that is acceptable, I have no difficulty. On one side, I do not want that the status of the Reserve Bank should be lowered. On the other hand, I do not think the status of the IDBI should be lowered as something subordinate to the Reserve Bank, subject to the directives which come out every week from the Reserve Bank, saying this institution must do this or not do that. That sort of thing should not be there. The IDBI should be an apex institution. I only want coordination at the top.

SHRI C. T. DHANDAPANI: You were in the Banking Commission and that Commission had made certain recommendations in regard to the better functioning of the banking industry. Could you say that any of the recommendations of the Banking Commission are being incorporated in the present Bill which we are now discussing? If so, how are they going to help us?

SHRI DATTA: If the question is whether any of the recommendations of the Banking Commission are in any way affected, or influenced, or modified by what is being done here, my answer would be "No". The Banking Commission did not go into the question of the Reserve Bank of India. My personal opinion was that if we have to study the banking system, then we cannot exclude the Reserve Bank of India. A study of the banking system, with the exclusion of the Reserve Bank, is something which makes the whole thing incomplete. But we were difinitely told that our terms of reference did not include the Reserve Bank of India. Then, as the Industrial Development Bank is not a bank according to the definition of "bank" in the Banking Companies Act, it did not come within our purview. So, the recommendations of the Banking Commission could be accepted or rejected without any reference to this Bill.

SHRI BHUPESH GUPTA: In the beginning you have made a strong point about the compartmentalisation of the credit system in our country. But the fact remains that it is already compartmentalised by the facts of economic life. We have the public sector and the private sector, there are public finance institutions, there are commercial banks in the public sector as well as in the private sector. We have found in many places that even

the nationalised banks administer their credits, deal with the problems of credit, in a way which is favourable to some of the big business houses. It is happening in many parts of the country, including Calcutta, where for example the United Commercial Bank, it has been brought to our notice, is deliberately backing up certain business houses, against which protests have been made by the people in the ruling party, the Congress Party. We are not going into that problem now. That will remain as long as the system is like that.

What do you suggest so that we can have, broadly speaking, a purposeful and clear credit policy for the different sectors and how this should be implemented, not only in the industrial sector but also in the agricultural and other sectors? Would you make some suggestions in that direction?

SHRI DATTA: An answer to this question will carry me a little beyond the subject matter of this Bill. If you permit me, I can certainly answer this point.

MR. CHAIRMAN: It is not advisable to go beyond the Bill.

SHRI DATTA: The answer will carry me to a wider ground than what is covered by this particular Bill. It is a fact that there are a number of decision-making units, a very large number of decision-making units in our country in the financial field. We have got 22 banks in the public sector. Further, a few non-nationalised banks have become very large now and, if you now apply the Rs. 50 crores limit, in that case, you have to go in for a further out of nationalisation. It is a fact that there are a large number of decision-making units. It is absolutely necessary in the interest of better administration, in the interests of elimination of wastage, in the interest of better coordination and uniform monetary policy, to reduce the number of decision-making units. We suggested from the Banking Commission that the entire commercial banking system in the country should be restructured and re-allocated into a small number, say six or seven different banks, each covering one region, being very careful that a region must not be taken as identical with the State; it must be much wider than the State. At present what is happening is that it takes some time for the directive of the Reserve Bank to percolate to the entire country. I do not know what is the position now, because I do not have all the details. When we were doing this work in the Banking Commission we found that it takes about a month for the Reserve Bank directive to reach a branch managed at Tinsukia, which is the northern corner of Assam. When the Reserve Bank issues a directive, first it goes to the head office. The head office takes some time for cyclostyling the copies and sending them to the regional offices. Then the regional offices send them to the various branches. Now it is very common for a Bank in Bombay to have a branch in Tinsukia or for a Bank in Calcutta to have branches at Trivandrum. All this can be avoided. Banking can be carried on by correspondence. When a bank takes three weeks to clear an out-station check, I do not think correspondence would delay matters further. There should be a complete restructuring of the commercial banking system. That is a pet point which I have been making for a long time. It will have to be done soon, because the difficulties will increase as time passes.

SHRI BHUPESH GUPTA: Let us come back to industrial finance. In the case of these institutions it seems the tactics of the private sector, more precisely of the big business, seem to be to secure the maximum possible credit from the public financial institutions in the country and then use their own internal resources of the concern under their control for non-productive speculative purposes. What is the guarantee that the same thing will not be followed, perhaps with

greater impunity, when this institution is made into an independent body with the kind of powers they have in mind? What is suggested by you to protect us from these things?

SHRI DATTA: The problem which you have mentioned is one that does exist. But I think that problem can exist either under the present system or even when that the IDBI goes outside your control. When any financial institution lends money to any industrial unit, it must estimate very carefully what are the other sources available to it. It should do it. If it is not able to do it, it is a failure on its part, and that failure can be checked by a proper staff organisation or something of that nature. In fact, a major difficulty very often arises because a particular firm which goes to a bank or a term financing institution for financial assistance will produce its own account books which will show that internal funds are not available when it is trying to claim funds from the bank. What very often happens is that these big firms have got either subsidiary or allied sources, and there is a two-way movement of funds between the subsidiary sources on the one side and the major concern on the other. That is why when the Reserve Bank and the Government had suggested that the 50 top accounts of each commercial bank should be examined, we had all along suggested that this examination should cover not only the 50 top accounts but all the satellite accounts which are linked up with them. But the difficulty is that it is a matter for strong decision by the Government, the Reserve Bank or the IDBI. But this is a matter which is independent of this form or that form of organisation.

SHRI BHUPESH GUPTA: Recently there was a talk about how industrial concerns like Bajoria Jalan or Goenka misuse the credit given by the public finance institutions by showing false accounts. In view of all this, do you think it is advisable not to allow anyone connected with the big monopoly houses any say in the matter of management and distribution of credits of these public finance institutions?

SHRI DATTA: On this matter the ethical judgment is quite clear. I entirely agree that if a man is doing something which is anti-social, then he should not be allowed to come in. But I do not know what is the legal aspect. Very often the difficulty is that until something has been proved nothing can be done.

SHRI BHUPESH GUPTA: It is a very practical question. We have seen how the aims of the public sector banks have been frustrated in administration by the direct and indirect influence of the big business houses. We have brought a lot of such instances to the notice of the Government with very little results. You have referred to the ethical aspect. What protective measures should we take so that this institution comes up as an independent body, separate from the Reserve Bank?

SHRI DATTA: Very often the difficulty has been legal. But I will keep that out. One way of doing this would be to bar persons holding more than a certain percentage of shares in big companies from becoming members of the Board of Directors of these bodies.

SHRI BHUPESH GUPTA: We have the problem of brother-in-law holding the shares. This institution has come up now.

SHRI DATTA: I do not know what you can do about this problem of daughter-in-law or nephews. I have found one case in which a particular big unit is owned by three other joint stock companies, five family trusts and the Hindu undivided family. This is a big problem. I do not know what exactly can be done about this. You are the right people to competently solve it. The present rule under

which a person who is definitely interested in a particular industrial concern and who is holding more than two per cent of the shares or something like that, if he is a director of the IDBI, cannot participate in the discussion, does not help much.

SHRI BHUPESH GUPTA: Suppose we make a suggestion that those who hold shares in any company should not be eligible for being nominated?

SHRI DATTA: Even one share?

SHRI BHUPESH GUPTA: I will share my difficulty with you. When the Finance Ministry introduced wealth tax, in the first year Mr. G. D. Birla became an assessee and he paid a wealth tax of Rs. 236. How should we deal with such cases? There are economists, administrators and others with experience, not merely industrialists. Why can we not have a board consisting of such people? Do you think it will be necessary in the name of expertise to open the door of such institutions, more and more directors directly to the pressure and influence of the big business house, if not physically, in other terms?

SHRI DATTA: I would suggest that it is not necessary to induct an industrialist. It is necessary to induct somebody with experience in industry. Personally, if you ask me I would prefer for membership of the Board of Directors a retired production engineer of a big industrial firm. I do not know what could be the fool-proof mechanism.

SHRI BHUPESH GUPTA: You are quite right. Along that line one could think. There are economists and industrial management people who are not share-holders and who have got experience and knowledge and better ideas. Could you not think of taking them first?

One thing more. You said that the Government should tell the Reserve Bank what they should do or not do. I can tell you the Government tells the Reserve Bank depending on the situation but the thing is that very often they tell the wrong thing to the Reserve Bank. What could be the remedy if the Government is not clear as to what policy should be pursued? What is the precaution against this?

SHRI DATTA: I would say if you want to make the change on the lines which you imply in that case you have to make the Government more and more responsible. If you make the Government more and more responsible there have to be other checks. If those checks are there, I do not mind. As things stand I would say in the course of my experience of the Board of the Reserve Bank, I have not seen very much of a very sharp difference of opinion between the Government on the one side and the Reserve Bank on the other.

SHRI BHUPESH GUPTA: You will not see the differences. How can you see the differences in the Reserve Bank when you tailor the management in a particular manner? From here you send Mr. Iyengar and we know his views. Similarly, is the case with Mr. L. K. Jha. They influence the people. The result is you do not see much difference. I want to create a situation where differences would come up.

SHRI DATTA: I started with one basic point, that is, these difficulties are independent of this particular sort of organisation. If these difficulties are real, they are real and they have to be tackled in a different manner.

SHRI BHUPESH GUPTA: In the light of what is happening what suggestion would you make to see that these elements do not come in? The trouble is with the top in the Reserve Bank. The Reserve Bank's management is absolutely monopoly-biased.

SHRI DATTA: I am in a difficulty. I can answer the question on the basis of the present Bill. We are not aware of what is happening behind the scene.

MR. CHAIRMAN: Thank you very much, Mr. Datta, for your valuable suggestions. You may now withdraw.

[*The witness then withdrew.*]

II. Shri B. Venkatappiah, *ex-Chair man, All-India Credit Review Committee.*

MR. CHAIRMAN: You may kindly note that the evidence you give would be treated as public and is liable to be published, unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire the evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament. If you have any notes, please give the same, otherwise the hon. members will ask questions. If you so desire you may make general comments on this Bill before they ask questions from you.

SHRI B. VENKATAPPIAH: I do not have any radical views about accepting or rejecting the provisions. On going through the Bill, however, it strikes me that it is a very good idea that there should be a separate Board for the Industrial Development Bank of India. But while being separate such a Board could be accommodated within the framework of the Reserve Bank itself as so many other subsidiaries of the Reserve Bank are.

Another important point is connected with the role of the IDBI. My view is that the IDBI's primarily concern itself with the development of rural industry.

On going through the literature I find that there were three or four reasons for establishing IDBI. One of the reasons was that the IDBI should discharge a 'supplemental' function. The structure which needed to be supplemented consisted of IFC, SFC and to a certain extent commercial banks of which had been engaged in industrial finance. I think there were two ways in which this structure had to be supplemented. One was qualitative and the other was quantitative. Quantitatively, the total finance available had to be augmented. Moreover then the maximum loan which the IFC could give (now Rs. 2 crores) was too low in certain contexts. Today it is Rs. 2 crores. Similarly, SFCs had also to operate within certain limits. Further qualitatively, there was need for some flexibility in the procedures which were statutorily binding on the IFC and SFC in regard to security. This stood in the way of reasonably free flow of industrial development finance. Thus, from the point of view of procedure as also of quantum there was need to supplement the existing structure. The IDBI fulfilled a supplemental role in both those respects.

Next was the re-financing role. True at this time, there was Re-financing Corporation for industries. But even then there was need for the re-financing to be done in a much bigger way.

Then there was a co-ordinating role. The coordination concern the operations of IFC, SFCs and similar institutions or allied operations.

But over and above a supplemental, refinancing and coordinating role was the developmental role. This to my mind, is the most important aspect of the Industrial Development Bank of India.

The IDBI has certainly shown some initiative in all these respects. A number of large projects have certainly been financed which would not have been financed otherwise. I think flexibility of procedure has also been demonstrated. The IDBI has also been partly effective in re-financing and to some extent in coordination. But it has failed to make itself full in its more important aspect, namely its developmental role; a role which in my view has to be exercised mainly in relation to rural industries. The Reserve Bank, as the Central Bank of the country, played such a role very effectively in relation to agricultural credit Parallel to that, in my view, there is a great need for development of rural industry. The State Financial Corporation certainly do not fulfil this need. They confine themselves to small scale industries. The Khadi and Village Industries Commission looks after the village industries.

In between small scale and village industries is this most important category of rural industries based on local resources and local skill on the one hand and modern technology on the other. I have got here a very useful publication of IDBI, namely "Industrial Development of Backward Regions—1974", which gives information relating to development of usual and other industries in various backward areas and the assistance, by way of consultancy etc., provided thereto by the Industrial Development Bank of India. But will this do? In my view, the job of the IDBI is much bigger. It is specially important in backward areas but also extends to other areas. Its job is to initiate, promote finance, refinance coordinate country's wide programmes for development of rural industries in this context the IDBI has a positive role in improving the commercial banks and, through them, developing rural industries.

If this developmental role of the IDBI is accepted, the next question would be, do structural changes proposed in the Bill help in that process? What is the best way of helping it to fulfil that role. From that point of view, I feel that IDBI should certainly have a separate Board which is distinct from the Governing Board of the RBI. But it does not follow that as an organisation, it should be separated altogether from the R.B.I. It can remain as a subsidiary.

SHRI BHUPESH GUPTA: Generally I got the impression that you approve of the arrangement that is proposed to be made now by starting IDBI as a separate entity. You, however, said something more. Apart from the role it should play, we are faced with one problem. Whereas certain big business houses get lot of facilities of credit from the commercial banks and other financial institutes of the Government, small people or even medium industries do not get those facilities to which they are entitled. What would you suggest, therefore, to meet their grievances and see that industrial finances are not abused or not monopolised by certain elements in the upper sections of the society?

SHRI VENKATAPPIAH: While certainly, I think, a separate Board is necessary, I do not say that I approve of the proposed arrangement in the Bill. The question is: is a sparate Board not connected with the RBI going to help in the very objectives I have mentioned? So far as I can see, the present arrangement is very much better than the proposed arrangement from the point of view of the industrial development of the rural industries.

What is it that may be said to have been the trend of rural industry in the country? There are three or four factors. The rural industries do not of course pertain to bigger towns. They come up in rural areas as well as in small mofussil towns which in-

terest with rural areas. These areas can be identified in each State and indeed in each district. The capital investment may in each case be one lakhs or fifty thousand or even less. What about infrastructure? Infrastructure facilities are include water, power, marketing arrangements etc. In some States, there are Infra-structure Corporations for rural industries. There are also other agencies; some are quite efficient, some have started recently. They are trying to promote in the rural areas what has been done to some extent with some success in the bigger cities. They want finances. The IDBI could probably help these Infra-structure Corporations. Secondly, there are small industrialists, who want short-term and medium-term capital. These are generally within the competence of the commerical banks and it is the commercial banks that have to be helped to finance these small entrepreneurs IDBI has now got country-wide net work of branches, regional offices etc. which it ought actively to employ in this connection. Apart from other things, it has got consulting and other affiliates and associates. These together can help the small industrialists in rural areas. The IDBI should refinance the commercial banks so that they are able to finance the small industrialists. Today, a very small portion of the IDBI loans is going to the banks. Against 38 crores, it is only 7 crores. A very positive effort is required to be made in this respect. IDBI has in fact a preliminary survey. So in my opinion the answer to your question is this that bank-oriented finance and rural industry-oriented refinance ought to be practised widely area effectively. This will help small people—in the way intended by state policy. The Banks and IDBI should effectively implement, supervise and safeguard such a policy.

SHRI BHUPESH GUPTA: From the general policy of Industrial development, we must know what kind of industry you want. What are the priorities, to which sector they belong and whom you should help most? Now, you are suggesting certain safety measures, but certain malpractices are still going on. For example, the problem is that credit for production and credit for non-production purposes is also given. They utilise the Public Financial Institutions for non-productive purposes. Do you think it advisable that the IDBI should be given some power to look into this aspect of the matter so that the promotional aspect and the production aspect will get proper attention and emphasis? Would you suggest some measures as to how we can place the finances at the disposal of the IDBI? Now, our statute will not help in the same way as the smaller financial institutions have done in the case of monopoly houses. What suggestion would you make to ensure that the operation of the IDBI is not such as would proliferate the ramifications of the big industrial houses? Whether in the form of subsidiaries in other concerns it is quite possible with the noted big industries or not, but they float subsidiaries and other concerns in order to channalise the sources of the Public Financial Institutions for their own purposes. Now, since you raised the point that the IDBI should be entrusted with the promotional aspect what should be according to you the broad principles for which the promotional side should be taken care of and should be helped?

SHRI VENKATAPPIAH: Let me deal with both these points. First, about ensuring that the finance or credit is in fact production-oriented. This is done in two stages. The proposition is first examination and only then actually financed. What is the agency which will give these loans in the rural areas? My answer is: the commercial banks. There is no meaning in all the enormous rural expansion of nationalised banks which is still going on unless finance from these branches parculates fruitfully to agriculture and to rural industry.

Now, it is those branches that have to examine the proposition and ensure the vital aspect of production.

In regard to the other point, that is, how the funds that are given to the IDBI may not be asubsed in relation to larger houses, I think in the case of the IDBI, that type of finance is actually going down and it is really developmental finance which is going up though not adequately. But here again the IDBI, should be manned by well trained and, above all, development minded personnel who are largely concerned with the policies of Government especially those policies which pertain to rural industries. Moreover, their work should periodically come under review by appropriate authorities.

DR. K. MATHEW KURIAN: Now, I would like to draw your attention to the fact mentioned in the General Report of the Committee of Direction, All India Rural Credit Survey (1955). In one of the Chapters it say as follows:

"We believe that by the suggested enlargement of development functions, it is already assumed however much the Reserve Bank of India may be further departing from the orthodox pattern of central banking in other and differently situated countries, it will at the same time be approaching nearer what is the Central Bank of this country ought to be."

Then there is the Administrative Reforms Commission report and the Working Group of restructuring of public undertakings appointed by the Action Committee is also there. All these Committees very elaborately referred to the role of the Central Bank in a developing economy of India. It will be distinct from what the Central bank plays in developing countries. This bill seeks to reverse this understanding. And instead of continuing on the strategy of having a Central Bank with developmental finance, the Central Bank that will integrate short term and long term will develop a package of credit facilities. After all, as you will agree, the distictionn is between the short-term and long term lending. There is a lot of switching over of short term and long term credit and so on and therefore all these scientific studies and the reports of the various Committees and Commissions continue to emphasise that the role of the Central Bank should be distinct from the IDBI. The question is whether it is not a fact that this will lead to a dichotomy between short term and long term lending; and so far as the short term credit is concerned again with reference to the Administrative Reforms Commission Report, I quote here the particular portion of the Report:

"As for the industrial sector, we feel that present arrangement under which the Central Bank of India functions as a subsidiary of the R.B.I. has proved to be beneficial rather than harmful in view of the co-ordinating influence that the R.B.I. will be able to bring to bear on all the institutions which provide long term finance such as the LIC, Industrial Credit and Investment Corporations and Industrial Finance Corporation. Even in this Bill, agricultural finance will continue to remain with the Reserve Bank; only industrial finance is sought to be delinked from the Reserve Bank. I am referring to this report to say that all expert opinion is contrary to the approach in this Bill. The concept of Central Bank is contrary to the spirit of this Bill.

Now, I would like to refer to the Rural Credit Review Committee where you have been closely associated. This Review Committee also indicates the same thing. I would also like to refer to some of the commission's reports with which you are

directly associated. All of them demand and urge upon a new concept of central banking which incorporates various aspects of the credit. But here is a Bill which goes contrary to that. In the statement of objects and reasons of the Bill, the objects are not clear. Why this has been brought forward? The following are the reasons. That the Reserve Bank has growns to a large extent and industrial finance has become very sophisticated. Therefore, it is unmanageable for the Reserve Bank to continue industrial finance which has done a good job so far. Now, they want that it should be delinked. The whole argument is that short term and long term credit need not be incorporated. We are talking about that argument that the Government of India should have a directorate in the industrial finance because industrial licensing policy and the credit policy should be coordinated. Therefore, that can be better done by the Government directorate. Now, these arguments, to my mind, do not seem to be convincing as compared to the voluminous reports which I have referred to. You will agree with me when I say that there seems to be no economic reasoning in support of this Bill. All those changes about delinking the IDBI from the Reserve Bank are going to increase the cost of credit, they are not going to reduce it. There is no economic reason which is going to improve. What is your reaction to my view?

SHRI VENKATAPPIAH: You will excuse me if I do not start by giving a categorical "yes" or "no" to your question or rather questions. You have raised a number of very important and interesting points in regard to agricultural credit. If it was argued that the Central Bank of a developing agricultural country like India should not concern itself with the development of agricultural credit, I would definitely contradict that view as we did in the Rural Credit Survey. I entirely stand by the findings of that Committee. The position is not what is proper or improper for the central banks of countries other than India. So far as India is concerned, it is in my view meaningless to agree that the central bank of the country should stick to so called "orthodoxian" of other countries and not take up, both seriously and in a big way, the responsibilities in regard to agricultural credit and the development of the infrastructure of agriculture credit. This is what Reserve Bank has rightly and effectively done. But the proposed delinking of IDBI from the Reserve Bank is not, so far as I can make out from the statement of objects and Reasons, based on standards of orthodoxy supposedly applicable to the central bank of a country. In any case, my own views is that a number of pragmatic considerations have to be weighed before we arrive at a valid conclusion in this matter. In one word, the question to be answered is: What is the balance of advantage? That is the real point that has to be taken into account.

Before attempting to answer that question, I would recall having mentioned three or four functions or roles of the IDBI. The "supplemental" role is not a crucial one. The same object could have been achieved, for usage, by enlarging the IFC or amending its Act so as to make its procedure more flexible. In regard to the "coordinated" role, this too could equally be done by IFC. In any case, so far as IDBI is concerned, it can do this better in association with the R.B.I. than outside it. The other two functions which I have mentioned are more important. They are the re-financing and development functions. Now, so far as the re-financing function is concerned, I would make a distinction here between two context: (1) re-financing of bigger and medium industries and (2) re-financing of small scale and rural industries. Similarly, in regard to the development role, I would make a distinction between the development function as exercised in relation to bigger industries and the same function as applied to small scale and ru-

ral industries. When it comes to the question of small scale industries and rural industries, I think the analogy of agriculture is very relevant. In my opinion, it is in this special context which is important for a country like India that there is a great advantage in the Central Bank of the country taking up the whole activity, directly or indirectly, under its own wings. This is not just financing or re-financing proposition. It is really a development function. It is not a promotional function in the commercial sense. It does not promote an industry. When it comes to the question of development financing, as far as small scale industries are concerned, it is really the function of a Central Bank. Industrial finance, is certainly different from agricultural finance, as far as large scale industries like petro chemicals and so on are concerned. But, with regard to rural finance and rural credit for industries they are similar. Therefore, I would say that there is a strong case for that being retained in the Central Bank. I am not saying this because I have been the Chairman of the Rural Credit Review Committee. But, I think, the problems begin to take similar shape when we come to rural finance and rural credit. I see no particular reason for taking it away from the Central Bank of the country which has to play a very positive role.

DR. K. MATHEW KURIAN: Regarding this volume and cost of credit, this Bill is not going to make any improvement at all. Do you think that there will be an improvement in the economic and financial position in terms of volume and cost of credit?

SHRI VENKATAPPIAH: I have not studied the question of cost and volume of credit.

DR. K. MATHEW KURIAN: Don't you think that this is purely an administrative arrangement?

SHRI VENKATAPPIAH: I think the IDBI today has two or three major sources of funds. I am speaking subject to correction. First there is the share capital, which is obtained from the Reserve Bank. The same share capital will now be held by government. Now under the proposed arrangement, the long term operations Fund of the Reserve Bank continues to be another major source of finance. As far as I can see from the latest figures, about 30 per cent of 1973-74 borrowing is from the LTO and also, along with it, bills that have been lodged with the Reserve Bank and moneys drawn. These two will remain the same under the proposed arrangements. The third item is the most important, namely that the IDBI gets by way of repayment of its own loans to its customers. This amount also will exactly be the same. I think this is about 40 per cent or so of the total. I do not know what the future projection is. These are the major sources of finance, and as far as I can see, these are going to be the same. Market borrowings will again be exactly the same as before. Market borrowings have assured more and more importance during the last four or five years. As far as I can see, the new arrangement proposed will not make any difference except that the share capital will now be provided by the Government. This, in the picture, as I see it, there is no real difference. The source of finance, the volume of finance will substantially be the same. I am not clear how or why the cost of operations is going to be different upon how it is manned, what sort of..

MR. CHAIRMAN: We are very grateful to you for your valuable suggestions and we will consider them at the appropriate time. Thank you very much. You may withdraw.

SHRI VENKATAPPIAH: My main point is in regard to what is best from the point of view of promotion of rural industries. This, to my mind should provide the main criterion on which to judge. Whether or not the proposed arrangements are desirable. Thank you.

(*The Committee then adjourned*)

RECORD OF EVIDENCE TENDERED BEFORE THE JOINT COMMITTEE ON THE PUBLIC FINANCIAL INSTITUTIONS LAWS (AMENDMENT) BILL, 1973.

Wednesday, the 16th April, 1975 from 15.00 to 17.45 hours

PRESENT

Shri B. N. Kureel—*Chairman*

Members

Lok Sabha

2. Shri K. Chikkalingiah
3. Shri Madhu Limaye
4. Shri Shrikishan Modi
5. Shri Pratap Singh Negi
6. Shri Rajaram Dadasaheb Nimbalkar
7. Shri E. V. Vikhe Patil
8. Ch. Ram Prakash
9. Shri M. S. Sanjeevi Rao
10. Shri M. Ram Gopal Reddy
11. Shri Somchand Solanki
12. Shri K. Suryanarayana

Rajya Sabha

13. Shri K. B. Chettri
14. Shri Bhupesh Gupta
15. Shri Yashpal Kapur
16. Shri B. V. Abdulla Koya
17. Shri A. G. Kulkarni
18. Shrimati Sumitra G. Kulkarni
19. Dr. K. Mathew Kurian
20. Shri B. N. Mandal
21. Shri Lokanath Misra
22. Shri Deorao S. Patil
23. Shrimati Saraswati Pradhan

24. Shri S. Ranganathan
25. Shri Kameshwar Singh
26. Shri Subramanian Swamy
27. Shri Gian Chand Totu

LEGISLATIVE COUNSEL

Shri N. L. Vaidyanathan, *Additional Legislative Counsel*

REPRESENTATIVES OF THE MINISTRY OF FINANCE
(DEPARTMENT OF BANKING)

1. Shri N. C. Sen Gupta—*Secretary.*
2. Shri M. K. Venkatachalam—*Joint Secretary.*
3. Shri A. K. Dut—*Joint Secretary.*
4. Shri D. N. Saxena—*Joint Secretary.*
5. Shri R. Rajamani—*Director.*
6. Shri V. K. Shunglu—*Deputy Secretary.*

SECRETARIAT

1. Shri J. R. Kapur—*Chief Financial Committee Officer.*
2. Shri H. L. Malhotra—*Senior Legislative Committee Officer.*

WITNESSES EXAMINED

I. Shri D. Sharma, *Joint General Manager, Industrial Development Bank of India, Bombay.*

II. Dr. R. K. Hazari, *Deputy Governor, Reserve Bank of India, Bombay.*

I. Shri D. Sharma, *Joint General Manager, Industrial Development Bank of India, Bombay.*

(The witness was called in and he took his seat)

MR. CHAIRMAN: You may kindly note that the evidence you give would be treated as public and is liable to be published unless you specifically desire that all or any part of the evidence tendered by you is to be treated as confidential. Even though you might desire the evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

Now, if you want to say anything about this Bill in general or on any particular clause, you can do so and then the Members will put questions.

SHRI D. SHARMA: Sir, I feel honoured by this invitation which has been extended to me by the hon. Committee. The views that I express here are my personal views. They are not necessarily the views of the R.B.I. or IDBI. I may perhaps, with your permission, speak a few words with regard to my background and experience. I have been in service of the RBI since 1938, for the last 37 years. I have been with the IDBI since its commencement in 1964 except for a period of two years when I was on

duty on other institutions. My views are naturally based on the knowledge and experience that I have acquired in this Development Bank.

Before I go into the provisions of the Bill, I may submit that I am a firm believer in management by objectives and manageent by results. I firmly believe that for success of any organisation, there have to be proper objectives. There have to be policies and procedures for achieving those objectives and adequate organisational set up to implement those policies and procedures. During the last 10½ years of its existence, the IDBI achieved certain results. These results are already before the Committee and I do not want to go into them. The Bank has achieved in the operational field quite a record of assistance both direct and indirect. I would only like to submit that for these results which have been achieved, I personally believe, the credit goes to three factors which I mentioned just now. We have in the IDBI a proper set of objectives and goals and these are in line with the thinking of the Government of India. We have adequate management set up. As it is, the Board of the Reserve Bank is also the Board of the IDBI. A Governor of the Reserve Bank is the Chairman of the IDBI. The Deputy Governor is the Vice-Chairman of the IDBI and all the officers and employees now working with IDBI are on duty from the Reserve Bank of India. As you kindly know, the Reserve Bank has made available to the Bank substantial amount of financial assistance. Out of its total money, about Rs. 300 crores have been made available by the Reserve Bank. So we have the benefit of the management advice, guidance, staff and finance of the Reserve Bank of India. In the light of this experience of mine which is based on the operations of the IDBI purely, I am of the humble opinion that this basic link with the Reserve Bank of India which has contributed to the development of the IDBI should remain and it should not be disturbed. And if anything has to be done, if there is a feeling that the Reserve Bank or the IDBI have not done what it should have and if something is to be done it shoud be in the Reserve Bank so that the subsidiaries of the Reserve Bank can also get automatic lift.

SHRI MADHU LIMAYE: You are probably aware that the public financial institutions have acquired a large stake in the private corporate sector both because of its share in the company's equity as well as term lending for these institutions. In view of this, what have you done to protect the public interest?

SHRI SHARMA: I am happy that the hon. Member has put a question which falls within my specific field in which I am working. I am looking after assisted projects and it is my duty to safe-guard the interest of the project, the institution and other things that go along with them. I agree with the hon. Member that lot of things have to be done to safe-guard the interest of public financial institutions. In the supervisory role, the IDBI exercises supervision over the assisted projects to safeguard its own interests in various ways. Every assisted unit is required to submit to IDBI a periodical report. During the construction period, it is after three months and afterwards, it is after six months. (2) There are visits paid to the project sites and discussions are held with the project authorities. (3) We carry out regular inspections of the assisted units at periodical intervals. During these inspections, our technical officers and others go into the various aspects of the project to satisfy themselves and they make detailed reports. We have also a system of nominating on the boards of the assisted concerns directors. For appointment, of directors we draw on our own officers and we also draw on panel of officers which has been cleared by the Government of India, which consists of list of experts in different fields.

SHRI MADHU LIMAYE: Would you tell the Committee in how many

companies the IDBI has nominee directors?

SHRI SHARMA: Today we have sanctioned assistance to about 250 industrial projects and the system is to put nominees after the assitance has been disbursed. I think, the IDBI has nominees in 114 assisted units and in remaining 26 units we have no nominee. Besides, each institution appoints its own nominee. There is inter-institutional arrangement and they sit together and discuss the problems together. In such cases, the IDBI and another institutions do not appoint their separate nominee.

SHRI MADHU LIMAYE: Do you give any specialised training to these directors to enable them to discharge their duties effectively?

SHRI SHARMA: As I said, while nominating nominees, we choose people from inside and outside depending upon the need of the project. We brief them and for their guidance, we have also issued written guidelines to them.

SHRI MADHU LIMAYE: I have before me a copy of the guidelines which have been issued for the use of nominee directors. I would particularly like to draw your attention to guideline No: 4 para 1. This guideline lays down that a nominee-director should try to prevent any mal-practice and abuse in the assisted concern. How do your directors ensure that such malpractices do not take place and the large stake that the public institutions have, is not harmed?

SHRI SHARMA: As I said, we appoint nominees from our officers and from outside also. An abuse is something which our nominee-directors whether from the officers or from outside, should be able to understand because they are qualified people, they are experienced people, trained people and we have now given them an illustrative list of abuses. I had said just now that we appoint nominees from our own officers as also from a list of outsiders, cleared with the Government. We have got people of experience, training and education in these two lists. So far as our own people are concerned, they are in constant touch with us; and we guide them through talks, discussions etc. We have issued guidelines to all our nominees. I was saying that the question of abuse is a general one which we have not explained in detail. We have only illustrated it by saying that if such like abuses are there, the nominee-directors should try to prevent them.

SHRI MADHU LIMAYE: How do they do it? Are they given all the information, or are they instructed to seek the necessary information? In para 4.3 of the guidelines, it is laid down that "The nominee director should ensure that all important developments relating to the functioning of the company are brought to the notice of the Board." This is necessary in order to ensure that malpractices are not there. Again, in Annexure I to the guidelines, at 1(d) and (e), two aspects are mentioned, *viz.* "acquisition/installation of plant and machinery; and arrangements with regard to technical know-how/engineering services." In terms of these guidelines, the nominee-directors are required to study important developments and important information dealing with the points mentioned in the check list; they can ask for information on those points. Will the witness tell us whether these nominee-directors are in fact getting all the information; or whether they are functioning as sleeping directors?

SHRI SHARMA: When we appoint our officer-directors, they are people who have been already working in the IDBI and have had access to our files. They meticulously try to understand what they are expected to do. As far as the outsiders are concerned, they have been calling on our officers and discussing matters with us; and we tell them as to what important points

are to be looked into. We welcome discussion of the nominee-directors with us. Whenever we feel that there is an important matter requiring the attention of the nominees we write to the companies and endorse copies to the nominees

SHRI MADHU LIMAYE: Mr. Sharma, are you yourself a nominee and director of some company on behalf of the IDBI?

SHRI SHARMA: Yes; I am a nominee of the IDBI on the board of the National Organic Chemicals Ltd., in Bombay—a Mafatlal group organization. I am also on the board of the Modi Rubber. I am associated in this manner only with these two companies.

SHRI MADHU LIMAYE: Can you tell us something in detail about the size of the shares of the IDBI in these two companies?

SHRI SHARMA: The pattern in these companies is this. The NOCIL was assisted 10 years back and the bulk of the loans has been re-paid; the bulk of the equity holding has also been disposed of. There is no loan outstanding from NOCIL to the IDBI. In regard to equity shares, we are still holding some. We are gradually unloading them in the market. That figure comes to a few lakhs of rupees, as compared to the project cost of Rs. 50 crores of this Mafatlal project. The Modi Rubber project is a new one, inaugurated in November. Here, the project cost, as last known to the IDBI is Rs. 27.5 crores; and the total institutional assistance from the consortium comprising not only of IDBI but also other institutions, in the form of equity is about Rs. 1.9 crores; i.e., it comes to about 24 per cent roughly, of the total equity capital of Rs. 8 crores. The loans are of the order of Rs. 15.5 crores. The percentage of assistance would come to 63, if we total up the loan and equity and relate it to the project cost.

SHRI MADHU LIMAYE: In view of this very large stake, did you carefully examine—when you were nominated or elected as the nominee-director of the IDBI—the documents and information on the two check points I had just now mentioned *viz.* about the agreements in regard to importation and installation of machinery and technical know-how, foreign collaboration agreements etc.

SHRI SHARMA: I was appointed to the board of Modi Rubber around January 1973. Thereafter, I have been looking into all the points mentioned in the check list, absolutely carefully and to the best of my ability. If the reference is to some item which was purchased or installed before that period, I would say that I had not gone into it at that point of time.

SHRI MADHU LIMAYE: My question did not relate to a particular point of time. I had specifically mentioned points (d) and (e) of Part I of the check list in the guidelines. Now, under para 4 of the guideline, you have a right to "ensure that all important developments relating to the functioning of the company are brought to the notice of the Board." These matters are important, since the project is at the stage of execution and production, you say, has not commenced. Did you send for all the papers; or did the company management provide you with all the necessary information? Were you satisfied with the information given by the company? We are considering this bill in order to coordinate the investment policies of the public financial institutions. We want you to do it more effectively. So, I am interested in the mechanism how our nominee-Directors function on this Board.

SHRI SHARMA: I think, there are two persons simultaneously supervising the projects, if I may say so. The institution itself has all the machinery at its disposal and it operates through the institution's nominees. When these projects are appraised by financial institutions, they are appraised in

depth. My own officers would have examined all the relevant documents before sanctioning assistance to the project. Our assumption is that Directors have to look into the present and the future of the assisted units rather than go into the past. Ultimately, if a nominee-Director is not able to operate in the manner in which he should, he has to make a report to the institution, and it is the duty of the institution to take it over and then do what it likes to do.

SHRI MADHU LIMAYE: You have mentioned about the two companies and all that. Apart from the safeguards and apart from the checks which the Institution might have carried out, I am specifically asking whether, as a nominee-Director of the IDBI, you ensure that the company gives to the Board all the information in regard to the agreement made by it with its foreign collaborators? Did you specifically ask them whether they had placed before the Board all the correspondence and the arrangements of the agreement which they (Modi Rubber) had entered into with the foreign collaborators?

SHRI SHARMA: Before taking over the Directorship, our nominees are expected to understand what are the responsibilities they are taking over. Before I took up directorship I went through all the papers relating to the project which are available in the IDBI, I try to get the fullest details about the project. Then at the Board's meeting, as and when questions arise, I have been asking for information, and by and large, we have been getting all the information. Wherever I find that the required information has not been furnished, I have been reporting the matter to the institution, and I am fully aware of the project details.

SHRI MADHU LIMAYE: In the course of your Directorship, either through letters or orally, are you aware of the arrangements that have been entered into by Modi Rubber with foreign collaborators? For instance, there is an agreement with the foreign collaborators. Were you aware of some secret agreements that had been signed with foreign collaborators? Did you make a thorough investigation?

SHRI SHARMA: In February, 1974, one gentleman came to me in the Reserve Bank of India in Delhi. He told me that he had written two letters to the Chairman of the Company saying that those two letters should be read out at the Board's meeting. He further told me that one of the letters revealed some working of the company. I think these were the words that he used. I requested that gentleman to give me whatever he had with him so that I could look into the matter. At that stage, he did not even give me copies of those two letters which were written by him to the Chairman. Even thereafter, to the best of my knowledge, I made a request to this gentleman to give me whatever information he had got, but this gentleman did not give us any information. You kindly see the limitations under which I have to operate.

SHRI MADHU LIMAYE: Mr. Chairman, I request you to place these documents before the Committee. They are authenticated copies. I do not bring original documents here.

SHRI PRANAB KUMAR MUKHERJEE: Mr. Chairman, here, I would like to seek one clarification. So far as the proceedings of the Committee are concerned, what we are discussing here is the Bill which is before the Committee. Mr. Madhu Limaye has put certain questions to the witness in order to ascertain how the nominee-Directors functions in the various institutions on behalf of the IDBI. But if we go into the details of the functions, I fail to understand how the Committee can function and what is the relevance of this discussion with the Bill?

SHRI MADHU LIMAYE: I can answer this objection. The witness is not concerned with 100 companies.

SHRI PRANAB KUMAR MUKHERJEE: It is not a question of 100 or 200 companies. Let it be clarified by the Chairman. Instead of knowing how a nominee-Director functions and all that, I think, if you put some relevant questions to the witness, it would help us to know the *modus operandi* of that function. I want to know from the Chairman whether this Committee are concerned with such type of things?

DR. MATHEW KURIAN: Mr. Chairman, before you give your ruling, I want to say something. After all, Mr. Sharma is not an ordinary witness.

SHRI MADHU LIMAYE: Mr. Chairman, before you give your ruling, I want to say something.

MR. CHAIRMAN: I think we should not go into details. Mr. Madhu Limaye has already taken too much time.

DR. MATHEW KURIAN: I object to this point. I would like to submit that this is a very relevant point that Mr. Madhu Limaye has raised. We are not going into detail of a particular case. We want to know the *modus operandi* of that function. He has told only with reference to two companies and Mr. Madhu Limaye has picked up only one company. Out of two companies, he is asking about one company in which he functions. (*Interruptions*).

MR. CHAIRMAN: My point is that he has already replied to the questions put by him, and I think, he has explained in detail and very well.

SHRI MADHU LIMAYE: I would briefly answer the objection of the Minister and after that, you hear my two friends.

AN HON. MEMBER: There are other Members also.

DR. MATHEW KURIAN: I have a brief question to ask. Let Madhu Limaye finish his question.

SHRI SUBRAMANIAN SWAMY: This is a very important matter how IDBI functions actually. Mr. Madhu Limaye has given very good points in depth, and I would like to hear the witness even if it takes the whole day.

SHRI MADHU LIMAYE: What is this Bill about? The Bill seeks to make the IDBI an effective instrument for channelising the investment of public funds. We want to implement the Government's economic policy and achieve results. If Mr. Pal's proposition about the national sector is implemented, most of the public sector undertakings would be in the same category as Modi Rubber. He has said that 62 per cent of the investment or project cost is borne by the public financial institutions. The matter cannot go to the PAC because it is the private sector. And when we are considering the IDBI Bill, we have to find out the lacunae in it. Unless we devise an effective machinery for protecting the public investments, what is the point in having a Committee of this type? I was using this only as an illustration. Besides, he is not connected with 200 companies.

SHRI PRANAB KUMAR MUKHERJEE: I have already submitted that, so far as the Bill on IDBI is concerned, I agree with Shri Madhu Limaye that it should modulate the functioning, of the Government Directors. But it is my humble submission that it is not the function of this Committee to look into the details of the role of the IDBI in regard to one particular institution.

SHRI MADHU LIMAYE: I am only asking the witness..

SHRI PRANAB KUMAR MUKHERJEE: I am raising the objection that this is not the job of the Committee.

I also take exception to the observation of Dr. Kurian that certain witnesses are extraordinary.

SHRI MADHU LIMAYE: Am I asking questions on his private life? I don't understand the objection.

DR. MATHEW KURIAN: What I have said is not a matter of controversy.

SHRI PRANAB KUMAR MUKHERJEE: You say that one is ordinary and the other extraordinary. All witnesses have equal rights.

SHRI MADHU LIMAYE: I think the Minister's intervention was totally uncalled for.

SHRI PRANAB KUMAR MUKHERJEE: That is why I sought the clarification of the Chairman. I think it was very much necessary.

SHRI MADHU LIMAYE: The guidelines are there and I wanted to know how these guidelines are implemented.

MR. CHAIRMAN: Mr. Limaye, I think you have put many questions and he has replied to them. You cannot compel him to give information which he probably doesn't know.

SHRI MADHU LIMAYE: You are saying this even before I have framed my question. I am not going to ask something irrelevant.

In fact, I am really surprised. The Minister should thank me for exposing the weakness in the policy.

SHRI PRANAB KUMAR MUKHERJEE: I would have been thankful to you if you had wanted to have a discussion on this Bill. But if you want to go into one particular institution, I am afraid I cannot agree.

SHRI MADHU LIMAYE: Is there something to hide? Why is this obstruction being created? I would like to know that from the Minister. What I am asking is not irrelevant.

SHRI PRANAB KUMAR MUKHERJEE: That is not for you to judge; it is for the Chairman to judge.

SHRI MADHU LIMAYE: That is why I handed over the documents to the Chairman to satisfy himself.

I have not been allowed even to frame my question. I think that as a Member of the Committee I have a right to do so.

SHRIMATI SUMITRA G. KULKARNI: We do not know what papers have been handed over by Shri Madhu Limaye. The only thing is that you may go through them and decide whether such papers should be brought here at all, to be handed over to the witness.

The second point which occurs to me is that the witness himself should be permitted to ask whether this will fall within the ambit of his duty. The discretion should be given to him as to whether he would like to discuss such things before the Committee or not—whether he feels that, by discussing this, he would be violating the trusts and responsibilities of his duties.

SHRI MADHU LIMAYE: That is for the Chairman to say.

SHRIMATI SUMITRA G. KULKARNI: It is for the witness also.

SHRI MADHU LIMAYE: The witness has no *locus standi.*

DR. MATHEW KURIAN: I don't know why, when the discussion was going on smoothly, an obstruction was created by the Minister.

Particularly, when the functioning of the IDBI is being questioned, the Minister should not come in defence. When the officers of the IDBI or other Government nominees on the various Boards are being questioned, the Minister should not come in defence.

SHRI PRANAB KUMAR MUKHERJEE: I would like to know under what rule you can prevent the Minister from attending this Committee.

DR. MATHEW KURIAN: He can attend but he cannot come in defence.

SHRI PRANAB KUMAR MUKHERJEE: It is not a question of defence.

SHRI SOMCHAND SOLANKI: We have seen so many Committees while the Minister has attended just one or two Committees. So far as I know, as a Minister, there are things which he can say and which he may not say. He is preventing Shri Madhu Limaye from making his point. I oppose it.

SHRI PRANAB KUMAR MUKHERJEE: I only wanted to get a clarification.

DR. MATHEW KURIAN: Your intervention made the whole thing suspect.

SHRI SUBRAMANIAN SWAMY: When the Minister intervenes, it must be on a very important point. I think, he only wanted that Shri Madhu Limaye should not be allowed to ask that question.

SHRI A. G. KULKARNI: That is your judgement.

SHRI MADHU LIMAYE: On 20th November, I wrote a letter to the witness in his capacity both as Joint General Manager of the IDBI and IDBI's nominee on the Company and wanted him to see these documents. I wanted to know, whether under the guidelines, he asked the management to place before the Board all the relevant information. That was the question. I gave him certain information. The witness has admitted that he received certain information in February. I sent him this information on 20th November. I had mentioned that certain secret agreements had been entered into by Modi Rubber with their German collaborators. They speak of certain transactions in foreign exchange which, according to me, are illegal. Modi Rubbers have cheated the Government. Did the witness ask the management to place all the relevant information before the Board with a view to implementing the guidelines?

I am relevant, because we are very much concerned with what is happening to the large public investments. The whole Bill is about the effective functioning of the IDBI. I suggest that you, Mr. Chairman, pass on the documents to him, and let him tell us, whether after the receipt of my letter, he sought to go through all the necessary information.

SHRI SHARMA: The hon. Member has referred to a letter dated 20th November. He does not want a specific answer to this letter, but to enable this hon. Committee to have the whole perspective, I may submit that five days before the hon. Member wrote that letter, I had in the normal course proceeded on leave and by the time, a copy of this letter

reached me at my leave address, the question had been raised in Parliament and I had, therefore, no opportunity to look into the papers. If I had time, I would have gone into this and given it due consideration.

SHRI MADHU LIMAYE: Mr. Chairman, are you satisfied with this reply that he had no time?

SHRI A. G. KULKARNI: Is this the reply expected of a responsible officer?

DR. MATHEW KURIAN: Did you, Mr. Sharma, pursue the matter after leave?

SHRI MADHU LIMAYE: Was he on leave till yesterday?

DR. MATHEW KURIAN: Did he see the papers after leave?

SHRI MADHU LIMAYE: Mr. Chairman, if he does not want to answer the question and if you are not going to take any action, I shall have to take it up as privilege question. I am giving you ample warning.

DR. MATHEW KURIAN: After leave, till today, did the witness have an opportunity to see that papers?

SHRI MADHU LIMYAE: He has said that he had no time.

SHRI SHARMA: A copy of this letter was received at my leave address and by that time, this question had been raised in Parliament. Immediately, I got in touch with the Industrial Development Bank. I am a nominee of the Bank. On my own, I did not want to take any action in regard to this matter. Under directions of the Industrial Development Bank, this matter has been discussed at the meeting of the Board of Directors of the Company. I think, this is what the hon. Member wants to know.

This was discussed at the Board meeting but I would submit that the sum and substance is that it is a disputed document and I would not like to express any views on that document.

SHRI MADHU LIMAYE: Mr. Chairman, he is referring to the document. Please show him the document. He has said that he had consulted the Industrial Development Bank of which he is a nominee Director. Further I would like to draw your attention to the Guideline No. 14 which says as follows:

> "Although the Article of Association of the Companies normally afford general indemnity to the nominee directors of the institutions for wrongs which may arise out of any act of commission or omission done in good faith, the liability of the directors of a company being joint and several under the law, a nominee director might be personlly liable for the various offences enumerated under the Companies Act, if it is found that he has wilfully and knowingly permitted the company to fail in the discharge of duties imposed by law upon the directors."

Now, after getting the information from me as well as from other sources, it was his duty to collect or call for the information not only about secret foreign collaboration agreement but also the letter which was sent, of which I am giving you an authentic copy.

SHRI SHARMA: May I add one more thing for the information of this hon. Committee? One of the steps the IDBI took was to order an immediate inspection of the company after this question had been raised in Parliament. In the month of January. This company was inspected by the representatives of not only the IDBI but ICICI, IFC, LIC and UTI together. They have submitted

a report which says that there is no proof of these particular allegations. That is my submission.

SHRI MADHU LIMAYE: Mr. Chairman, why are you not showing the document?

MR. CHAIRMAN: He can see it.

SHRI BHUPESH GUPTA: Mr. Chairman, we are not very clear as to what we are pursuing. But here is a Member who has submitted certain papers to you. I understand his papers are not scurrilous. What is the harm if Mr. Madhu Limaye insists that these papers, coming from a Member of Parliament, are shown to the witness? What is the objection?

MR. CHAIRMAN: I have no objection.

SHRI BHUPESH GUPTA: Then why are you delaying it? Let him see the papers and the matter ends there.

MR. CHAIRMAN: All right, let him go through the document. (The document was shown to the witness).

SHRI K. SURYANARAYANA: This document is not shown to all the Members. I would request you to kindly circulate a copy of this document to the Members or place it in the Library.

MR. CHAIRMAN: Mr. Sharma, have you to say anything about the document which you have just now gone through?

SHRI SHARMA: Sir, I have no knowledge of these papers whatsoever.

SHRI MADHU LIMAYE: So, I take it that the statement which he has made just now is not in relation with this document, because he says that he has no knowledge of it.

SHRI A. G. KULKARNI: I have two or three points for clarification. One is about the special relationship between the R.B.I. and the IDBI. He has made assertions that it is necessary to maintain a link between the R.B.I. and the I.D.B.I. But from the statement the witness has made, I do not understand what is that special relationship which exists or which should exist between the R.B.I. and the IDBI. The kind of special expertise that you have in mind can be built in any organisation. So, I would like you to explain the special link to be maintained between the two. My second point is this. While discussing about the NOCIL and Modi projects and other projects, you have said that the IDBI has under-written the equity. But I want to know whether any equity has been underwritten by the IDBI in the case of Co-operative Federations like IFFCO in Gujarat which has got a capital of Rs. 100.0 crores and if not, why not? The third point is, your observation was that the nominee-directors were expected to be vigilant and to be careful about the public finances in the companies. Now, whatever the right talk might be there about the national sector or that sector or this sector, ultimately they have to deal with special type of clients. These are the special clients; they require special treatment. Looking to these matters and also considering the version given by you on these documents, I do not find any special attention or any special technological expertise being utilised to un-earth or to understand the routine matters in the day to day working of the company. Even if it was 1973 as you have said just now, even then it was the duty of the director to go into the record so that such mal-pratices can be stopped.

SHRI SHARMA: As I said, I believe, the success of an organisation depends on so many inputs. All the inputs or major part of the inputs have come from the Reserve Bank of India. I am an Operational Officer; you can call me orthodox. What I feel is that if certain foundation has been laid on which a structure has

been erected, I feel that this structure should not be disturbed basically. That is my submission.

SHRI A. G. KULKARNI: Emotional argument!

SHRI SHARMA: No, Sir. It is not an emotional argument. Now, as far as IFFCO is concerned, my recollection is that when this project came for assistance several years ago, it was indicated that the Government of India along with cooperatives would be putting in the whole equity and the IDBI's assistance in equity was not asked for. Cooperatives do not go to the market for equity issues, no special provision for Cooperatives need be made. Already we are there to give help in whatever shape is possible. So far as the machinery for un-earthing so-called abuses is concerned, personally, I believe exceptions cannot by taken care of by general statutes. What has been pointed out is in the case of one company; I do not think, all the companies by and large are of this type and all these allegations are heard very much outside. By and large, the projects assisted by the IDBI and other institutions are doing well and merely because there are certain allegations, I do not think, it is possible for us to frame certain provisions to take care of all the possible abuses.

SHRIMATI SUMITRA G. KULKARNI: He has stated that he is not aware of this document. I would like to submit that, in view of the fact that 62 per cent of the investment is by the public finance and 38 per cent belongs to the Modi Rubbers. Even out of this 38 per cent, Modi's share may not be more than 10 per cent or 5 per cent. So, the responsibility of Government directors in such boards is tremendous because they are protecting the interest of public finance. How is it that such a major thing has not come to his notice and what steps have been taken to take into confidence other members of the Board about such things? Otherwise, we will be repeating the very same instance which happened in Jayanti Shipping also. We know that the Government director was sitting there and it was his duty to protect Government finance and ensure that the Chairman of the Jayanti Shipping did not start a bank account in his own name. In the same way, it is the default of the Government director here? Both the things are not very healthy to be allowed like this. The Committee would like to know whether such things can happen because these are authenticated papers. We would like to have his assistance in knowing the fact how such a thing can arise.

MR. CHAIRMAN: He says that he is not aware of these things.

SHRI SHARMA: According to me, the role of the nominee-director is very difficult and the responsibilities are tremendous. In fact, in the guidelines placed before the Committee, some provisions have been cited under which directors are personally responsible for so many acts and our lot is not enviable; our lot is unenviable. If certain papers are not placed before a Board meeting, I do not know how I can know the existence of such papers.

DR. MATHEW KURIAN: I would like to know whether during his tenure as nominee director he was aware of the fact that this Modi Rubber sold steel and cement in the black-market? Whether he is aware of this either directly or indirectly? Whether he is aware of the secret agreement involving foreign exchange of seven million? Therefore, this is a matter of serious concern. When the information was given by Reserve Bank of India employees, it was his duty to pursue it further. Once the some information has been given he should have pursued it. I think, it is a dereliction of duty and it was the duty of the nominee to pursue it. In reply to what Mrs. Kulkarni has asked, the witness had said that he could not do anything when he did not have the information. Can the witness

give any suggestion to the Committee for strengthening the hands of the nominee of the IDBI or of the Central Government or of any public financial institution, in addition to what are contained in the guidelines, so that such a nominee can be armed with some additional powers for calling for papers, etc.? First of all, is he aware of these facts—which are in our knowledge and in that of the public also?

SHRI SHARMA: As I had said earlier, an employee of the company came to me sometime during February, 1974, and had made some allegations; I had requested him to give me whatever things he had in support of the allegations, so that we can look into them; but for reasons best known to himself, he did not give me anything at all.

DR. MATHEW KURIAN: Shall I interrupt you? I have been dealing with a case for the last two years, under which an employee of a nationalized bank gave some evidence to an enquiry committee appointed by the Government; and he was summarily dismissed under certain rules which did not exist. As such, there are sufficient reasons for the employee cited by you, not giving you anything in writing. Employees of public sector institutions like the Reserve Bank are afraid of giving anything in writing. If the employee of the Modi Rubber had given the information, he would have been sacked.

SHRI SHARMA: He made certain vague and general statements. I had just now referred to inspection by a joint team of officers. Immediately on hearing the above we arranged for inspection of the company in Jan., 1975 and the Report came in March or April; and the two points made by the hon. Member were looked into.

SHRI A. G. KULKARNI: How many directorships can an officer of the IDBI hold at a time, generally speaking?

SHRI SHARMA: Under the present arrangement, we do not want to load a nominee with more than 3 or 4 companies.

SHRI A. G. KULKARNI: Generally, the feeling of the industrialists is that if they provide a nominee-director with a car and facilities, they can get what all they want to. Both the industrialists and the general public of India have that impression. It is unfortunate that while we start institutions like the IDBI with good intentions, the industrialists are exploiting them. This Committee should find ways and means of combating this tendency. It is sad that even a senior director like Mr. Sharma could not find ways and means of checking this. Having known this, is it not his responsibility to probe a little further? I am not casting aspersions on anybody.

MR. CHAIRMAN: This point may be discussed in the Committee.

SHRI SUBRAMANIAN SWAMY: I have cursorily looked at the documents circulated by Mr. Limaye. I would like to look into them in depth. I request that they may be circulated to all Members; otherwise I may not have the opportunity to go through them.

MR. CHAIRMAN: This is not a government document; you can see it from Mr. Limaye. If you want copies, he can supply.

DR. MATHEW KURIAN: Cyclostyling will not cost the Secretariat a fortune.

MR. CHAIRMAN: We do not treat it as the Committee's document.

SHRI SUBRAMANIAN SWAMY: The witness had said that some employee had come to see him about some secret agreement. The witness had also received Mr. Limaye's letter in November. After this employee came to him with the undocumented information and after the receipt of

Mr. Limaye's letter, did the witness sanction any further loans from the IDBI to the company? Secondly, in view of what has happened, is he satisfied that the IDBI's directors can perform the role of a watch-dog, *i.e.*, safeguarding the public investments in private companies?

SHRI SHARMA: I will not be in a position to say off-hand when the financial sanctions were issued; I do not remember the dates. In regard to the suggestions for strengthening the hands of the nominee-directors, these are exceptional situations which cannot be taken care of, by general rules.

MR. CHAIRMAN: That is all, Mr. Sharma. Thank you very much.

(The witness then withdrew).

II. *Dr. R. K. Hazari, Dy. Governor, Reserve Bank of India, Bombay.*

(The witness was called in and he took his seat.)

MR. CHAIRMAN: Dr. Hazari, before we proceed further, I would like to remind you about the direction of the Speaker of the Lok Sabha which governs your evidence before this Committee.

The witness may kindly note that the evidence they give would be treated as public and is liable to be published, unless they specifically desire that all or any part of the evidence tendered by them is to be treated as confidential. Even though they might desire their evidence to be treated as confidential, such evidence is liable to be made available to the Members of Parliament.

Now, you may speak about the Bill and its general clauses and thereafter Members will put questions.

DR. R. K. HAZARI: I am grateful for this opportunity to apear before the Committee. As hon. Members might be aware, for a few months, I happened to be the Vice-Chairman of the IDBI in 1970, and thereafter, also I do have some connection with the IDBI.

I must, first of all, respectfully but firmly differ from what appears to be the basic objective of the Bill which is, in effect, to separate the IDBI from the Reserve Bank. I feel there was a policy decision made when IDBI was established, to have the IDBI under the umbrella of the Reserve Bank and various reasons were stated at that time by the Minister of Finance. From the objectives and clauses of the Bill, it does appear to me that the idea is to set up a separate monetary authority, so far as the industrial finance is concerned. There might be an idea that the Reserve Bank functions are over-loaded with a developmental role, and therefore, so far as the industrial finance is concerned, that kind of developmental role should be taken away from the Reserve Bank. I would respectfully submit that the main central banking functions of the Reserve Bank are advanced and not diluted by the developmental roles that it performs in any economy of the kind that we have. Mere regulation is not enough. The regulatory authority should have a number of developmental functions. In fact, by separating the IDBI from the Reserve Bank, the leadership and the prestige which are associated with the Reserve Bank, would be denied to the IDBI. There are a number of views which could perhaps be brought out if you would permit me

to deal with some of the specific clauses of the Bill. There is a suggestion incorporated in two specific clauses that the IDBI, under the new Amendment Bill, will be the principal agency and the apex agency for industrial finance. That is already so. Secondly, in the proposed constitution of the Board of Directors, I do find it a bit odd and awkward that the agencies, which the new IDBI is supposed to supervise, would, in fact, be represented on the IDBI Board itself. For instance, while the IDBI would inspect the State Finance Corporation, the State Finance Corporations would be represented on the Board of the IDBI. Similarly, there is a provision that the IDBI may call for information from its members institutions as well as some such non-members institutions as the private commercial banks and the State co-operative banks also. This is a power which is vested only normally in the Central Bank of the country, and it goes with the power of inspection. But this does mean that the institution concerned would, in one way or the other, become responsible to the parallel agencies, that is, the Reserve Bank and the IDBI.

There is also a provision about the setting up of a common agency for joint appraisal as between the different institutions. Sir, I would beg to submit that it is extremely difficult, both in principle and in operation, to finance and not to appraise an individual proposal. If there are various institutions which are going to finance a particular scheme, the respective Boards of those institutions cannot abdicate their responsibility for taking the risk of financing that particular project. I would think that it might be better to have a common agency for the management of the various investments that the different public institutions have rather than to centralise the appraisal of the different proposals that come to the institutions. A common agency for management of investment could also carry out the task of participation in management control about which a lot of things have been said lately. This is something that can be done without having to separate the IDBI from the Reserve Bank.

There is another provision relating to the help of the Reserve Bank to the UTI. As the hon. Members might be aware, there has been an occasion in the recent past when the Unit Trust of India had to be given special assistance. I do not know whether the IDBI, as it is proposed to be reconstituted now, would be in a position to offer such assistance to the UTI, if it was to get into that situation again, I may point out one further difficulty that might arise in the arrangement that is proposed in the Bill. While the Bill does seek to separate the organisation and structure of industrial finance from the Reserve Bank, the provision in the old IDBI Act for financing the IDBI from the long-term operation fund of the Reserve Bank continues. This would be or could be rather a difficult arrangement at times, because of late, in fact, for the last six years or so, the Government's assistance from the budget to the financial institutions has been nil or negligible. The resources have been given from the Reserve Bank.

I may suggest for your consideration that certain changes are perhaps required in the constitution of the IDBI, and there, I may submit, I do speak on the basis of past experience as having headed the IDBI for a short while. Now, as the Head of the Agricultural Refinance Corporation, which is one of the institutions of the Reserve Bank, I do feel that the ARC pattern is perhaps much more suitable for a development bank than the present pattern of the IDBI. I think the Governor need not be the Chairman of the IDBI; the Governor should be above the institutions other than the Reserve Bank. It would be quite sufficient if the Dy. Governor of the Reserve Bank can be the Chairman of the IDBI while the ownership continues to vest with the Reserve Bank and he can have an easy access to the

resources and staff. Certainly, it would be useful to have people other than the Directors of the Reserve Bank as Directors of the IDBI. I think the Board of Directors of the IDBI should be more broad-based than it is now. If I may say, so since I have not grown either in the Reserve Bank or in the Government, but was brought in from outside, there are both advantages as well as disadvantages in being under the Reserve Bank's umbrella. The advantages are that there is more or less an automatic access to the staff and resources of the Reserve Bank and to the monetary resources of the Reserve Bank which can be very large and very flexible, which is not possible if an institution is directly under the Government's umbrella, because the Government cannot easily provide the money unless it has been voted by Parliament. In the case of the Reserve Bank, the question of providing resources is purely an executive decision. This itself provides for an immense amount of flexibility. I can say from my personal experience, say, last year, in March and June, when the ARC found that their business had grown very large and somewhat beyond earlier expectations, we had a great facilitating factor and that was that we could go to the Reserve Bank and raise the money quite easily. If we have to depend upon the budgetary appropriation, the increase in business which we would have been able to achieve would not have been possible. There are some disadvantages also. It takes time to recruit the staff of the Reserve Bank at the higher level through the Services Board. In the ARC, we have got over this problem by taking technical staff on contract. Another disadvantage is that an institution which is bound up with the structure of another institution, does stand to get tied down by its regulations and so on. But, on the whole, I think, the association of the financial institutions with the Reserve Bank, is I can say from my personal experience, a net advantage, particularly because of the ease of financing ready excess to staff resources, in spite of certain degree of rigidity of recruitment which can be got over by taking technical people on contract and in respect of being tied down by the culture pattern of the institution. After all, we cannot have 100 per cent advantages. One has to balance the advantages and disadvantages, and my view would be that on the whole, it is a net advantage. Finally, if I may, as a citizen, draw your attention to one clause in the Bill which gives residuary powers to the Government to issue orders about smoothening out...

MR. CHAIRMAN: Which Clause is it?

DR. HAZARI: Clause 19.

Speaking as a citizen—I am not speaking as a public servant about this Section—it does provide for rather sweeping powers.

SHRI SUBRAMANIAN SWAMY: Mr. Hazari, what you have presented is certainly very clear, but I would like to have two or three clarifications.

Firstly, you talked in terms of management of investments I would like to know whether you have at any stage thought about a scheme as to how the public investments in this country or public money in this country can be managed most effectively. The public financial institutions jointly, in many cases, control more than 50 per cent of the equity of the private companies—that is, Government, through the public financial institutions control more than 50 per cent of the equity of the private sector. But I don't see the Government guiding the private sector companies, at any point of time, to see that their ivestments are socially desirable.

Do you share this opinion of mine?

DR. HAZARI: If I may spell out some of the issues, there are certain problems relating to the management of investments which are, shall we say "mechanical problems" relating to the operational part of the management of the investment portfolio. These, if you ask my frank opinion, certainly need improvement. Merely because they are mechanical, they should not be shoved aside under the carpet. I do not think, that now the institutions really have proper investment management services departments to take care of these mechanistic things.

About the policy issues, I may point out, that in the case of the LIC, the UTI and the commercial banks, the funds are not Government funds, but they are public funds. This is a very material difference, which is sometimes not fully appreciated. They are not part of the Consolidated Fund of India, they are directly funds raised from the public. The deployment of these funds has to keep in mind the interest of the public at large, particularly that section of the public which has given these funds to the institutions concerned. On the question of desirable investment and the control on the Companies in which these institutions have investments, first of all, any major investment does require clearance by the Government in one time or another, whether it is industrial licence, or capital issue control or import licence, and there could certainly be more effective way of putting the ideas clearly on the subject. I am deliberately avoiding the word 'coordination', because one should know, what that means. If the ideas were clear on the subject, both on the objectives and on the strategies and the means of attaining these objectives, the management of these institutions would also be able to function much better.

About exercise of the powers, sometimes there is a confusion involved in terms of rather, if I may say so, obsolete ideas of control that one can exercise control by nominating a Director or by posting a person to sit there and things like that. Control has to be exercised really in terms of a reporting system, in terms of setting the objectives and by monitoring what is taking place much of the time and by evaluation of the performance. As it is, I think, in exercising this kind of management control, there are considerable weaknesses.

SHRI SUBRAMANIAN SWAMY: I appreciate the distinction, but I do not think, you can push it too far. When the commercial banks were nationalised, it was felt that the Government would be able to deploy resources better than earlier. In this connection, I remember having read a press report some months ago in the Economic Times that you were of the opinion that the Banking Department should be wound up, and that there should be full-time Directors of commercial banks. I have not read the paper subsequently; perhaps they were misquoting you. Have you given thought to the functioning of the commercial banks and whether they could be improved?

DR. HAZARI: There is always scope for improvement in the working of any institution or organization. If the Chairman rules that I should answer the question relating to commercial banks, I would certainly answer that.

MR. CHAIRMAN: It is not relevant

SHRI SUBRAMANIAN SWAMY: Let us be clear. We have a model namely that of the commercial banks under the Finance Ministry today if the IDBI would be separated, it would come under the same management, *i.e.*, Finance Ministry. Here is a report attributed to the Dy. Governor of the Reserve Bank that the Banking Department should be wound up. I would like to know about the vera-

city of the report and what does he feel about the commercial banks. It is very relevant to know in terms of formulating my own ideas regarding public investment.

DR. HAZARI: With regard to the question, whether the Reserve Bank has asked about winding up of the Banking Department, I would like to draw the attention of the hon. Member to the press note which was issued by the Reserve Bank repudiating the news item.

Secondly, about the reorganisation of the commercial banks, I am not very clear about what exactly the hon. Member had in mind.

SHRI SUBRAMANIAN SWAMY: Are you in favour of part-time Directors?

DR. HAZARI: As the constitution now stands, the Chairman and Managing Director is full-time. The scheme for the nationalised banks provides for another full-time Director, but there is no bank as of today which has this executive Director. The other directors are all part-time and are sitting directors. The scheme has been in operation for a few years and perhaps the time has come, I think, to have a review of the functioning of the Boards as they have been. This was a very innovative experiment. My own personal view—I am not expressing the Reserve Bank view—is that this new kind of Board has been, at best, a very limited success.

SHRI SUBRAMANIAN SWAMY: Dr. Hazari, you were earlier not in Government service, you were outside and became Dy. Governor for a five-year term, and now you are running second term. I would like to ask you, that during the first five years and when the time for decision-making came whether you should accept the second term, as an economist did you feel that the Reserve Bank was functioning in the way an economist would like it to function?

SHRI A. G. KULKARNI: How is this relevant?

SHRI SUBRAMANIAN SWAMY: I am not asking about his wife and children. This is about Reserve Bank.

MR. CHAIRMAN: All right, please complete your question.

SHRI SUBRAMANIAN SWAMY: I would not ask any more question.

SHRI K. SURYANARAYANA: At the time of this Bill was drafted whether the views of the R.B.I. were sought and whether your personal views were also sought? Did you write anything to the Ministry of Finance about your views?

DR. HAZARI: It is within my knowledge that the R.B.I. was consulted and the Vice Chairman of the IDBI was also consulted and I gave my views about the Bill as it was received at that stage.

SHRIMATI SUMITRA G. KULKARNI: Today the R.B.I. controls the monetary policy of our country. It is the only institution which controls all other banking institutions. In view of this, whether setting up of a separate independent institution, that is I.D.B.I., will be in the interests of the banking institutions?

DR. HAZARI: If I may explain why I held that view, this would lead to a fragmentation of both authority and the responsibilities because the power of control over development banks or the industrial finances generally is a large part of monetary area and once this authority gets divided between the R.B.I., the Government and the I.D.B.I. and within the IDBI since there is a possibility of a part-time Chairman also, it

could get sub-divided within IDBI also, some damage would be caused to both the control as well as the implementation of that control. So, in my view this fragmentation would do some damage.

SHRIMATI SUMITRA G. KULKARNI: But there is one policy against the IDBI that agricultural development and the small scale industrial development are not accelerated as a result of concentration of these financial powers on the R.B.I. and therefore in the interest of the IDBI it is being made as an independent institution. Would you agree with this view?

DR. HAZARI: No, madam. If one sees the statistical figures one will find that there has been a considerable increase in the financing of both agriculture and small industries over the years. If you wish I would certainly send these figures to the Committee. But it is not just the statistical figures that matter. The R.B.I. has tried to avoid the criticism by insisting on the much better quality of lending and insisting that there should be a good recovery and supervision over this credit.

Now, in the name of soundness, one can, I think, find fault with the old conservative ideas and can say that some dynamism is required now. The R.B.I. has now started the activities of refinance and other facilities in one form or the other along with training facilities of staff at different levels. But if the idea was that we should open the flood gates and only insist on their larger lending without insisting on quality, I must confess that I would not be a party to that, nor would the R.B.I. or should the R.B.I. be a party to that.

SHRIMATI SUMITRA G. KULKARNI: Today the SFCs are directly under the R.B.I. But under the new set up, whether the control will be exercised by the RBI or the IDBI? Now, when the IDBI is set up as an independent unit, how much of control will be left in the hands of R.B.I.?

DR. HAZARI: The position as of now is that the control of SFCs with the R.B.I. The SFCs are set up under the Central Law. According to this, when they have to raise guarantee bonds in the market, they require the permission of the R.B.I. and even under the new arrangement they would continue to require Reserve Bank's permission. When the SFCs want refinance, they get it from the IDBI as of now and IDBI in turn gets funds from the R.B.I. Under the new arrangement also, the IDBI will refinance them and in turn the IDBI will continue to depend on the R.B.I. to get their funds. Now, the R.B.I. inspects the State Finance Corporations. My understanding of the provisions of the Bill is if this is passed into law, then the IDBI would be inspecting the State Finance Corporations. This would be the difference that would come about.

SHRI BHUPESH GUPTA: Some of us have a little difficulty in understanding the problem. Now, as far as the R.B.I. is concerned, some people feel that if this authority, prestige and controlling powers have been used, sometimes in order to further the social objectives that we have, don't you think that sometime some kind of decentralisation is necessary with a view to promoting social objectives that we have whether in the matter of monetary policy or in the investment, credit and others? Now, how is it that the R.B.I. has failed in checking the concentration of wealth and economic power and the growth of monopoly houses although at one time the R.B.I. can say that its function is to curb the growth of such powers in the hands of a few? Now, is it to be just brushed aside some people say that the I.D.B.I. remains under the control of the R.B.I.? As it is now, the same prejudice, bias or whatever you call them, will continue to operate, with the result in the matter of

Industrial financing, you call it promotional or otherwise, the same people, the top people would have undue advantages.

DR. HAZARI: If I understand the hon. Member's question, namely, whether the R.B.I. is disregarding the social objectives such as the control of concentration of power and whether it is not functioning in a manner consistent with the public interest. morals, etc., I would beg to submit that the entire top management of the R.B.I. that is, the Governor and the 4 Deputy Governors are appointed by the Government of India and under the R.B.I. Act, they can be removed at any time, if Government desires. If the Government so wishes and if the Government is convinced that the top management of the R.B.I. is either not competent or is working at cross-purposes which are not consistent with public interest, they can change the top management of the R.B.I.

SHRI BHUPESH GUPTA: You have rather put it on a different plane. I know that Government can bring about a revolution if it likes. That is quite understandable. Suppose, the Government is conservative and believes in *status quo* and does not like to change easily, the top management will be ineffective as in the case of Reserve Bank today. Now some people say that if you separate it from the Reserve Bank and have a new set up, probably it will be easier for the Parliament and the public to debate on and thrash out the matter and it will bring better management.

DR. HAZARI: This is a hypothetical question. Ultimately it depends upon the persons involved and whoever the appointees are, they will be appointed by the same Government. That basic problem will remain the same. The real issue is whether there should be another parallel apex institution or not. My feeling on this question is that fragmenting authority and responsibility is dangerous.

SHRI BHUPESH GUPTA: Suppose, I call it de-centralisation.

DR. HAZARI: I don't think that it is really a question of centralisation *Vs.* de-centralisation. But it could perhaps be argued that this fragmentation, in fact, would bring more centralisation.

SHRI BHUPESH GUPTA: Since you used the expression 'fragmentation', I used the word 'decentralisation'. I am quite clear that the Central authority is here to manage these things. But it has been seen that the Boards of the Industrial Development have been feeling that the people of the Reserve Bank are the same set of people and this is the very Institution which took quite a lot of time to abolish privy purses. The Reserve Bank of India has become conservative. Even if you suggest something, immediately it is rejected on the ground of expertise as if we are all ignorant. Therefore, we say if the Reserve Bank has not given a creditable account of itself, why not try the Industrial Development Bank? There will be less resistance in the case of an institution which is barely ten years old.

DR. HAZARI: If the hon. Members have this feeling about the Reserve Bank, it is possible that on a future occasion, hon. Members may have the same feeling about the new IDBI also.

SHRI BHUPESH GUPTA: Probably, I will say so if things remain as they are.

DR. K. MATHEW KURIAN: The argument forward to delink IDBI from the Reserve Bank is that the industrial finance operations have grown to such an extent that it needs delinking. Though the Reserve Bank of India has played a pioneering role, to my mind, there seems to be dichotomy in the argument. The long term lending part has been taken out by lending system. I would like to draw your attention to a report in the Economic Times on November 5, 1974 wherein it is stated that the Reserve

Bank, it appears, has moved Delhi for withdrawal of Government directors from the 14 nationalised banks. It has sought their replacement by professionals. And there has been a complaint that the Government directors run the banks and so on. Now I am putting to you that under new dispensation of this Bill once the IDBI is de-linked from the Reserve Bank, directors will come from the Banking Department which has already grown in size. After all, according to us, Reserve Bank at least appears to be a relatively more independent body compared to Banking Department which is a political creature of the Central Government itself. We have our own criticism about Reserve Bank; we have our own criticism about IDBI, but once this is given to the Banking Department, direct political pressure might come in and the long-term lending interests will be concentrated in the monopoly houses. According to this Bill, volume of finance is not going to increase. The only reason is that the Banking Department wants to increase its empire. There has been a confrontation between the Reserve Bank and the Banking Department. For example, I quote Economic Times, January 11th. Confrontation between New Delhi and RBI was set off for appointing auditors in the 14 nationalised banks under a new routine scheme and the Reserve Bank, it is understood, had suggested abolishing the Banking Department of the Finance Ministry.

MR. CHAIRMAN: The question is this: if, from a purely economic point of view, the bill is not going to increase or reduce the volume of trade, and if the residual reason is only that the Banking Department wants to have a larger pie at the cost of long-term lending being synchronized with short-term lending which should be the policy in a developing society—what is your opinion about the whole scheme? Do you agree with the presumption that I have made?

DR. HAZARI: So far as the newspaper reports about differences between the Reserve Bank and the Department of Banking are concerned, I should deny them, first of all; and the Secretary of the Department sitting here would, I think, support this. There was no letter from the Reserve Bank to that Department asking for the withdrawal of government directors, At least I have never put through a telephone call of this nature. The appointment of auditors is a different issue, I do not think the main problem is one of deciding who is to be the overlord, but one of deciding who is to perform certain functions. The Department of Banking is the organ of the Government; and that is that. If I may express my personal view on the subject, I do not see in any case, any monetary justification for separating the IDBI. In fact, as I had explained at some length earlier, on monetary grounds, for reasons of policy as well as of operations it will be useful for the agricultural investment structure as well as the industrial one to remain under the umbrella of the Reserve Bank. If one took a wider economic view-point, all the personnel in the top management of public institutions as well as others are after all, public servants. They can function only within a certain policy framework, with certain objectives and within certain constraints. To expect them to be outside that framework would itself imply that they should not be within that system. If they differ, I think they should be out.

DR. MATHEW KURIAN: Now about the diversion of investment resources to monopoly houses referred to in my first question. Under the present arrangement, IDBI is owned by the Reserve Bank through share capital— and policies are, therefore, decided ultimately by the latter; compared to this, if the IDBI is delinked from the Reserve Bank and is placed under the Department of Banking, there will be a danger; *viz.*, that pressures from the monopoly houses, of a political nature will be operating on that department. The Reserve Bank, being a creature of an Act of Parliament, will have some manoeuvrability

and be able to withstand these pressures from the monopoly houses for the diversion of resources. It is true that in the ultimate sense the Reserve Bank and the public financial institutions are subject to the licensing policy of the Government. Government have to fund them. The licensing policy will, therefore, determine as to how the funds will be deployed. But, nonetheless the Government and Parliament have made certain powers and given them to the Reserve Bank. The Central Government and the Department of Banking may go against that policy; and through executive decisions, lean towards monopoly houses, whereas the Reserve Bank can at least say: "This is the policy laid down by Parliament and by Government. We, therefore, do not agree with such-and such a decision of investment."

DR. HAZARI: In reply, I can only draw attention to the statement made in 1974 by then Finance Minister, which I believe, had dealt with some of these issues.

SHRI A. G. KULKARNI: The witness had said that in addition to monetary management, the Reserve Bank should also be entrusted with the development of either agriculture or industry. He gave certain reasons, *viz.*, flexibility, expertise etc. Is it not a fact that the policy in regard to agricultural loans in this country is not relevant to the requirements of agriculture? As the witness may be aware, the land development loans and other development loans given in other countries are for a duration of 40 years; but here, the medium loan is for 5 to 7 years; and the other loans are for 10 years. The Reserve Bank cannot do justice to agriculturists. Just as the IDBI is being separated from the Reserve Bank for very valid reasons, there is a reason for separating agricultural lending programme from agricultural investment one. The Reserve Bank should be entrusted only with financial management and pricing policy, as also monetary discipline. There was a reference about the private funds being utilized by nationalized banks. He had made a distinction between private funds and government funds. I do not know how he can justify the private funds of nationalized banks requiring a different treatment. Since nationalization was done to divert these funds to socially-desired industrial activity, particularly in the priority sector and for the manufacture of essential commodities, how does the witness justify this action? The witness was also speaking about the flexibility of the Reserve Bank in providing funds to the IDBI or to the agricultural sector. I do not know whether as vice-chairman of the IDBI till recently, the witness will agree with my statement. I feel that one of the reasons for the present industrial recession in this country is the reluctance of the IDBI to find out funds for deferred payments for capital goods industries. Secondly, the IDBI has no resources for priority industries like fertilizer. In view of this, how Dr. Hazari justifies whether the IDBI or the Government will be more reliable in providing fund either through the budgetary provisions or through the act itself? I know even a project in a co-operative sector is, at present, in a difficult position because of the shortage of resources. So, these are the points on which I would request Dr. Hazari to give his views so that, at least, we will understand it properly.

DR. HAZARI: First of all, as far as agricultural lending policy is concerned, I may respectfully point out that when it is a question of agricultural investment, the policy that we have devised is that the period of repayment of agricultural loan should be tailored to the generation of income, whether it is five years or seven years or three years or 15 years So far as major long term investments are concerned, I would respectfully point out that in other countries where a lot of investment might be made by a large number of private farmers, there might be a justification in the conditions of those countries for such very

long term loans. Here, such long term loans, if at all were required, would be required by public bodies rather than by farmers. This kind of financing would normally come from the Government. But even there, I would like to draw the attention of the hon. Member to the participation which ARC is working out in the Forestry Development Programme which would be tailored to the fund of the different participants.

As far as repayment in agriculture is concerned, one can ask endlessly about the order of requirements. But there has to be some return of funds from agriculture. Unless there is a return of funds, and there is an adequate generation of income it would be very difficult to keep on starting a large amount of investment programmes purely out of created money. If the resources are mobilized, if they are ploughed back, by all means, a number of more programmes can be undertaken. The same would apply to the argument of recession and financing of capital goods and priority industries by the IDBI. The actual order of financial assistance by the IDBI during the last year and a half has been larger than before. The requirements, in many cases, are larger partly because the equipment costs have gone up enormously and partly because the internal cash generation of many of the companies is poor.

I may once again point out that one cannot keep on investing out of created money alone; it has to be resource-based. This would be fundamental regardless of who owns and manages the IDBI. Even the Reserve Bank's accommodation as of now or in the future—and even the Reserve Bank's accommodation to the Government itself—has to be finally liquidated by production of goods and services. If money is being provided out of its funds all the time, it is bound to lead to inflation.

Regarding the second point raised by the Hon'ble Member, I would still submit that there is very important legal as well as conceptual difference between the public funds as defined under the Constitution and public funds of such saving institutions as the Banks, LIC, IDBI etc. When these were nationalised, it is their ownership and management that we took over—not the funds. The funds still continue to belong to the depositors or policy holders or unit holders as the case may be. I don't think it can be said that all deposits or LIC moneys or unit moneys have, by reason of their ownership, been transferred to the Government. It is only the control over deployment that has come under the Government-appointed Management subject to the objectives set by Government. I would still submit that there is a very important conceptual difference between the funds to be appropriated by Parliament and which belong, under the Constitution, to the people of India as such and the funds which belong to the depositors and the policy holders.

SHRI A. G. KULKARNI: But don't you think that, even if the funds be-

long to the depositors as you have stated just now, the control of the banking system over the deployment of funds should achieve the socially desirable objectives and that, it was for that purpose that nationalisation was undertaken? How do you, then, now make a differentiation again and say that the funds belonging to the depositors cannot be deployed for achieving the social objects for which nationalisation was done?

DR. HAZARI: If I may spell this out, the funds voted by Parliament, for instance are voted for the purpose of defence or security of the Administration or such things as the Government and Parliament consider it worthwhile, regardless of whether they create additional income or additional output or repayment capacity or not, whereas the funds released through the financial institutions have to create a repayment capacity; otherwise the funds will not be forthcoming. I think this is an important difference which one cannot ignore.

MR. CHAIRMAN: All right, thank you very much.

(The Committee then adjourned).

GMGIPND—L—691 LS—31-7-75—1100.

CORRIGENDA
to
the Record of Evidence tendered
before the Joint Committee on the
Public Financial Institutions Laws
(Amendment) Bill, 1973.

Page 19, col. 2, line 3, for "sumbit" read "submit"

Page 21, col. 1, line 14 from bottom, after "think" insert "you"

Page 28, col. 1, line 10 from bottom, for "district" read "distinct"

Page 29, col. 1, line 20, for "of" read "or"

Page 36, col. 2, line 25, for "were" read "where"

Page 38, col. 1, line 20, for "threefore" read "therefore"

Page 46, col. 2, line 23 from bottom, for "tpyes" read "types"

Page 47, col. 2, (i) line 16, for "contributs" read "contribute"
(ii) line 6 from bottom, for "too" read "to"
(iii) line 17 from bottom, for "may" read "way"

Page 55, col. 2, line 3, for "binges" read "hinges"

Page 72, col. 2, line 19 from bottom, for "managers" read "manages"

Page 74, col. 1, line 15 from bottom, for "1960-70" read "1969-70"
col. 2, line 18, after "RBI" insert "was"

Page 90, col. 1, line 4 from bottom, for "gond" read "gone"

Page 102, col. 2, line 24 from bottom, for "sholdr" read "should"

..2/-

Page 106, col. 1, (i) line 7, for "nature"
read "houses"
(ii) line 3 from bottom, for
"costantly" read "constantly"

Page 108, col. 2, line 2 from bottom, for "cady"
read "carry"

Page 132, col. 2, line 17, for "lendling"
read "lending"

Page 151, col. 2, line 3 from bottom, for "PBI"
read "RBI"

Page 169, col. 2, line 9 from bottom, for "stop"
read "step"

Page 170, col. 1, line 24, for "as" read "is"

Page 174, col. 1, last line, for "is" read "as"

Page 176, col. 1, line 16 from bottom, delete "on"

Page 193, col. 1, line 4 from bottom, for "award"
read "aware"

Page 202, col. 2, last line for "sitting" read
"setting"

Page 210,(i)transfer last 17 lines of col. 1 to
after line 11 of col. 2.
(ii) col. 2, delete line 28.

Page 226, col. 2, line 11 from bottom, for "there"
read "these"

Page 228, (i) col. 1, line 12, for "expension"
read "expansion"
(ii) col. 2, line 9, for "exercise"
read "expertise"

Page 230, col. 1, line 25 for "Each" read "Even"

Page 247, col. 2, line 7 from bottom, for "there"
"three"

Page 255, col. 1, line 6, for "asubsed"
read "abused"

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