

**PUBLIC ACCOUNTS COMMITTEE
(1964-65)**

**THIRTY-SIXTH REPORT
(THIRD LOK SABHA)**

**[Finance Accounts of Central Government, 1962-63—
Chapter I of Audit Report (Civil), 1964.]**



**LOK SABHA SECRETARIAT
NEW DELHI**

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PUBLIC ACCOUNTS COMMITTEE

(1964-65)

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INTRODUCTION

1. The Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf, this Thirty-Sixth Report on the Finance Accounts of the Central Government, 1962-63 and connected Audit Report (Civil), 1964 (Chapter I).

2. The Audit Report (Civil), 1964 and Finance Accounts, 1962-63 were laid on the Table of the House on the 11th March, 1964 and 7th September, 1964 respectively. The Committee examined them at their sitting held on the 30th January, 1965. A brief record of the proceedings of the sitting of the Committee forms part of the Report part II.*

3. The Committee considered and finalised this Report at their sitting held on the 19th April 1965.

4. A statement showing the summary of the main conclusions/recommendations of the Committee is appended to the Report (Appendix XVII). For facility of reference these have been printed in thick type in the body of the Report.

5. The Committee place on record their appreciation of the assistance rendered to them in their examination of these Accounts by the Comptroller & Auditor General of India.

They would also like to express their thanks to the officers of the Ministry of Finance for their co-operation in giving detailed information to the Committee during the course of evidence.

NEW DELHI;
April 20, 1965.

Chaitra 30, 1887 (Saka).

R. R. MORARKA,
Chairman,
Public Accounts Committee.

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AUDIT REPORT (CIVIL), 1964

I. GENERAL

Revenue Receipts—Para 1, Page 1

The Budget estimates and actuals of Revenue Receipts for 1962-63, as compared with the corresponding figures for the preceding two years, are given in the following table:

(In crores of rupees)

Year.	Budget	Actuals	Variations	Percentage of variations
1960-61	919·65	971·77	+52·12	+5·7
1961-62	1017·95	1136·74	+118·79	+11·7
1962-63	1380·93	1585·30	+204·37	+14·8

The excess of actuals over the budget estimates of Revenue Receipts was greater in 1962-63 (14·8 per cent) than in the previous two years. The increase was mainly under Customs, Union Excise Duties and Corporation Tax. The Committee were informed that some other items like P.L. 480 grants, emergency risk premia which were not envisaged at the time of preparing the budget estimates also accounted for the increase in the actuals.

The Committee have already discussed at some length the reasons for variation in the budget estimates and actuals of revenue receipts under Customs, Union Excise Duties and Income Tax and Corporation Tax which mainly account for the increase in actuals. (of paras 2 to 6, 10, 11 and 36 of 27th Report and para 2 of 28th Report—Third Lok Sabha). They would only like to reiterate here the imperative need for framing realistic estimates of receipts from the various taxes and arresting the increasing trend of under-estimating revenue. The Committee hope that Government would keep under constant review the two main factors which tend to widen the gap between estimates and actuals viz. deficiency in collection of reliable statistics of economic growth and conservatism in estimating and apply necessary correctives.

Expenditure—Para 2, page 1.

2. The 'Expenditure met from Revenue' and the 'Expenditure on Capital Account' during 1962-63 are shown below along with the corresponding figures for 1960-61 and 1961-62:

(In crores of rupees)

		Budget	Additional provision during the year	Total	Actuals	Variations	Percentage of variations
Expenditure met from Revenue							
	1960-61	980.35	5.53	985.88	921.93	-63.95	-6.5
	1961-62	1023.52	46.84	1070.36	1011.88	-58.48	-5.5
	1962-63	1381.65	168.07	1549.72	1471.86	-77.86	-5.0
Expenditure on Capital Account							
	1960-61	444.41	100.34	544.75	406.43	-138.32	-25.4
	1961-62	528.87	18.01	546.88	436.33	-110.55	-20.2
	1962-63	652.45	59.61	712.06	612.17	-99.89	-14.0

The additional provision of Rs. 168.07 crores for 'Expenditure on Revenue Account' was made in three stages—Rs. 8.04 crores in August, 1962, Rs. 75.84 crores in November, 1962 and Rs. 84.19 crores in February, 1963. The final saving was Rs. 77.86 crores.

In regard to 'Expenditure on Capital Account' the additional provision of Rs. 59.61 crores was made up of Rs. 0.43 crores obtained in August, 1962, Rs. 20.09 crores in November, 1962 and Rs. 39.09 crores in February, 1963. The total expenditure during the year was, however, less than the provision in the original budget by Rs. 40.28 crores.

The Committee are concerned to find that about 48 per cent of the supplementary provision under Revenue Account and the entire amount of supplementary provision under the Capital Account obtained after the declaration of the Emergency remained unutilised. While the Committee are glad to note that the percentage of variation between estimates and actuals both under Revenue Account and Capital

Account showed a downward trend they take note of the fact that unutilised amounts out of the provision have been quite high during the year 1962-63, being Rs. 78 crores and Rs. 100 crores, respectively.

3. In regard to expenditure met from Revenue, saving occurred mainly under the following headings:

(Rs. in crores)	
(i) Social and Developmental Services	10.20
(ii) Defence Services	30.31
(iii) Grants-in-aid to State Governments	18.42
(iv) Public Works	3.70

Considerable savings occurred under these heads during the earlier years also.

The large savings in the Capital budget occurred mainly under the following headings:

(Rs. in crores)		
(i) Industrial Development	14.50	(Expenditure under this head relates to investments in Government Undertakings, Commercial concerns).
(ii) Public Works	15.38	(Out of a total provision of Rs. 57.02 crores).
(iii) Agricultural improvement and Research	2.36	
(iv) Schemes of Government Trading	37.26	
(v) Grants for Development to State Governments and Local Bodies	6.02	(Grants under this head generally relate to Local Development Works, Industrial Housing and Slum Clearance Scheme, National Water Supply and Sanitation Programmes etc.)

In para 3 of their Twenty-Second Report, the Public Accounts Committee (1963-64) referred to the over-optimistic expectations of administrative Ministries about the implementation of the various schemes. The Committee had then made a suggestion that a lump

sum cut should be imposed in those cases of grants in which savings are a recurring feature.

In reply (Appendix I), the Ministry have stated (May, 1964) that under the revised arrangements for budgeting and financial control introduced in 1962, the provision finally accepted by the Ministry of Finance for inclusion in the budget takes into account the past performance, spending capacity and other relevant consideration. If savings still occurred, it was mainly because neither the administrative Ministry nor the Finance Ministry were in a position to anticipate at the budget stage, the factors which ultimately led to savings. The Ministry added that a lump sum cut on the basis of past trends might often render the estimates completely unrealistic and would also carry the risk of encouraging the tendency to propose higher figures, thereby nullifying the very object of the cut.

During the course of examination of the individual Administrative Ministries, the Committee gathered the impression that the position in regard to savings might be considerably improved by a closer scrutiny by the Ministry of Finance, of the basis on which the administrative Ministries propose their estimates. The Committee suggest that the Finance Ministry should consider the matter further and indicate what steps they propose to take to improve the position.

II. EXPENDITURE ON REVENUE ACCOUNT

Para 4. Page 4

4. In the table given below, the expenditure during 1962-63 is compared with that during the previous year under broad headings:

(In crores of rupees)

		1961-62	1962-63	Remarks
I	2	3	4	5
(i)	Collection of Taxes and Duties	21.16	23.47	The figures for 1961-62, as shown here differ from the corresponding figures shown in the Audit Report, 1963. The differences are due to the re-arrangement of the heads of classification with effect from 1962-63. For a proper comparison, the figures for 1961-62 have been recast here under the revised
(ii)	Debt Services	214.44	245.43	
(iii)	Administrative Services	71.56	75.18	
(iv)	Social and Development Services	131.96	159.20	
(v)	Public Works	19.26	18.46	

1	2	3	4	5
(vi) Contributions and Miscellaneous Adjustment	278·66	323·36		heads to the extent possible.
(vii) Defence Services	289·54	425·30		
(viii) Other heads	116·89	201·46		

Para 5, page 4:

An analysis of the increase in expenditure under Administrative Services is given below:

(In crores of rupees)

	1961-62	1962-63	
Administrative Services			
General Administration	17·84	19·15	
Police	18·76	23·44	Increase in 1962-63 was due to strengthening of the police force.
External Affairs	11·92	12·88	
Supplies and Disposals	2·91	3·15	
Miscellaneous Departments	9·47	3·53	
Other heads	10·66	13·03	
TOTAL :	71·56	75·18	

Referring to the increase in expenditure on Police from Rs. 18·76 crores in 1961-62 to Rs. 23·44 crores in 1962-63, the Committee asked whether the Ministry had examined the feasibility of minimising the expenditure by better utilisation of the existing Police force. The representative of the Home Ministry stated that at present they had a large number of battalions borrowed from various State Governments deployed all over the border. During this year (1964-65) they had to borrow 30 battalions from various State Governments. The Central Reserve Police had at present only 17 battalions; three more were being raised. The witness admitted that there was perhaps a little duplication in this regard. He added that a committee consisting of one officer each from the Ministries of Defence, Home and External Affairs had been set up to examine the question of streamlining the police force with a view to reducing the expenditure to some extent, which was expected to submit its report in about six weeks.

The Committee asked for the reasons for increase in expenditure on Police from Rs. 18.76 crores in 1961-62 to Rs. 23.44 crores in 1962-63 and Rs. 25.07 crores in 1963-64. The expenditure during 1963-64 increased, even though the Centre ceased to be responsible from 1st July, 1963 for Police expenditure in Union Territories of Manipur, Tripura and Himachal Pradesh on which an expenditure of Rs. 2.34 crores had been incurred during 1962-63. The representative of the Ministry of Home Affairs stated that they had raised a number of battalions of the CRP and Border Police and they were increasing the strength of the armed police of Manipur. The witness added that the expenditure on Police included partly that incurred by the Ministry of External Affairs who were directly concerned with administration of NEFA, Naga Hills, Dadra and Nagar Haveli. The Committee desired to be furnished with a note showing the break-up of expenditure on Police for the years 1962-63 and 1963-64 and reasons for the increase in the same every year. A note furnished by the Ministry is at Appendix II.

The Committee appreciate the paramount need of safeguarding the border and strengthening the police force for this purpose, as necessary. The expenditure on Police has increased from Rs. 11.74 crores in 1960-61 to Rs. 18.76 crores in 1961-62, Rs. 23.44 crores in 1962-63 and Rs. 25.07 crores in 1963-64. They note that the expenditure increased in 1963-64 by Rs. 1.63 crores even though the Centre ceased to be responsible from 1st July, 1963 for Police in Union Territories of Manipur, Tripura and Himachal Pradesh. The Committee would like to be informed what tangible results have been achieved as a result of the findings of the Committee of Officers set up to examine the question of streamlining the police force with a view to reducing the expenditure and avoiding duplication. The Committee hope that this question would be kept under constant watch and necessary correctives applied from time to time.

III. DEBT POSITION

Para 9, Page 11-12

5. (a) The total debt outstanding at the end of 1956-57, 1961-62 and 1962-63 was as shown below:

(In crores of rupees)

	31-3-57	31-3-1962	31-3-1963
(i) Market Loans	1,648	2,716	2,871
(ii) Floating Debt	1,048	1,453	1,581

(In crores of rupees)

	31-3-57	31-3-1962	31-3-1963
(iii) Loans from foreign sources*	120	1,009	(A)1,302
(iv) Unfunded Debt—			
(a) Small Savings collections	633	1,058	1,131
(b) Provident Funds, etc.	202	351	393
(c) Deposit by U.S. Government of their counterpart funds created under public law 480, etc.		295	343
TOTAL	3,651	6,882	7,621

(b) Details of the Debt transactions of the year 1962-63 are given below:

(In crores of rupees)

	Receipts during the year	Repayments during the year	Net increase during the year
(i) Market Loans	337·04	182·59	154·45
(ii) Floating Debt	4966·47	4838·46	128·01
(iii) Loans from foreign sources	339·56	46·29	293·27
(iv) Unfunded Debt—			
(a) Small Savings Collections	363·37	289·45	73·92
(b) Provident Funds, etc.	80·59	38·75	41·84
(c) Deposits by U.S. Government of their counter-part funds created under Public Law 480, etc.	184·76	136·69	48·07

In regard to the agricultural commodities imported from the United States of America Under Public Law 480, the rupee equivalent of the dollar cost is deposited with the Reserve Bank of India to the credit of the U.S. Government in a Special Account. The amounts are invested by the Reserve Bank in

*Excludes a sum of Rs. 20·62 crores representing unexpired liabilities for British Government 5% War Loan, 1929-47, the liability for which remains suspended.

(A) (i) Includes a sum of Rs. 28·93 crores due to the Government of Kuwait. A sum of Rs. 34·20 crores representing value of Indian Currency Notes and coins with drawn from Kuwait area during 1961-62 was treated as a loan from the Government of Kuwait. The loan is repayable in sterling in 11 annual instalments with interest at 4½% with effect from 1st July, 1961.

(ii) Includes Rs. 0·04 crores representing amount realised by the sale of 10 years Defence Certificates in U.K., U.S.A., etc.

(In crores of rupees)

	Receipts during the year	Repay- ments during the year	Net in- crease during the year
special securities of the Government of India (repayable on demand), on which interest is paid at the rate of $1\frac{1}{2}\%$.			
Part of the deposits is withdrawn from time to time and made available to the Government of India as loans and grants and the balance is retained by the U.S. Government for their own use. The amount shown under 'Repayments' represents the total withdrawals by the U.S. Government from the Deposit Account			
TOTAL	6271.79	5532.23	739.56

The question of fixing limits by Parliament on the borrowing power of Government under Article 292 of the Constitution has been engaging the attention of the Committee since the year 1962-63. In para 15 of their Ninth Report (Third Lok Sabha), the Committee had recommended that the Ministry of Finance should make a study of the procedure followed in various democratic countries for obtaining Parliamentary approval to Government borrowing so as to introduce a method of obtaining specific approval of Parliament to the borrowing programmes suitable to the needs of our developing economy. In their reply, the Ministry of Finance gave (December, 1964) a brief account of the procedure of Parliamentary control over Government borrowing followed in the United Kingdom, Canada, USA and Ceylon (*vide* Appendix III). The Ministry stated that the present arrangement in India did not detract from Parliamentary control over the Government borrowing and added that in the circumstances, Government were satisfied that no real advantage would be secured by prescribing statutory limits on Government borrowing.

The Secretary, Department of Economic Affairs informed the Committee during evidence that in certain countries where there had been some limits on Government borrowing, these were imposed in the context of inflationary finance. He added that in India the

borrowing programme was put forward in broad terms in the capital budget. As regards borrowing from the Reserve Bank which amounted to deficit financing, it was stated that this was resultant of the various factors and was not a deliberate act. Anything which could not be accommodated by the other ways was covered by this method.

It was urged that any kind of statutory limit on Government borrowing could have very little use. These limits would have to be fairly high. Otherwise these would have to be changed frequently in order to meet the changing situations. Besides, it was added, the public and Parliament were constantly aware of the trends of policy in this regard as the Plan itself, which envisaged a certain amount of borrowing is approved by Parliament. It also enjoined certain restrictions. Therefore, *de facto* restraints and disciplines in regard to Government borrowing already existed.

The Committee pointed out that under existing procedure there would be no check on Government exceeding the provision of deficit financing envisaged in the budget. The representative of the Department of Economic Affairs stated that although theoretically there was no limit in this regard, Government had to obtain a supplementary grant if they wanted to spend in excess of the budget provision. The Committee asked how, in view of the fact that the total expenditure could not be exceeded without the authority of Parliament a greater flexibility was needed in borrowing. The witness stated that borrowings were of various types and there could be ups and down in individual borrowings.

The Committee enquired if it was not possible to fix an overall statutory limit on Government borrowing and deficit financing for the five year plan period. The Secretary, Department of Economic Affairs stated that in view of the changing situation it would be difficult to forecast the position for a period of five years. The limit would have to be fairly high otherwise it would have to be changed from time to time. As regards fixing limits on deficit financing each year, the witness stated that they might have to be exceeded under unforeseen circumstances, for which Government would require emergency powers. Asked if the provision made for deficit financing in the budget each year could not be fixed as the limit, the witness stated that in that case they would have to take precaution to provide a high figure and there would be cases of not utilising the power upto the limit prescribed by Parliament. It was urged that the policy of Government was to have the least recourse to deficit financing. The witness added:

that flexibility was an important factor in regard to the loans from the Reserve Bank and foreign sources. Any limits fixed on the loans would be unrealistic and would lead to difficulty in the end. In a particular year it might be more expedient to borrow from the market and exceed the limit provided in budget than to resort to deficit financing because market conditions might be favourable at that time. It was urged that in such favourable market condition, if deficit financing was resorted to according to the limit fixed by Parliament, it would lead to difficulties. The Committee pointed out that if the limit on public borrowing was exceeded by Government, they could take a supplementary sanction from Parliament. The Secretary, Department of Revenue and Expenditure stated that favourable market conditions might arise at any time during the course of the year and it would not be proper for Government to exceed the limit before obtaining the approval of Parliament. The Secretary, Department of Economic Affairs conceded that a proper system in this regard could be worked out, but it would have to take into account certain variations. The law might have a provision that temporary variations could be made subject to Parliamentary approval by resolution as soon as the Parliament met again. The witness however added that they had informal discussions with the U.K. authorities who admitted that the practice of fixing limits had served a very limited purpose.

The Secretary Department of Revenue and Expenditure stated that considering the capacity and the need of the country, India's public borrowing was very moderate as compared with other countries. In U.K. and U.S.A. the public debt was many times their annual budget. In India the Public debt was at present Rs. 8,500 crores as against the annual Revenue of about Rs. 1,800 crores. The Secretary, Department of Economic Affairs explaining the position further stated that much of the Government operation consisted of large-scale loans to State Governments. India's total public debt should be compared not only with the budget of the Central Government but with the budgets of the Central and State Governments.

The Committee can well appreciate the hesitancy and reluctance on the part of the Finance Ministry in regard to fixing a limit by Parliament on public borrowing by Government; but the Committee would like to emphasize the healthy principle enunciated in Article 292 of the Constitution. The Committee feel that at least a practical trial should be given to this principle. This is a very important right of Parliament and is being so exercised in other democratic countries like U.K., U.S.A., Canada and Ceylon. The present procedure under which Parliamentary approval is taken for bor-

rowing programmes as indicated in the Five Year Plans and the annual Budgets and for the expenditure from the Consolidated Fund to which the loans are credited, does not satisfy the constitutional requirements. The Committee are reassured to know the opinion of the Secretary, Department of Economic Affairs that a proper system of fixing a limit on Government borrowing could be evolved but it would have to take into account certain variations. The Committee feel that the law fixing such limits may have some scope for certain built-in flexibilities subject to *ex-post facto* approval of Parliament. Further these limits might be fixed for each Plan period so that they can be reviewed once in five years. The Committee desire that this matter should be carefully examined.

Net burden of interest on revenue—paras 11(a) and 19, pages 14 and 22.

6. Interest payments on account of Debt are analysed below:—

	(In crores of rupees)	
	1961-62	1962-63
(i) Interest paid by the Government of India	209·44	240·43
(ii) (a) Interest received on loans to State Governments	68·75	68·36
(b) Interest received from Railways and other Commercial Departments	62·84	67·08
(c) Interest received on other loans, from investment of cash balances, and other items	12·22	17·79
(iii) Net burden of interest on Revenue (i)—(ii)	65·63	87·20

As in the previous years, a sum of Rs. 5 crores was charged to Revenue for the purpose of amortisation of debt. The amount is not invested separately, but is merged in the general cash balance of Government.

The amount received from the State Governments during 1962-63 towards interest on loans includes Rs. 9.05 crores representing interest not received in cash but covered by fresh loans from the Central Government as indicated below. (If this amount is excluded, the net burden of interest on Revenue would be Rs. 96.25 crores).

In the following cases, fresh loans were given to State Governments during 1962-63 to pay interest in respect of earlier loans.

Name of State Government	Amount of fresh loans (In crores of rupees)	Remarks
Punjab . . .	2.84	For payment of interest on loans for financing the Bhakra-Nangal Project.
Rajasthan . . .	1.15	For payment of interest on 70 loans
West Bengal . . .	3.54	} For payment of interest on the loans given for meeting the State's share of expenditure on the D.V.C.
Bihar . . .	1.08	
Gujarat . . .	0.44	For payment of interest on the loans for the construction of Koyana Project. (The original loans were obtained by Ex-Bombay State and the outstanding balances were allocated between Maharashtra and Gujarat States after reorganisation).

The Committee asked for the reasons for the increase of 33 per cent. in 1962-63 in the interest charges as compared to the previous year. The Secretary, Deptt. of Economic Affairs stated that the payment of interest by Central Government was related to their borrowings. Out of the money borrowed by Government, a part was re-lent and a part was directly invested in various kinds of schemes which later yielded dividend or other return. But some amounts were utilised for schemes like road building etc. which, though they helped development programmes and improved the economy of the country, did not bring a direct return. The witness added that, to the extent the Central Government did not re-lend or invest in the manner that the return was sure on investment, this increase in the burden of interest was bound to be there. He further added that to the extent there was developmental expenditure of a type which did not give direct monetary return, though it gave very good social returns, this gap would increase.

Explaining the reasons for giving fresh loans to States to enable them to repay interest on old loans, the Secretary, Deptt. of Economic Affairs stated that this was better than allowing a default. He added that it was a normal practice. The Committee pointed out that in some cases Government had given grant to institutions to repay interest on an old loan. The witness stated that in case the economic aspect of a particular institution had not developed, it was better to give a grant than to give up the principle of interest payment.

The Secretary, Department of Revenue and Expenditure stated that sometimes the State Governments found themselves in a position in which they were unable to find money for particular schemes. In those cases, they first took loans and later made out a case for which a grant could be justified.

The Committee pointed out that in view of the fact that the interest payable by the State Governments, on loans, was taken as part of their expenditure, when the Finance Commission decided on the subvention, giving of further loans to them to pay interest amounted to a deviation from the recommendations of the Finance Commission. The representative of the Deptt. of Economic Affairs stated that this type of assistance was admissible only in the case of irrigation projects. A policy decision had been taken that from 1962-63 such of the irrigation projects as had completed five years would not get this assistance.

The Secretary, Departments of Revenue and Expenditure stated that the loan was given to repay the interest accruing during the period of construction for five years. If interest for the period was foregone, the correct capital cost could not be worked and ultimately the correct return on the capital would not get reflected. He added that the counting of interest on capital already laid out was the correct way of accounting.

In para 16 of their Ninth Report and para 10 of their Twenty-second Report (Third Lok Sabha), the Committee had criticised the practice of advancing loans to the States for repayment of old loans and expressed the view that when the recipients utilised the loan on projects involving long periods of gestation, it would be more appropriate to provide for a specified period of moratorium. The Committee learn with some satisfaction that from 1962-63, the practice of advancing loans for the repayment of interest charges is being followed only in the case of River Valley Projects during the first period of 5 years. The normal procedure relating to Irrigation Projects allows for the interest charges to be capitalised during the period of construction. The write-back of such capitalised interest is treated as the first charge on capital receipts or on the surplus revenues of the project after it commences working. The Committee appreciate that in view of the special circumstances obtaining in the case of the river valley projects there is a justification for advancing further loans for repayment of earlier loans during the period of first five years. They hope that this will not be extended to those irrigation projects which have completed 5 years. The Committee desires that the Ministry of Finance shall ensure that fresh loans are not given to the States for repayment of the loans advanced for other schemes and unproductive projects.

IV. GRANTS AND LOANS FROM FOREIGN SOURCES

Para 14, Pages 18-19

7. The amounts of loans received from foreign sources and outstanding at the end of 1962-63 are indicated below :

(In crores of rupees)

Country from which loan was received	Amount of loan authorised	Loans received		Loans repaid		Loans outstanding at the end of 1962-63	Rate of Interest
		During 1962-63	Upto the end of 1962-63	During 1962-63	Upto the end of 1962-63		
U.S.A.	1299·87	216·54	659·72	7·60	19·10	640·00	2½ to 5½%*
U.S.S.R.	383·81	31·27	126·37	9·79	32·92	93·45	2½%
West Germany	247·11	27·98	214·71	12·96	61·31	153·40	3 to 6·5%
Canada	24·38@	..	15·71	0·60	4·49	11·22	4½%
Japan	60·17	1·62	18·10	0·27	0·27	17·83	5½ to 6%
U.K.	249·32	29·75	174·70	6·00	8·01	66·69	4½ to 7%
International Bank for Reconstruction and Development	232·35	24·48	206·23	6·44	23·71	182·52	4 to 6%

International Development Association	133.33	7.46	7.46	..	..	7.46	No interest is charged. Only a service charge of $\frac{1}{4}$ % is payable on the amounts outstanding.
Poland	29.80	0.19	0.19	..	..	0.19	$2\frac{1}{2}$ %
Switzerland	11.98	0.23	0.23	..	..	0.23	$\frac{3}{4}$ % above the official discount rate of Swiss Bank.
Austria	2.33	..	..	..	..	..	6%
TOTAL	2674.50	339.52	1423.42	43.66	149.48	1273.61**	

*Loans from the Agency for International Development bear only a credit fee of $\frac{1}{4}$ % on outstanding amounts.

**Excludes Rs. 28.93 crores outstanding in respect of the loan from Kuwait [vide foot-note under para 5(a)].

@Includes an amount of Rs. 3.67 crores authorised by the Government of Canada to finance import of Capital goods.

A table broadly indicating the purposes of the loans, the projects on which they were utilised and the terms of their repayment is given in Appendix IV.

The table also gives information about the loans which were tied to specific projects or to projects mutually agreed upon. In a few cases the loans were for import of commodities like steel, machinery, non-ferrous metals, etc. required to sustain industries and the development programme as a whole.

The loans received from the United States of America include the "American Wheat Loan" amounting to Rs. 90 31 crores drawn in 1951 for procurement of 2 million tons of wheat in U.S.A.

All the instalments of principal and interest which fell due during and up to 1962-63 were paid on due dates.

The Committee are glad to learn that all the instalments of principal and interest which fell due during and upto 1962-63 were paid on due dates.

8. The Committee desired to know whether all the projects on which foreign loan had been utilised, were already remunerative. The representative of the Department of Economic Affairs stated that the projects were at various stages of completion. He promised to furnish a note stating the extent to which the projects were remunerative.

The notes furnished by the Ministry of Finance (Deptt. of Economic Affairs) in respect of the Hindustan Steel Ltd. and the undertakings of the Ministry of Petroleum and Chemicals are given in Appendices V and VI.

(The information in respect of other projects is still awaited.)

The Committee enquired whether the return from these projects, after they had gone into operation, was adequate to cover the interest charges on foreign loans obtained for them. The Secretary, Department of Revenue and Expenditure stated that in drawing up the accounts of the projects the interest charges on the loans obtained for the projects were deducted even before the stage of profitability was reached. The Committee pointed out that in some cases the money was invested in the form of equity capital and enquired if there was any return on the equity capital in such cases. The Secretary, Deptt. of Revenue and Expenditure agreed that it was necessary to see whether after deducting interest charges there was any return on equity capital.

The Committee would like to emphasise that the foreign loans tied to various industrial projects should be remunerative from the financial point of view. The Committee suggest that the Ministry should undertake a periodical review in order to determine how far the projects referred to:—

- (a) are already remunerative;
- (b) are likely to become remunerative after some years;
- (c) are likely to continue unproductive so far as can be foreseen?

V. LOANS AND ADVANCES BY THE CENTRAL GOVERNMENT

Delay in repayment of loans and interest by State Governments, para 18, pages 20-22.

9. Some of the State Governments have not been regular in making repayments of the loans advanced to them by the Central Government although the terms and conditions of the repayment of the loans were revised and the dates of repayment were extended at the instance of the States. The amounts of principal and interest which remained overdue from the State Governments at the end of 1962-63 are given below:—

Name of the State Government	(In crores of rupees)		
	Amount of principal outstanding on 31-3-1963	Amount of interest outstanding on 31-3-1963	Earliest period to which the arrears relate
I	2	3	4
Andhra Pradesh	5.26	1956-57	
Represents interest charges on the loans granted for financing the expenditure on Nagarjunasagar Project. Out of this a sum of Rs. 3.64 crores representing the interest upto 31-3-1962 was adjusted by the grant of a fresh loan to that extent in 1963-64.			
West Bengal	1.39	0.16	1955-56
Rs. 44 lakhs towards principal and Rs. 15 lakhs towards interest paid in 1963-64.			
Rajasthan	1.95	1960-61	
The Ministry of Irrigation and Power have stated (July, 1963) that on receipt of certain information from the State Government,			

1	2	3	4
action will be taken for the grant of a fresh loan to the State to cover up this interest due.			
Jammu & Kashmir	14.25	3.75	1955-56
Madhya Pradesh	1.95	4.32	1954-55
Bihar	0.23	3.32	1962-63
Represents loans for financing the Kosi Project and the interest thereon Rs. 23 lakhs towards principal has been repaid during 1963-64.			
Gujarat . . . . .	..	0.01	1954-55
Orissa	0.17	0.59	1959-60
Relate to loans for financing Hirakud Dam Project-Chiplima Power House Project. The State Government have approached the Central Government for revision of the terms and conditions.			
Assam	2.04	0.99	..
Arrears recovered in 1963-64.			

The above figures do not include the arrears in respect of loans granted to State Governments for the rehabilitation of displaced persons.

The Ministry-wise break up of these loans outstanding from the State Governments, as furnished by Audit is enclosed as Appendix VII.

The Committee examined the representatives of the respective administrative Ministries in connection with the delay in repayment of loans and interest by the State Governments.

10. The Secretary of the Ministry of Commerce stated that out of 11 items with which that Ministry was concerned 8 items related to the grant of loans to State Governments for the development of handloom industry or conversion of handloom into power-loom and three related to metric system of weights and measures.

The State Governments informed that there would be delay in the payment of interest due to non-finalisation of terms and conditions of repayment of loans. But the Ministry did not accept this position and asked the State Governments to repay the loans. The Committee enquired whether West Bengal Government had sent any report about utilisation of loans and communicated the reason for delay in realisation of principal or interest from institutions etc. to whom loans were given by them. The note furnished by the Ministry is at Appendix VIII.

The Committee desire that the matter should be pursued vigorously with the State Governments concerned. They are surprised that even terms and conditions for repayment have not been settled.

11. Explaining the present position in regard to the repayment of loan and interest by Jammu and Kashmir Government, the Secretary, Ministry of Home Affairs stated that a loan of Rs. 17.46 crores had been sanctioned to Jammu and Kashmir Government in December, 1964 to enable them to repay the arrears of principal in respect of old loans sanctioned by the various Ministries of the Government of India. As regards interest, the witness stated that the matter was still under consideration and no decision had yet been taken; but in the meantime, Rs. 1.5 crores had been paid towards interest. The Committee enquired the purpose for which loans were granted. The Secretary stated that the bulk of the loan was for the purchase of foodgrains, Rs. 3 crores for meeting budget deficit and about Rs. 2 crores for development schemes and a small loan for police housing etc. **The Committee hope that such occasions of giving fresh loans for the repayment of earlier loans will be fewer in future. They would also like to be informed of the decision taken in regard to the payment of over due interest.**

12. The Committee enquired from the Secretary, Ministry of Health whether any action was being taken regarding recovery of loan—principal Rs. 2.06 lakhs and interest of Rs. 5.28 lakhs—from the Jammu and Kashmir State Government. The Secretary stated that they were trying to effect recoveries from the State Government and certain payments had also been made.

The Committee desire that the Ministry of Health should pursue the recovery of the outstanding loan and interest vigorously.

13. About the repayment of loans and interest by the West Bengal Government, the Secretary of the Ministry of Food & Agriculture stated that they received information about non-payment from the Ministry of Finance on 24-6-1962 and that they took it up with the West Bengal Government.

As regards Jammu and Kashmir, the witness stated that the original loans were made under the various GMF schemes. In regard to their recoveries, they had been in correspondence with the Ministry of Home Affairs who had a special cell dealing with Jammu and Kashmir. The Ministry of Home Affairs had informed that the question was still under consideration.

With regard to Madhya Pradesh, the witness stated that certain portions of the amount pertained to land reclamation charges by the

CTO. State Government had some difficulty in collecting the charges from the cultivators and there was correspondence since 1956. It was decided in February, 1963 that some interest charges might be waived. The witness added that on 12th November, 1964, they had sent a communication to the State Government stating that if they did not begin payment, they would have to adjust the amount against some of the dues from the Centre to the State. The State Government had now started making payment.

The Committee note that there has been delay in recovery of loan from the Government of Madhya Pradesh, which partly related to the land reclamation charges by the Central Tractor Organisation. If the repayment is dependent on the recoveries from the cultivators, the Committee doubt whether the State Government would be able to collect the charges at such a distant date.

14. The Committee were informed by the representative of the Ministry of Industry in evidence that out of Rs. 27.65 lakhs, West Bengal Government had paid Rs. 23.54 lakhs. As regards the reasons why amounts were outstanding even though they were due for payment, the witness stated that they had to rely on the Accountant General to bring it to their notice. After obtaining that information, the question whether any penal rate of interest should be levied was considered by the Finance Ministry. The Ministry of Industry were still in correspondence with a number of States about repayment.

Asked a question, the witness stated that these accounts were now kept by the Accountant General and not by the Ministry. The Committee enquired whether in the case of West Bengal Government against whom Rs. 10.42 lakhs were outstanding, the Accountant General did not inform the Ministry about the State Government's default. The witness stated that the Accountant General should have informed them, and normally he did that. **The Committee are surprised why the Ministry should wait for the Accountant General to remind them about the default in any payments due from State Government. They suggest that a system should be evolved whereby the Ministries should get periodical statements from the Accounts Officers showing the position of outstanding loans and interest charges.**

15. The Committee were informed that in the case of Jammu and Kashmir Government against whom principal Rs. 31.36 lakhs and interest Rs. 15.19 lakhs were outstanding, no further payment had been received. The Committee desired to be furnished with a note whether the loan of Rs. 31.36 lakhs and interest Rs. 15.19 lakhs

would be adjusted against the loan of Rs. 17 crores recently sanctioned by the Ministry of Home Affairs to Jammu and Kashmir Government for the repayment of the outstanding loans. The Ministry's reply is awaited but it is understood from Audit that the loan of Rs. 17.46 crores sanctioned by the Ministry of Home Affairs in December, 1964 was to be adjusted against the instalments of principal due upto 31st March, 1964 in respect of loans sanctioned by the different Ministries.

From the replies given to them during evidence, the Committee got an impression that the matter was being dealt with in a purely routine way and not much attention was being bestowed on it.

16. The Committee are unhappy to note that in some of the cases, State Governments continue to be in arrears in respect of payment of interest and principal relating to loans for the periods as early as 1954-55, 1955-56 and 1956-57. While there may be genuine difficulties in a few individual cases, they ought to be ironed out expeditiously. The Committee are unable to appreciate such indifferent attitude in respect of the Govt. loans. The Committee are also unhappy to note that because of non-finalisation of terms and conditions of repayment of loans, there have been delays in the repayment by the State Governments. This aspect has been dealt with in the next para. The Committee would like the Ministries concerned to pursue the cases with the State Governments vigorously. The Committee are of the view that the Ministry of Finance should also keep the position of timely repayment of loans and interest by State Governments under constant review. They should endeavour to see that the good example set up by the Central Government in ensuring timely payment of foreign loans and interest is emulated by the State Governments.

Non-finalisation of terms and conditions of repayment of loans, para 20, page 22.

17. The terms and conditions of repayment in respect of some of the loans advanced to State Governments have not yet been settled. No amounts have been received from State Governments in respect of these loans either towards principal or interest. The total amounts outstanding at the end of 1962-63 are indicated below:

(In crores of rupees)			
Name of the State Government	Number of loans	Total amount of loans	Earliest period to which the amounts relate
1	2	3	4
Bihar	20	6.65	1958-59
Gujarat	21	3.18	1954-55

	1	2	3	4
Andhra Pradesh		22	6.95	1958-59
Kerala		37	3.52	1956-57
Madras		31	9.52	1958-59
Maharashtra		23	5.76	1954-55
Punjab		41	13.92	1953-54
West Bengal		16	3.47	1959-60
Uttar Pradesh		23	5.33	1958-59
Rajasthan		47	30.93	1958-59
Jammu and Kashmir		20	11.76	1958-59
Mysore		21	1.75	1958-59
Orissa		21	2.97	1955-56
Assam		35	3.27	1959-60
Madhya Pradesh		40	2.54	1954-55

The Ministry-wise break up of these loans as furnished by the A.G.C.R. is enclosed as Appendix IX.

The Secretary of the Ministry of Commerce stated that that Ministry were concerned with 91 items—Coir 7, Textile 45, Sericulture 34, Weights and Measures 4 and Coffee 1. The terms and conditions were settled in respect of these items except that relating to the loan for rubber plantations in which case correspondence was going on with Government of Kerala because they wanted the loan to be converted into a grant. There were 31 items on the same subject. Terms and conditions had since been settled for 29 items. 2 items relating to Coir were being finalised. The witness agreed that the practice of giving loans without settling the terms and conditions was not a healthy one.

The Secretary, Ministry of Home Affairs admitted that non-settlement of terms and conditions of loans before issue was not a satisfactory position. Since, however, it was felt that it was a domestic affair, it was not done. Loans granted to Punjab and Uttar Pradesh were for the development of border areas and their terms and conditions also in the case of Madhya Pradesh were settled towards the latter part of 1963. The loans in the case of Madhya Pradesh were actually granted to certain part 'C' States which were now part of Madhya Pradesh. The terms and conditions in respect of the loan granted to Jammu and Kashmir had not been settled. As a large part of that loan mentioned in the Audit Report was towards the expenditure on Jammu-Pathankot road upto Banihal Pass, it was doubtful whether that amount could be treated as a loan. These

amounts might have to be treated as a grant. The matter had been considered from time to time but no final decision had been taken.

The Secretary of the Ministry of Food and Agriculture (Deptt. of Agriculture) stated that there were about 6 cases where the terms and conditions of loans had not been settled. Now they were able to settle the terms and conditions in 3 cases and were trying to settle the remaining 3 cases as per advice of the Ministry of Finance. The witness added that the present practice was that the terms and conditions were settled at the time of granting loans.

The Secretary, Ministry of Health stated that as far as possible, terms and conditions were settled first. In the particular case, on account of urgency of the matter, it was released in consultation with the Ministry of Finance subject to the terms and conditions to be settled later.

The Committee enquired from the representative of the Ministry of Industry as to why in the case of Gujarat loans amounting to Rs. 31.13 lakhs, terms and conditions of only one loan amounting to Rs. 1.47 lakhs were settled and the rest were all unsettled. The witness stated that these were repeat loans and they were given on the same terms as the previous loans. The terms and conditions in all the cases of loans were settled.

Asked whether it was the policy of the Ministry not to give loans without settling the terms and conditions the witness stated that it would be wiser to enumerate all the terms and conditions even in the case of repeat loans. In extenuation the witness stated that at the present moment there was no loan in respect to which terms and conditions were not settled.

The Committee also discussed the overall position with the Ministry of Finance and desired to know under what circumstances the Finance Ministry agreed to sanction loans to State Governments without settling the terms and conditions and further allowed the finalisation of the terms and conditions to be delayed for several years.

The representative of the Department of E.A. stated that in isolated cases the terms and conditions of loans were dependent on their utilisation and these could not be specified in the sanction. This happened particularly in the case of loans sanctioned by the Commerce Ministry for utilisation in handloom and small scale industries. As regards the inordinate delay in settling the terms, the witness stated that total loan was sanctioned under a particular

Head of Development and it was utilised by the State Government on a number of schemes. Unless the State Government informed the Accountant General or the Ministry about the actual utilisation of the loan, the terms and conditions of the component loans could not be prescribed. The Commerce Ministry had since taken a decision to issue certain *ad hoc* terms.

The witness added that another category of loans for which terms were not settled were those relating to irrigation and power projects. Certain loans were sanctioned in 1956-57 but the terms and conditions had been under negotiation between the authorities concerned and could be finalised only in 1960-61.

The Committee asked why loan to the Maharashtra Government (sanctioned in 1954) which related to the Ministry of Finance was given without settling the terms and conditions. The representative of the Department of Economic Affairs explained that the loan to Maharashtra was interest free and related to the recovery to be made from Pakistan on account of certain pension disbursements to the pensioners who migrated from West Pakistan.

The Secretary, Department of Economic Affairs stated the loans in question followed the pattern of Second Plan. Although the terms (i.e. rate of interest and period) had been settled in general, for each particular type of use e.g. agricultural or other schemes, the rate of interest actually payable was dependent on the duration. Until the loan was broken up and reconciled with the pattern, it was difficult to say about duration. This rule was found unworkable in regard to these loans. The rules for the Third Plan had been changed, under which the period and rate of interest were known. The Committee desired to be furnished with a detailed note stating why the terms and conditions of the loans advanced to State Governments were not settled for long periods (in some cases even for 10 years) and why the rules regarding grant of loans were found unworkable. The notes furnished by the Ministry of Finance (Department of EA) in respect of the loans sanctioned by the Ministries of Health, Food and Agriculture (Department of Agriculture), Works & Housing and one loan of Rs. 35 lakhs sanctioned by the Ministry of Finance are given in Appendices X to XIII. A note furnished by the Planning Commission is at Appendix XIV. The information in respect of other Ministries is still awaited.

The Committee are concerned over non-settlement of terms and conditions of the loans before their issue. They regret to point out that although the loans were granted to the States 8 to 10 years ago,

the terms and conditions of some of them have not yet been settled and no repayment has been made either towards principal or interest. If the rules were unworkable the matter should have been reviewed earlier. They desire that the Ministry of Finance should ensure that the administrative Ministries should settle the terms and conditions of loans before advancing them, except where loans are made to meet certain emergencies in which case the settlement of terms and conditions may be finalised within a period of three months at the most.

Loans granted to Government owned Corporations and Private Bodies, Para 21, page 23.

18. The terms and conditions of repayment in respect of some of the loans advanced to Government owned Corporation, Private Bodies, etc. have not been settled. The details of such loans outstanding on 31st March, 1963 are indicated below:—

(In crores of rupees)

Name of the loanee	Number of loans	Total amount of loans	Earliest period to which the loans relate
Heavy Engineering Corporation	3	5.00	1962-63
Municipal Corporation of Delhi	2	1.28	1962-63
Delhi Electric Supply Undertaking	1	0.32	1962-63
Banks in Goa	2	5.25	1961-62
Shipping Development Fund Committee	1	4.00	1962-63
M.s. Tata Iron and Steel Company	1	10.00	1954
M.s. Indian Iron and Steel Company	1	10.18	1954
Singareni Collieries, Ltd.	2	2.50	1961-62

Banks in Goa

Explaining the latest position in regard to the terms and conditions of the two loans of Rs. 5.25 crores sanctioned to the Banks in Goa in 1961-62 and 1962-63, the representative of the Ministry of Finance stated that after the liberation of Goa the liability for the money which was with the Portuguese Government was taken over

by the Government of India. As the Banks had no assets, they were given loans so that they might repay their creditors. The Government of India had to act in time in order to rescue the Bank. He informed the Committee that at present, the affairs of the Banks were being looked into by the Reserve Bank and as soon as the scheme of reconstruction was complete the terms of repayment would be prescribed. The witness added that the actual amount paid to the banks was Rs. 3.85 crores.

The Committee would like to be informed of the latest position in regard to the enquiry by the Reserve Bank into the affairs of the Banks in Goa and whether the terms of repayment had since been settled.

As regards the terms and conditions in respect of the loan of Rs. 113 lakhs paid to the Municipal Corporation, Delhi, the representative of Ministry of Health stated that these had also been finalised.

19. As regards the loan of Rs. 20.18 crores to M/s Tata Iron and Steel Company and M/s Indian Iron and Steel Company, the Committee were informed by the representative of the Ministry of Steel and Mines that the matter was again being referred to the Tariff Commission for advice. **The Committee had suggested in para 27 of their 25th Report (Third Lok Sabha) that the final settlement of the advances should be expedited. The Committee regret this delay in spite of their earlier recommendation.**

In regard to the loan of Rs. 2.50 crores to Singareni Collieries Ltd., the Committee were informed by the representative of the Department of Mines and Metals that the terms and conditions had been settled.

The Committee are concerned over the delay in settlement of terms and conditions of repayment in respect of the loans advanced to Government owned Corporations, Private Bodies etc. They hope that every effort will be made to settle the terms and conditions in the cases where these have not already been settled. They also desire the Ministry of Finance to ensure that in future the terms and conditions for repayment of such loans are fixed before granting them.

Loans and advances granted to Private Institutions, Para 22, Page 23.

21. Details of some of the cases of loans and advances granted to Private Institutions, etc. in which the amounts of principal and

interest remained in arrears at the end of 1962-63 are shown in Appendix XV.

- (i) *All-India Handloom Fabrics Co-operative Marketing Society, Bombay. (Arrears of amount as on 31st March, 1963—Rs. 3·87 lakhs).*

22. The Committee enquired why a fresh loan was sanctioned to the All India Handloom Fabrics Co-operative Marketing Society, Bombay, when the previous loan of Rs. 3·87 lakhs was outstanding from them by way of principal and interest. The Secretary of the Ministry stated that it was a co-operative society which was promoting handloom business. When it was found that its resources were not adequate, they gave an additional loan.

The Committee feel that it is not a healthy practice to grant fresh loans in cases where there is default in the repayment of previous loans. The Committee would like to be informed of the progress of recovery of these loans.

- (ii) *Delhi Garment Co-operative Industrial Society (Arrears of principal and interest outstanding as on 31st March, 1963—Rs. 1·86 lakhs).*

23. The Committee were informed that in the case of Delhi Garment Co-operative Society, the amount of principal outstanding on 31st March, 1963, was Rs. 1·62 lakhs and the amount of interest was Rs. 0·24 lakh. A liquidator had been appointed for this society. This society had got some assets of their own like Sewing Machines etc.

Asked whether the assets of the society were scrutinised at the time of giving the loan, the witness stated that it was essentially an act of rehabilitation and therefore, strictly according to the assets, there was no justification for giving the loan.

C. & A.G. informed the Committee that in the first five years upto 1961 the managing committee was entirely nominated by the Government and from 1961 onwards five of the members of the managing committee were nominees of the Government. Government had an effective say in the management of this institution.

The Committee were informed that the liquidation proceedings had been stayed for sometime by the Chief Commissioner of Delhi on an appeal by the Society. The appeal was finally rejected by the Chief Commissioner.

The Committee are concerned to note that although the Managing Committee of the Society was appointed by Government before 1961, and after 1961 five members of the Managing Committee were nominees of Government, the Society has gone into liquidation. The Government nominees should have taken steps to safeguard the interests of Government and informed the Government about its affairs. The Committee desire that a proper enquiry should be held into the matter. The Committee would like to know the final outcome of the liquidation proceedings and the recovery of Government dues.

(iii) *Dogra Steel Industries Ltd. Faridabad (Arrears of Principal on 31st March, 1963—Rs. 0.77 lakh).*

24. The representative of the Ministry of Industry stated that in the case of Dogra Steel Industries, they were having some difficulty about the availability of raw materials and they could not pay the instalments regularly. So, in consultation with the Directorate General of Technical Development, arrangements were made to give them some raw material and they promised to pay the next instalment in March, 1965. No legal action was taken to impound their machinery because they had promised to pay.

The Committee enquired when this concern indicated to the Ministry about the raw materials difficulty faced by them, the witness stated that it was brought to their notice only within the last 6 or 7 months. In consideration of the difficulties faced by the firm as a special case the Government allowed the firm on 14th June, 1961 to pay the then outstanding amount within 6 months and the balance in the next two subsequent instalments, by the end of March, 1962. The firm approached Government again in September, 1961 for extension of time and their request was turned down. The witness further stated that as the firm continued to default, a registered notice was issued on 23rd January, 1963 asking them to discharge their liability. As the firm had failed to honour its commitments and had defaulted, it was decided to take legal action against them for the recovery of the amount due from them. The papers were handed over to the Ministry of Law and after completion of necessary formalities on 14th May, 1964, a demand notice was issued to them. Their reply to the demand notice was now under consideration. It was in reply to that that they had started pleading the difficulty regarding raw materials.

Asked a question, the witness stated that as on 31st March, 1964 the amount of principal due was Rs. 85,907 and the amount of interest due was Rs. 18,119.

The Committee are unhappy at the halting manner in which the recovery of the principal and interest has been processed by the Ministry. They desire that necessary action should be taken in the matter to recover the outstanding amount.

(iv) *Loans by Rehabilitation Finance Administration Unit.*

25. As on 1st January, 1963, out of the loans given by the Rehabilitation Finance Administration, the principal and interest overdue amounted to Rs. 373.00 lakhs and 130 lakhs respectively.

Explaining the latest position regarding recovery of loans advanced by the Rehabilitation Finance Administration Unit the representative of the Ministry of Finance stated that the total amount of loans (including interest) outstanding as on 1st January, 1961 was Rs. 434 lakhs in the Eastern Region and Rs. 296 lakhs in the Western Region totalling Rs. 730 lakhs. Recoveries made from 1st January, 1961 upto 30th November, 1964 in cash were Rs. 43 lakhs and Rs. 36 lakhs in the Eastern and Western region respectively, making a total of Rs. 79 lakhs. Rs. 171 lakhs were recovered in the Western region by way of adjustment of compensation claims. No such adjustment was possible in the Eastern region. The total amount recovered by way of cash or adjustment was Rs. 250 lakhs. The amount written off upto 30th November, 1964 was Rs. 57 lakhs in respect of 900 accounts in the Eastern region and Rs. 14 lakhs in respect of 1464 accounts in the Western Region, totalling Rs. 71 lakhs in respect of 2364 accounts. The amounts outstanding on 30th November, 1964 in the Eastern and Western region was Rs. 382 lakhs and Rs. 98 lakhs respectively. Out of the loan of Rs. 728 lakhs disbursed in the Western region, Rs. 830 lakhs were collected before 1st January, 1961 and Rs. 207 lakhs thereafter including the interest and another 50 lakhs were expected to be recovered. In the Eastern Region out of the total loan of Rs. 394 lakhs, the amount collected including interest was Rs. 127.93 lakhs.

The reasons for the unsatisfactory position in the Eastern Region were stated as (i) inadmissibility of any compensation payable for the properties left in East Pakistan (ii) non-utilisation of the loans in 65 to 70 per cent, of cases for the purpose for which these had been granted; and (iii) disturbance in the business of the loanees caused by the language riots and floods in Assam. The bulk of the outstanding dues relate to the Eastern Region.

The Committee feel concerned over the slow progress of recoveries of the loans advanced by the Rehabilitation Finance Administration. Out of the total amount of Rs. 730 lakhs (Rs. 434 lakhs in the

Eastern Region and Rs. 296 lakhs in the Western Region) as on 1st January, 1961, the amount outstanding as on 30th November, 1964 was Rs. 480 lakhs (Rs. 382 lakhs in the Eastern Region and Rs. 98 lakhs in the Western Region). The Committee desire that vigorous efforts should be made to expedite the recoveries.

The Committee observe that in respect of 2364 accounts in the Eastern and Western Regions loans totalling Rs. 71 lakhs were written off upto 30th November, 1964. The Committee would like to know in how many of these cases the loans had to be written off due to the irregularities committed in the grant of loans at the initial stage viz.:

- (a) disregard of the advice given by the local authorities/field staff, etc.
- (b) failure on the part of the officials to obtain proper security, and
- (c) bad financial position of the borrowers.

Central Government Finance Accounts (1962-63)—(i) Guarantee given by Government of India, to the Bombay State Financial Corporation in respect of a loan given by the Corporation to one individual (ii) sum of Rs. 48.11 lakhs due to Government from the same individual. Item (V) of statement No. 5, page 46.

26. The individual has purchased an evacuee property known as Ahmed Mills at Ambarnath and has mortgaged it to the Government of India alongwith certain other property situated at Ambarnath. The Bombay State Financial Corporation has agreed to advance to the individual a loan of Rs. 7 lakhs with interest at 6½ per cent. per annum for running the Mills on the security of a second mortgage of the property. The first mortgage is in favour of the Government of India in respect of Rs. 48,11,000 due to the Government from the individual. The entire loan of Rs. 7 lakhs has been guaranteed by the Government of India.

The Committee enquired what were the considerations for which this individual was allowed to take over an evacuee property when he was unable to pay a large sum of Rs. 48.11 lakhs. The representative of the Ministry of Rehabilitation stated that Government had tried for 6 years to sell the property, but the maximum offer received was Rs. 22 lakhs. This individual purchased it for Rs. 68.11 lakhs out of which he paid Rs. 20 lakhs in the form of claims purchased by him in respect of properties left in Pakistan. The balance of Rs. 48.11 lakhs was to be paid in seven instalments. Later, on a representation from the individual, the number of instalments was in-

creased to 10. Asked whether there was any default in payment of the instalments the Secretary, Deptt. of Revenue and Expenditure stated that out of the sum of Rs. 48.11 lakhs, the loanee had paid Rs. 13.67 lakhs and an interest of Rs. 8.9 lakhs. There had been default in payment and an application for further extension of time was under consideration.

The Committee asked about the present position of the repayment of the loan of Rs. 7 lakhs which was guaranteed by the Government of India. The representative of the Rehabilitation Ministry stated that out of this guaranteed loan of Rs. 7 lakhs he withdrew only Rs. 5 lakhs out of which he had repaid Rs. 3,34,900, the balance due from him being Rs. 1,65,000.

The Committee enquired whether the Ministry had gone into the reasons for default and made enquiries about the working of the mill i.e., whether it was making profit or not. The representative of the Ministry of Rehabilitation stated that the individual had represented to the Ministry that because of difficulties about wool quota and of foreign exchange and other things he was not in a position to work the mill fully and get all the required production.

The Committee desired to be furnished with a detailed note showing the details of repayment of instalments due from him whether the concerns which he took over were making any profits and whether there were any other cases in which any evacuee property, factory or industry were sold by private negotiation without open tenders. The note furnished by the Ministry of Rehabilitation is at Appendix XVI.

From the note furnished by the Ministry it is learnt that the total balance still to be recovered from this individual on account of principal out of Rs. 48.11 lakhs is Rs. 34,43,886.12.

According to the individual, his mill has made a profit of Rs. 12.50 lakhs and Rs. 3 lakhs during the years 1961-62 and 1962-63. The individual has submitted an application requesting for further relaxation in the terms of payment which is under consideration. The proposal of this individual regarding payment of instalments is as under:—

- (i) That he may be allowed to pay the balance amount plus interest in 10 yearly instalments. The first instalment thereof to be treated as due on 1st July, 1965.

OR

- (ii) That he may be allowed to pay the balance amount in monthly instalments of Rs. 25,000 each.

OR

- (iii) That he may be allowed to pay the balance amount in yearly instalments of Rs. 4,00,000 each which will also include interest.

The grounds on which he wants the period to be extended are stated to be "due to Emergency declared after the Chinese attack, import licences had been steadily reduced and the licences for the current year were about 1/3rd of those which were issued to this industry in 1961. This drastic cut had resulted in acute shortage of raw materials, as a consequence of which not more than 40 per cent. of the installed capacity was being employed. To strengthen the foreign exchange reserves of the country, the Government of India were laying stress on maximum of exports of woollens. Exports markets required rigid quality control which was difficult to maintain with old machinery. He had obtained licences for the import of the machinery to the value of Rs. 30,00,000 for the modernisation and rehabilitation. All that required further expenditure which he was unable to meet."

The Committee regret to observe that the Ministry of Rehabilitation followed an unusual procedure in selling the Mill to the individual by negotiations and also agreeing to receive the payment in instalments. According to the Ministry's note there are no other evacuee concerns which were sold by negotiations to individuals. Further, it was only in the case of one concern that the payment was to be made by instalments and in the other cases the purchasers were required to make payment in lump-sum.

The Committee note with surprise the following further concessions given to this individual without much merit:

- (a) The individual was originally allowed to pay the amount in 7 instalments instead of lump-sum as usual.
- (b) The rate of interest for repayment of the loan is considerably low, i.e., 4½ per cent. (while the market rate is more than 10 per cent.).
- (c) The individual has been allowed to repay the loan in 10 instalments instead of 7 fixed originally.
- (d) Government has guaranteed a loan of Rs. 5 lakhs taken by the individual from the Bombay State Financial Corporation.

It is also understood from Audit that the party was continuously in default in repayment of the instalments as shown below:—

Due dates for the instalments	Balance which remained unpaid on the due dates in column 1.
(In lakhs of rupees)	
30-10-1961	3.00
20-10-1962	2.95
20-10-1963	5.48
20-10-1964	6.57
Amount paid after 20-10-1964 ..	1.00
Total amount remaining overdue on 20-10-1964	5.57

The levy of a higher (penal) rate of interest was not considered even when the party was found to delay the repayment of instalments.

The Committee feel that when the extension was given, the rate of interest should have been revised and the prevailing market rate of interest should have been charged. The Committee have a feeling that such a low rate of interest—4½ per cent.—is an inducement to delay the repayment of the loan. The Committee recommend that the Government dues should be recovered forthwith. If, however, any extension of time has to be given, at least the rate of interest should be raised to bring it in conformity with the present market rate and in the event of default in repayment of instalments, a penal rate of interest should be prescribed. The Committee desire that while considering the application of the individual, the Ministry should also carefully take into consideration the concessions already enjoyed by the individual and the fact that his mill was making profit.

NEW DELHI;
April 20, 1965.

Chaitra 30, 1887 (Saka).

R. R. MORARKA,
Chairman.
Public Accounts Committee.

APPENDIX I

(vide paras 3 and 6 of the Report)

*Statement of action taken on the recommendations of the Public
Accounts Committee—9th Report (3rd Lok Sabha)*

MINISTRY OF FINANCE

Recommendation of the Committee (Text).—"The Committee would commend the suggestion of the Comptroller and Auditor General viz., imposition of a lump sum cut by the Ministry of Finance in respect of overall provision under a grant, in respect of which savings are a recurring feature to the Ministry of Finance, as it appears to hold a prospect of reaching the overall net targets laid down in the estimates. In the implementation of this suggestion, it would be necessary to see during the periodical review of the progress of expenditure that shortfalls in expenditure anticipated in respect of individual schemes are declared in time so as to avoid the contingency of going for unnecessary supplementary grants."

[Serial No. 6 of Appendix V to the 9th Report (3rd Lok Sabha)]

*Action taken by Government (Text of Note/Memo. etc.).—*The revised arrangements for budgeting and financial control introduced in 1962 provide that budget proposals should be prepared by the Ministries in greater detail and with as much precision as possible and referred to the Finance Ministry a few months earlier than usual, to enable the latter to make a detailed scrutiny of the same. The provision finally accepted by the Finance Ministry for inclusion in the Budget take into account past performance, spending capacity and other relevant considerations. If savings occur, it is mainly because neither the administrative Ministries nor the Finance Ministry are in a position to anticipate precisely, at the Budget stage, the factors which ultimately lead to such savings. A lump sum cut on the basis of past trends may often render the estimates completely unrealistic. It would also carry the risk of encouraging the tendency to propose higher figures thereby nullifying the very object of the cut, particularly if the administrative Ministries are to be allowed to proceed on the basis of the original estimates (i.e. without the lump sum cut) as suggested in the earlier part of para 6 of the Report. It might also result in a large number of supplementary grant thus increasing work all round. The imposition of a lump sum cut in the overall provision under a grant as recommended by the Committee over and above the detailed cuts made during normal budget scrutiny, or the

exhibition of such cuts in the printed budget, would not be advisable or practicable. The proper course would seem to be to continue to attempt as close an approximation as possible between the budget estimates and the final actuals.

As regards surrender of savings in expenditure instructions already exist to the effect that anticipated savings should be surrendered as and when noticed without waiting till the end of the year (vide Note 1 below Rule 69 of G.F.Rs, 1963, and Finance Ministry O.M. No. F.8(9)-B/61, dated 22-10-1962).

Recommendation of the Committee (Text).—"The Committee learnt during the course of evidence that the net burden of interest on revenue had to be rated at a much higher figure than shown above, because barring the railways, the parties in receipt of the Government of India loans paid interest out of fresh borrowing from Government of India. The Committee noted this with surprise. They would like to know the principle, if any, on the basis of which this practice had to be resorted to in such a large measure. The Committee are of the view that, when the recipients utilised the loans on projects involving long period of gestation, it would be more correct to provide in the sanctions to the loans themselves that payment of interest would commence after a specified period. They urge that healthy practice must be set up in regard to recovery of loans and interest."

[Serial No. 14 of Appendix V to the 9th Report (3rd Lok Sabha)]

*Action taken by Government (Text of Note Memo. etc.).—*It appears, the Committee are objecting to the practice of grant of loans to borrowers to enable them to discharge their interest liability in respect of earlier loans. Their suggestion would appear to imply that there should be an interest free holiday or at least a moratorium during the first few years of the period of construction. The Committee had made a somewhat similar recommendation in para 54 of their Eighteenth Report (Second Lok Sabha), citing in support the practice followed by the World Bank. In reply, they were informed that the World Bank did not allow any moratorium on interest in respect of the loans advanced by them. [Vide O.M. No. F.8(53)-B/59, dated 19-6-1962.]

So far as information is available, loans for the repayment of interest charges are advanced only in the case of River Valley Projects. The Committee had already been informed that the normal procedure relating to Irrigation Projects allows for the interest charges to be capitalised during the period of construction. The write-back of such capitalised interest is treated as the first charge on capital

receipts or on the surplus revenues of the project after it commences working.

In the case of loans to public sector undertakings, however, since the money is advanced out of Government's own borrowings on which interest is payable, there is no reason why the undertakings in question should not be made liable for the interest liability right from the very beginning. Moreover, while it has been accepted as a policy that there should be a parity between the loan and equity capital advanced to public sector undertakings, it has also been conceded that the grant of loans need not run *pari passu* with the equity investment. In other words, wherever justified, the initial requirements of the undertakings, before they become revenue earning, are expected to be financed by capital investment which does not involve any liability for the payment of interest. But where loans are given and accepted by the undertakings, they carry the liability for the payment of interest. It is not, therefore, usual to allow any moratorium for the payment of interest. An exception was made in the case of Hindustan Steel where the loans advanced were consolidated into a single loan as on 1-4-1962 without carrying any liability for the payment of interest for the earlier period. This special treatment was given mainly because it would not have otherwise been possible for this new public sector enterprise to compete with the well-established Steel producers in the private sector. Such a course was in fact recommended by the Committee in para 54 of their 18th Report (2nd Lok Sabha).

On the whole, therefore, it is felt that there would appear to be nothing objectionable in the grant of loan for repayment of interest in certain cases e.g. River Valley Projects. The rule that where loans are given to projects interest should be charged in the normal manner, is considered to be sound.

In the circumstances, it is hoped that the Committee would perhaps agree to the *status quo* being maintained.

***APPENDIX II**

(vide para 4 of Report)

MINISTRY OF HOME AFFAIRS

Points on which the Public Accounts Committee desired to be furnished with further information at their sitting held on the 30th January, 1965

Audit Report (Civil), 1964

Para 5:

1. A statement showing the break up of expenditure on Police for the years 1962-63 and 1963-64 and reasons for increase in the same may be furnished.

NOTE

<i>Expenditure during 1962-63</i>	<i>(in crores of rupees)</i>	<i>Expenditure during 1963-64</i>
23.30		25.07

The break up of the above expenditure is given below:—
(In crores of rupees)

	For 1962-63			For 1963-64			Variations
	Gross	Recov- eries	Net	Gross	Recov- eries	Net	
Police	10.26	0.06	10.20	12.81	0.35	12.46	+2.26 (a)
Delhi	2.50	..	2.50	2.78	..	2.78	+0.28 (b)
A.N. Islands . . .	.35	..	.35	.25	..	.25	—0.10(c)
L.M. and A Islands	..	..	..	..	..	..	.. (d)
Himachal Pradesh .	.75	..	.75	.25	..	.25	—0.50
Manipur . . . . .	.77	..	.77	.12	..	.12	—0.65
Tripura . . . . .	.82	..	.82	.15	..	.15	—0.67
	<u>15.45</u>	<u>0.06</u>	<u>15.39</u>	<u>16.36</u>	<u>0.35</u>	<u>16.01</u>	
Tribal Areas	7.20	0.78	6.42	8.28	0.81	7.47	+1.05
Naga Hills & Tuensang Areas	1.48	..	1.48	1.57	..	—1.57	+0.09
Dadra and Nagar Haveli Areas . . .	.01	..	.01	.02	..	.02	+0.01
TOTAL	<u>24.14</u>	<u>0.84</u>	<u>23.30</u>	<u>26.23</u>	<u>1.16</u>	<u>25.07</u>	<u>+1.77</u>

*Not vetted by Audit

Reasons for the variations are as under:—

- (a) Police: The excess of Rs. 2.26 crores is due to—
- (i) raising of Police Battalions for the I.T.B. Police Force towards the end of 1962-63;
 - (ii) strengthening of Border Check Posts;
 - (iii) raising of more armed Police Battalions by State Governments on behalf of Central Government for internal security; and
 - (iv) more expenditure on C.R.P. on account of raising of four additional companies and purchase of more equipments and stores during 1963-64.
- (b) Delhi The increase due to additional posts sanctioned in connection with National Emergency and also as a result of re-organisation of Delhi Police.
- (c) A. & N. Islands Saving is mainly due to exclusion of the element of expenditure incurred during 1962-63 on adjustment of duty payable on import of two units of Coastal Patrol Vessels and purchase of 30 (SCR-284) Trans. Receivers.
- (d) L.M. & A. Islands The excess of Rs. 1000 - (Rs. 18,000 for 1963-64 minus Rs. 17,000 for 1962-63) is due to adjustment of leave salary contributions of previous years in respect of police personnel on deputation basis during 1963-64.
- (e) H.P., Manipur, Tripura Savings are as a result of coming into force the Government of Union Territories Act 1963. The un-spent balances as on 30-6-1963 in respect of Himachal Pradesh, Manipur and Tripura were surrendered.
- (f) Tribal Areas, Naga Hills, Tuensang Areas and Dadra & NH Due to strengthening of Police Forces in these Areas.

Of this, the expenditure on Border Police during 1962-63 and 1963-64 is Rs. 10.26 crores and Rs. 10.54 crores respectively as detailed below:—

<i>Grant</i>	1962-63	1963-64
	(Rupees in crores)	
Police	0.69	1.74
Himachal Pradesh	0.75	0.25
Manipur	0.77	0.12
Tripura	0.82	0.15
Tribal Areas	7.20	8.28
	10.23	10.54

The rest of the expenditure was incurred on other territories.

The note has been vetted by Audit.

Approved by

(A. SEN)

Joint Secretary to the Govt. of India.

APPENDIX III

(vide para 5 of Report)

No. F. 8(8)-B/63

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

Department of Economic Affairs

(Budget Division)

New Delhi, the 2nd December, 1964.

MEMORANDUM

SUBJECT:—*Ninth Report of the Public Accounts Committee (Third Lok Sabha)—Memorandum on the recommendations of the Public Accounts Committee in regard to the Borrowing Powers of Government.*

In paragraph 15 of their Ninth Report (Third Lok Sabha) the Public Accounts Committee had made the following observation:

“The Committee feel that the existing manner of getting parliamentary approval to the borrowing programme of Government does not provide satisfactory opportunity for an intelligent appraisal in Parliament of the issue involved, which would be afforded, if there were a specific debate thereon. They understand that the practice established in the United Kingdom, Canada, Ceylon and the United States of America was to obtain the approval of the legislature either specifically before going to market for loans or to restrict the borrowing programme to the limits prescribed by the legislature. The Committee, therefore, suggest that a study might be made of the procedures followed in this regard in various democratic countries (as agreed to by the Secretary, Ministry of Finance during evidence), so as to arrive at a method of obtaining specific approval of Parliament to the borrowing programmes that would suit the needs of our developing economy. The result of this study should be communicated to the Committee at an early date.....”

The Government of India have since ascertained the procedures followed in the United Kingdom, Canada, U.S.A. and Ceylon. A brief account of the practices and procedures of Parliamentary control over Government borrowing in these countries is given below:

(A) The United Kingdom

(i) The National Loans Act, 1939 empowers the Treasury to raise money required for meeting any supply which has been granted by Parliament and in addition a sum not exceeding £250 million; or for the repayment of any maturing loans or Treasury Bills or ways and means advances.

(ii) The above power to raise money also applies to raising money outside U.K. whether in Sterling or any other currency, but excludes National Savings Certificates etc.

(iii) For the purpose of raising money, the Treasury may create and issue such securities as they think fit. The rate of interest and other conditions as to repayment, redemption etc., are to be determined by the Treasury.

(iv) The Annual Appropriation and Consolidated Fund Acts empower the Treasury to borrow by the issue of Treasury Bills or by taking ways and means advances to meet temporary requirements.

(v) The Statutes Authorising Local Authorities to borrow from the Treasury within specified limits also empower the Treasury to borrow moneys required for the purpose.

(vi) The Treasury may borrow without limit for certain specific purposes, including those connected with the country's foreign exchange position e.g. provision of additional Sterling Capital for the Exchange Equalisation Account and the maintenance of the value of U.K.'s subscription to I.M.F. and I.B.R.D.

(B) Canada

(i) The Financial Administration Act provides that no money shall be borrowed or security issued without the authority of Parliament. Such authority is usually provided through the Annual Appropriation Acts.

(ii) The Financial Administration Act provides authority to the Governor General-in-Council to authorise the Minister of Finance to borrow money for a period not exceeding 6 months where the resources of the Consolidated Fund are insufficient.

(iii) Where authority is conferred by Parliament to borrow money, the Governor General-in-Council may authorise the Minister of Finance to borrow money by the issue and sale of securities

in such form and on such terms and conditions as the Governor General-in-Council may approve.

(C) U.S.A.

(i) The First Liberty Bond Act 1917 authorised the Secretary of the Treasury with the approval of the President to borrow up to \$ 5 billion subject to such terms and conditions and rate of interest not exceeding $3\frac{1}{2}$ per cent per annum as the Secretary of the Treasury may prescribe. In addition, the Treasury was authorised to issue Certificates of indebtedness upto \$ 2 billion payable within one year from the date of issue. The Act also required that the bonds would not be issued at less than par.

(ii) The borrowing limits have been raised steadily by the succeeding Acts, the present limit being \$ 315 billion, the rate of interest being limited to 4.25 per cent. The present limit includes moncys raised through Certificates of Indebtedness, Treasury Bills, etc.

(iii) The Acts passed in certain years also prescribed the limits of maturity in years up to which or between which, bonds or securities may be issued.

(D) Ceylon

(i) The borrowings are required to be made through a Monetary Board constituted under the Monetary Law Act.

(ii) The Ceylon Development Loans Act empowers the Monetary Board to raise loans not exceeding Rs. 600 million for expenditure on work connected with or incidental to the development of Ceylon.

(iii) The Treasury may borrow by issue of Treasury Bills, sums not exceeding amounts specified in the related resolution of the House of Representatives.

(iv) While the Ceylon Development Loans Act authorises the raising of loans in the United Kingdom and from the I.B.R.D., the Foreign Loans Act empowers the raising of loans from other foreign sources. No limits for such borrowings have been prescribed.

3. The Government of India are empowered under Article 292 of the Constitution to borrow upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by Parliament by law. No such law has been enacted by Parliament so far, and consequently there are at present no statutory limits within which the Government of India may raise loans both internally and externally. The question of prescribing such limits was raised by the Estimates Committee in their Twentieth Report (Second Lok Sabha) and again in a Private Member's

Resolution in Lok Sabha in August 1959. It was explained on behalf of Government that the provision in the Constitution was permissive and not mandatory. Further Government's borrowings were made within the framework broadly envisaged in the Five Year Plans and in any case in the programme indicated in some greater detail in the annual budgets. Parliamentary control over Government's borrowings was thus secured when the Five Year Plans as well as the annual budgets were discussed in Parliament. Moreover, rigid statutory limits would hardly be practicable in the context of the development plans of Government. While the object in view would hardly be served by prescribing very wide limits of borrowings, narrow limits would result in frequent amendment of statutes. Parliamentary control over borrowings through annual budgets was therefore the more practicable and preferable course. Neither the recommendation of the Estimates Committee, nor the Private Member's Resolution in Lok Sabha for prescribing statutory limits for Government's borrowings was consequently pressed.

4. The extent of Government's borrowings which is feasible having regard to the likely market conditions and the savings in the economy are indicated both in the Five Year Plans and the annual Budgets of the Government. These also show the proposed borrowings under such heads as Permanent Debt, Floating Debt and Debt raised outside India. The timing and the terms and conditions on which the borrowing may be made are not however set forth in the Budget documents since these are settled in the light of the advice of the Reserve Bank of India and after taking into account the market conditions prevailing at the time the borrowings are to be made. Thus, while it is not practicable to arrange for Parliamentary control over the terms and conditions of Government's borrowings, the present arrangement does not detract from Parliamentary control over the extent of Government's borrowings. Moreover, in the ultimate analysis, whatever the extent of loans raised the outgo from the Consolidated Fund to which the loans are credited, whether in the form of expenditure or repayment of loans and treasury bills, is fully covered by Parliamentary control through enactment of Appropriation laws.

5. In all the circumstances, Government are satisfied that no real advantage would be secured by prescribing statutory limits on Government's borrowings.

A. R. SHIRALI
Director (Budget)

To

The Chairman & Members
of the Public Accounts Committee.

APPENDIX IV

(vide para 7 of Report)

Statement showing details of projects on which loans from foreign sources were utilised

(In crores of rupees).

Name of loan with amounts authorised and drawn upto the end of 1962-63.	Remarks
Loans from U.S.A..	
(i) American Wheat Loan: Authorised : Rs. 90.31 Drawn : Rs. 90.31	Drawn in 1951 for procurement of 2 million tons of wheat in U.S.A. Repayable in 60 semi-annual instalments from June, 1957 with interest at 2½%. Repayment of principal and payment of interest from December, 1958 to June, 1967 have been postponed under an agreement with the U.S. Government.
(ii) Asian Economic Development Fund Loan : Authorised : Rs. 9.02 Drawn : Rs. 6.33	Represents value of commodities and services for development of Orissa Iron Ore Projects (Improvement of Railway and port facilities for the project). Repayable in 31 half-yearly instalments beginning 3 years after the first disbursement) with interest at 4%.
(iii) Development Assistance Loans : Authorised : Rs. 61.91 Drawn : Rs. 61.91	Utilised mainly for (a) acquiring steel material and equipment for Railway Rehabilitation and Expansion, (b) augmenting fertilizer supply and (c) Rihand Valley Development. The loans were received partly in dollars and partly in rupees and are repayable over a period of 37—40 years with interest at 4%.
(iv) Loans under P.L. 480 : Authorised : Rs. 518.07 Drawn : Rs. 212.32	Utilised on various development projects. The projects are selected by the Government of India, but should

(In crores of rupees)

Name of loan with amounts authorised and drawn upto the end of 1962-63	Remarks
<p>(v) Loans from the Development Fund (now Agency for International Development) :</p> <p>Authorised : Rs. 374.24</p> <p>Drawn : Rs. 204.36</p>	<p>be acceptable to the U.S. Government. The projects are initially financed from the Central or State Government resources like other Plan Projects and the actual expenditure incurred is drawn from the U.S. authorities on re-imbursement basis. Some of the large projects financed are irrigation and power projects in various States (notably Chambal, Nagarjunasagar and Kosi), National Highways, etc. The loans are repayable in 40 years with interest varying from 3 to 5%.</p> <p>Till October, 1959, the loans were available for purchases on a global basis, but since then, the loans are largely tied to procurement of goods and services having their origin in U.S.A. The loans have been utilised mainly for acquiring steel, equipment etc. for Railway development projects and power projects. But 3 loans of Rs. 219.05 crores have been made available for import of commodities like steel, machinery, non-ferrous metals required for industries and the development programme as a whole.</p> <p>The loans are repayable in rupees in semi-annual instalments varying from 9 to 40, with interest of 3½% — 5½%. The loans drawn from the A.I.D., are however, repayable in dollars over a course of 40 years and bear no interest but only a credit fee of ¾%.</p>
<p>(vi) Loans from the U.S. Export Import Bank:</p> <p>Authorised : Rs. 113.96</p> <p>Drawn : Rs. 84.46</p>	<p>Utilised mainly for (a) import of machinery, equipment and services for irrigation, reclamation and power projects,</p> <p>(b) import of equipment and tools for various industries,</p> <p>(c) purchase of 3 Boeing aircraft by Air India.</p>

(In crores of rupees)

Name of loan with amounts authorised and drawn upto the end of 1962-63	Remarks
	Repayable in 20—30 semi-annual instalments with interest at 5½—5¾%
II. Loans from U.S.S.R.	For the Iron and Steel Works at Bhil in the shape of plant and equipment, purchased in U.S.S.R. and expense on training of Indian personnel in U.S.S.R.
(i) Bhilai Loan: Authorised : Rs. 64.80 Drawn : Rs. 64.80	Repayable in 12 instalments with interest at 2½%.
(ii) Barauni Credit: Authorised : Rs. 11.91 Drawn : Rs. 9.53	Represents value of contracts entered into with Soviet Organisations for supply of equipment, material, etc. for the Oil Refinery at Barauni.
	Repayable in 12 annual instalments with interest at 2½%.
(iii) Drugs Credit : Authorised : Rs. 9.52 Drawn : Rs. 0.96	For supply of plant and machinery, technical assistance, etc. for Drugs projects like Antibiotics Projects at Rishikesh, Synthetic Drugs Project at Hyderabad and the Surgical Instruments Projects at Madras.
	Repayable in 7 yearly instalments with interest at 2½%.
(iv) Credits for Industrial Enterprises : Authorised : Rs. 59.53 Drawn : Rs. 34.76	Mainly in the shape of plant, equipment drawings, etc. for the Heavy Machine Building Plant at Ranchi Coal Mining Machinery Plant at Durgapur and the Thermanl Power Station at Neyveli
	Repayable in 12 annual instalments with interest at 2½%.
(v) Credits for the Third Five Year Plan. Authorised : Rs. 238.11 Drawn : Rs. 16.32	For expansion of Bhilai Steel Plant, Heavy Machinery Plant at Ranchi, Hydro-electric Power Station at Bhakra, etc.
	Repayable in 12 annual instalments with interest at 2½%.

(In crores of rupees)

Name of loan with amounts authorised and drawn upto the end of 1962-63	Remarks
III. <i>Loans from U.K.</i>	For establishment of Durgapur Steel Plant. The loan of Rs. 20 crores is repayable in 4 annual instalments commencing from July, 1966 (with interest ranging between 5½% and 5¾%). The other credit of Rs. 15.33 crores is repayable in 5 semi-annual instalments from 1-1-62.
(i) Durgapur Credits : Authorised : Rs. 20.00 Rs. 15.53 Drawn : Rs. 20.00 Rs. 15.33	
(ii) U.K. India (Oil-Pipeline) Credit : Authorised : Rs. 4.00 Drawn : Rs. 3.96	For Nahorkativa Oil Pipeline Project. Repayable in 6 half yearly instalments.
(iii) U.K. India (General) Credit : Authorised : Rs. 85.63 Drawn : Rs. 83.33	Not tied to any projects, but utilised for import of capital goods required for engineering, electrical, chemical and textile industries. Repayable over a period of 15 years.
(iv) Credits for the Third Plan : Authorised : Rs. 126.67 Drawn : Rs. 51.95	About Rs. 37 crores are tied to specific projects like Heavy Electrical Project at Bhopal, Hindustan Cables, Oil and Natural Gas Commission, etc. The balance is untied and is utilised for import of capital goods for the development programme as a whole. Repayable in about 20 years.
IV. <i>Loans from West Germany.</i>	
(i) Rourkela Credits : Authorised : Rs. 77.19 Drawn : Rs. 74.04	Represents cost of machinery, etc. from West Germany for Rourkela Steel Plant. Repayable over a period of 3 years with interest at 6.3%.
(ii) Rourkela Prolongation Credit : Authorised : Rs. 49.21 Drawn : Rs. 49.21	For financing the repayments falling due in respect of the loans for Rourkela Steel Plant.

(In crores of rupees)

Name of loan with amounts authorised and drawn upto the end of 1962-63	Remarks
	Repayable over a period of 12 to 13 years (Rs. 11·16 crores was however, repayable in 4 years) with interest at 5½—5¾%.
(iii) Other Credits : Authorised: Rs. 125·32 Drawn : Rs. 91·37	These loans were completely untied. They include 4 cash credits totalling Rs. 60·50 crores to be utilised in any manner for maintenance of development projects; the balance being for importing capital goods.
	Repayable over a period of 15—20 years with interest varying from 3—6½%.
V. Loans from Canada—Wheat loan: Authorised: Rs. 15·71 Drawn : Rs. 15·71	For purchasing wheat and flour in Canada. Repayable in 7 equal annual instalments with interest at 4½%.
VI. Loans from Japan: (i) Export-Import Bank Credit: Authorised : Rs. 22·07 Drawn : Rs. 18·11	Mainly for import of capital goods from Japan for power projects, Road and Shipping Projects, etc. Repayable in 10 years with interest at 5½%.
(ii) Credit for Third Plan : Authorised : Rs. 38·09 Drawn : ..	For purchase of plant, machinery, etc. in Japan. Repayable in 20 semi-annual instalments with interest at 6%.
VII. Loans from Poland : Credits for Third Plan : Authorised: Rs. 29·80 Drawn : Rs. 0·19	For import of machinery and equipment required for industrial projects agreed upon between Government of India and Poland. Repayable in 8 equal yearly instalments with interest at 2½%.
VIII. Loans from Switzerland : Credit for Third Plan: Authorised : Rs. 11·98 Drawn : Rs. 0·23	For payment to suppliers in Switzerland for Capital goods required for development programmes.

Name of load with amounts authorised and drawn upto the end 1962-63	Remarks
<p>IX. Loans from I.B.R.D.:</p> <p>Authorised : Rs. 232.35</p> <p>Drawn : Rs. 206.23</p>	<p>No repayment during the first three years and the credit is to be repaid in equal half-yearly instalments in next seven years.</p> <p>The loans are available for imports from all countries which are members of the I.B.R.D. as well as from Switzerland. Mainly include (a) 6 loans for Railways for importing manufactured items and components, (b) 3 loans for the Damodar Valley Corporation, (c) one loan for Konya Project, (d) one loan for private sector collieries and (e) one loan for agricultural machinery.</p>
<p>X. Loans from International Development Association :</p> <p>Authorised : Rs. 101.18</p> <p>Drawn : Rs. 7.46</p>	<p>For construction of National Highways irrigation schemes. Power Projects, D. V.C., Koyna, improvement of Bombay Port, expansion of telecommunication facilities and Railway Development.</p> <p>Repayable in 80 semi-annual instalments repayment commencing after a moratorium of 10 years. No interest charges are payable, but only a service charge of 3% is levied on the outstanding balances.</p>
<p>XI. Loans from Austria :</p> <p>Authorised : Rs. 2.38</p> <p>Drawn :</p>	<p>For payment to suppliers in Austria for capital goods required for development programmes.</p>

*APPENDIX V

(Vide para 8 of Report)

HINDUSTAN STEEL LIMITED

The investment in the three steel plants—Rourkela, Bhilai and Durgapur—upto the one million ton stage was Rs. 695 crores excluding the Alloy Steel Plant at Durgapur.

Regarding profitability: There is a limiting factor in the case of Iron & steel Industry viz. that the prices of the product are controlled either directly or otherwise. The prices for these products were originally fixed some years back. Of course, subsequently periodical adjustments have been made for known increases in costs. However, the pattern of production has changed. Further, in the case of Government plants the capital costs are far higher than the one assumed for purposes of depreciation, return etc. when originally the prices were fixed. These limiting factors have a great bearing on the profitability of the Government Steel Plants.

Hindustan Steel Ltd. was running at a loss upto 1963-64. It is expected that during 1964-65 Hindustan Steel Ltd. might register a profit of about Rs. 6 crores—after providing for depreciation at normal rates and interest charges to Government—. The profit during 1965-66 has been estimated at over Rs. 17 crores after providing for an interest charge of about Rs. 20 crores and depreciation charge of Rs. 38 crores. No provision has been made for taxes as there will be carryover losses of the previous years. Assuming tax at 50 per cent, the profit may be only Rs. 8.5 crores. In subsequent years it is expected that the order of overall profit may not be lower.

By 1967-68 the overall investment in Hindustan Steel after the present expansions and taking the Alloy Steel Plant into account may be of the order of Rs. 1150 crores. The surplus expected on present cost and price levels and after providing for depreciation (Rs. 60 crores), interest (Rs. 30 crores) is estimated to be about Rs. 25 crores. Providing roughly for a tax provision of 50 per cent the net profit may be about Rs. 12/13 crores.

*Note vetted by Audit.

APPENDIX VI*
(vide para 8 of Report)
MINISTRY OF FINANCE

(T&P Division-P&CH Branch)

From Appendix III of Central Government Audit Report (Civil) 1964, it appears that so far as Ministry of Petroleum & Chemicals is concerned, the requisite information is required to be furnished in respect of the following Undertakings:—

II. Loans from U.S.S.R.

(ii) <i>Barauni Credit</i> :		Represents value of contracts entered into with Soviet Organisations for supply of equipment, material, etc. for the Oil Refinery at Barauni.*
Authorised:	Rs. 11.91	
Drawn upto 1962-63:	Rs. 9.53	

Repayable in 12 annual instalments with interest at 2½%.

(iii) <i>Drugs Credit</i> :		For supply of plant and machinery, technical assistance etc. for Drugs projects like Antibiotics Projects at Rishikesh, Synthetic Drugs Project at Hyderabad and the Surgical Instruments Projects at Madras.
Authorised :	Rs. 9.52	
Drawn upto 1962-63:	Rs. 0.96	

Repayable in 7 yearly instalments with interest at 2½%.

III. Loans from U.K. Credit.

(iv) <i>Credits for the Third Plan.</i>		About Rs. 37 crores are tied to specific projects like Heavy Electrical Project at Bhopal, Hindustan Cables, Oil and Natural Gas Commission etc. The balance is untied and is utilised for import of capital goods for the development programme as a whole.
Authorised :	Rs. 126.67	
Drawn :	Rs. 51.95	

Repayable in about 20 years.

N.B. Against III (iv), we are concerned only with Oil and Natural Gas Commission.

*Note vetted by Audit.

2. The Barauni Refinery has gone on stream (trial runs) only from 15th July, 1964. It is too early to state categorically that the Project is remunerative. The only thing that can be said is that the Project is expected to be remunerative. A copy of the Annual Accounts for 1963-64 of the Indian Refineries Limited which is in-charge of the Gauhati & Barauni Refineries is placed below for perusal.

Similarly, in regard to the three projects of I.D.P.L. the factories are still under construction. Trial Production is expected to commence by middle 1965 in the case of Surgical Instruments Projects and in the case of other two projects by the middle of 1966. It is therefore too early to say that the projects are remunerative. A copy of the Annual Accounts of I.D.P.L. for 1963-64 is put up for perusal.

So far as O.N.G.C. is concerned, the U.K. Credit allotted to it was of Rs. 6 lakhs only for casing pipes and tubings, which has since been utilized. Oil is being produced at Ankleshwar presently and various other areas are being constantly explored. The receipts from the sale of crude during 1964-65 are expected to be Rs. 6.49 crores and during 1965-66—Rs. 16 crores. It is difficult to state categorically that the project is remunerative as the capital expenditure on the Ankleshwar Oil Field is not readily available.

APPENDIX VII

(Vide para 9 of Report)

(Para 18, Page 20 of the Audit Report (Civil), 1964)

The amounts of principal and interest in respect of the loans sanctioned by the various Ministries which remained overdue from the State Governments at the end of 1962-63 i.e. 31-3-63 are given below :—

(In lakhs of rupees)

Name of Ministry		Andhra Pradesh	West Bengal	Rajasthan	Jammu & Kashmir	Madhya Pradesh	Bihar	Gujarat	Orissa	Assam	Total
Finance	Pr.	..	..	..	583.22	..	..	..	..	150.42	733.64
	Int.	..	..	..	161.56	..	..	..	..	81.64	243.20
Education	Pr.	..	17.33	..	0.02	..	..	..	..	0.01	17.36
	Int.	..	—1.36(a)	..	0.03	..	..	..	..	0.22(d)	—1.11
Works and Housing*	Pr.	..	..	..	17.72	..	..	..	..	0.94	18.66
	Int.	..	..	..	17.96	..	..	..	..	0.55	18.51
Commerce**	Pr.	..	14.71	..	0.21	..	..	..	..	0.03	14.95
	Int.	..	7.09	..	0.09	..	..	..	..	0.01	7.19
Industry & Supply	Pr.	..	17.23	..	31.36	..	..	..	..	2.19	50.78
	Int.	..	10.42	..	15.19	..	..	..	..	0.84	26.45
Irrigation and Power	Pr.	..	..	..	2.12	..	23.09	..	16.67	33.91	75.7
	Int.	525.63	..	195.09	7.51	401.49	332.01	1.23	59.21	10.79	1532.96

Food and Agriculture	Pr.	..	90.20	..	46.60	194.77	..	..	..	10.19	341.76
	Int.	..	..	..	29.03	30.50	..	..	..	2.80	62.33
Community Development & Cooperation	Pr.	..	..	..	21.88	..	..	..	..	6.08	27.96
	Int.	..	..	..	12.83	..	..	..	..	1.76	14.59
Health	Pr.	..	..	..	2.06	..	..	..	..	(b)	2.06
	Int.	..	..	..	5.28	..	..	..	..	0.01	5.29
Home	Pr. ■	..	..	..	719.58(c)	..	..	..	..	0.17	719.75
	Int.	..	..	..	125.86(cc)	..	..	..	..	0.27	126.13
TOTAL	Pr.	..	139.47	..	1,424.77	194.77	23.09	..	16.67	203.94	2002.71
	Int.	525.63	16.15	195.09	375.34	431.99	332.01	1.23	59.21	98.89	2035.54

•Erstwhile Ministry of Works, Housing and Supply.

••Erstwhile Ministry of Commerce and Industry.

(a) The minus amount of Rs. 1.36 lakhs represents earlier over-payment of interest of Rs. 1.46 lakhs reduced by the interest of Rs. 0.10 lakh³ due for the year. A net amount of Rs. 15.66 lakhs repaid in 1963-64 towards principal after deduction of sum of Rs. 1.46 lakhs on account of interest over paid earlier.

(b) The actual amount is Rs. 448.70.

(c) Includes Rs. 394.86 lakhs sanctioned by the erstwhile Ministry of States.

(cc) Includes Rs. 79.31 lakhs sanction by the erstwhile Ministry of State.

(d) Includes Rs. 0.19 lakh in respect of arrear on loan sanctioned by the erstwhile Ministry of Scientific Research and Cultural Affairs.

APPENDIX VIII*

(Vide para 10 of Report)

MINISTRY OF COMMERCE

Loans given to the Government of West Bengal for the development of Handloom Industry during the years 1958-59 to 1962-63

While issuing the terms and conditions of repayment of loans, each State Government, is requested by the Ministry to communicate the amounts utilised for the different schemes, to concerned Accountant General, and to All India Handloom Board for the purpose of repayment.

In accordance with the above arrangement, the Government of West Bengal, *vide* their letter No. 889-COT/IL-3/63, dated 1st February, 1963, addressed to the Accountant-General, West Bengal, and copy endorsed to All India Handloom Board, Bombay, had furnished the scheme-wise break up of the loans sanctioned by the Government of India for the development of Handloom Industry during the years 1958-59 to 1961-62. Similar information in respect of the utilisation of the loan sanctioned for 1962-63 was also furnished by the State Government *vide* their letter No. 7307/COT/IL-89/63, dated 31st August, 1963, addressed to All India Handloom Board, Bombay .

Statements showing details of the utilisation of these loans sanctioned to the State Government during the years 1958-59 to 1962-63 are enclosed**. The State Government had not indicated any reasons for delay in realisation of principal and interest from institutions to whom the loans were given by them.

Since the necessary information about the scheme-wise utilisation of the loans sanctioned between 1958-59 to 1961-62 were received from the State Government only in the month of February 1963, repayments against these loans could only be arranged in the month of August, 1963, by the Accountant-General, West Bengal. These repayments were reported by the Accountant-General, West Bengal, to the All India Handloom Board under his letter No. BK-II/75L/VOLIV/1299, dated 26th September, 1963. Since then, however, the subsequent instalments of all these loans are regularly repaid by the State Governments on the due dates.

**Not printed

*Not Vetted by Auditor

It may be mentioned in this connection that there was no provision for charging any penal interest for delayed repayments when the terms and conditions of repayment for loans sanctioned for 1958-59, 1959-60 and 1960-61 were first issued. Then the former Ministry of International Trade *vide* its circular No. 2(38) Tex(C)/63, dated 4th November, 1963 addressed to All State Governments intimated that additional simple interest, at the normal rate, on all over-due instalments of principal and interest in the event of default is to be paid by the State Government. Similar instructions for the delayed repayments in respect of the loans sanctioned for the year 1961-62 were issued by the Ministry of Industry *vide* its circular letter to all the State Governments No. 2(38)Tex(C)/63, dated 1st February, 1964. It is stated that the penal interest at 2½ per annum over and above the normal rate of interest prescribed for each type of loan will be charged on all over-due instalments of principal and interest in the event of default in payment by the State Government. The copies of these circulars were endorsed to the Accountant-General of each State for necessary action.

APPENDIX
(Vide para 17 of Report)

(Para 20, Page 22 of the Audit)

No amounts have been received from State Governments either towards principal or have not been settled. The total amount outstanding at the end of 1962-63 i.e. 31-3-63

Name of the Ministry	Bihar	Gujarat	Andhra Pradesh	Kerala	Madras	Maharashtra
Finance . . . . .	..	11.79	..	..	..	23.21
Education . . . . .	..	0.51	..	12.60	..	..
Works & Housing*	84.62	85.41	41.91	32.39	102.71	138.74
Commerce**	12.77	19.61	33.43	80.88	223.45	38.46
Irrigation and Power	557.85	160.47	604.66	173.65	520.00	345.50
Food & Agriculture . . . . .	..	..	..	..	..	..
Community Development and Co-operation	3.03	3.00	3.00	2.25	3.00	24.93
Home Affairs . . . . .	..	..	..	..	..	..
Transport . . . . .	..	..	..	..	..	..
Planning Commission . . . . .	..	5.00	..	..	..	..
Atomic Energy . . . . .	..	..	..	..	..	4.00
Rehabilitation . . . . .	..	..	..	..	16.97	..
Industry & Supply	5.53	31.13	12.21	50.34	84.97	1.38
Health . . . . .	..	..	..	..	..	..
Deptt. of Social Security	1.19	..	..	..	0.92	..
TOTAL	664.99	316.92	695.21	352.11	952.02	576.22

*Sanctioned by the erstwhile Ministry of Works, Housing and Supply.

**Sanctioned by the erstwhile Ministry of Commerce and Industry.

IX

Report (Civil), 1964)

interest in respect of the following loans the terms and conditions, in regard to which in respect of the various Ministries are indicated below :—

(In lakhs of rupees)

Punjab	West Bengal	Uttar Pradesh	Rajasthan	Jammu and Kashmir	Mysore	Orissa	Assam	Madhya Pradesh	Total
35.00	..	..	..	3.15	..	..	56.50	..	129.65
..	..	..	1.00	..	3.13	..	..	2.32	19.56
44.30	92.06	30.89	44.86	21.22	60.35	13.92	6.52	..	799.90
17.89	51.09	30.99	19.93	21.27	38.82	0.08	38.06	..	626.73
1250.60	78.00	266.45	2895.27	160.00	41.00	254.00	189.00	10.94	7507.39
..	..	..	113.40	..	..	16.06	0.95	6.46	136.87
5.29	2.00	31.74	4.50	3.42	3.50	5.00	8.50	..	103.16
6.36	..	80.36	..	958.37	..	..	..	216.31	1261.40
..	..	..	..	..	..	..	..	18.23	18.23
..	..	..	..	..	..	0.50	..	..	5.50
..	..	..	..	..	..	..	..	..	4.00
10.37	114.00	..	..	..	..	0.33	..	..	141.67
18.62	9.40	82.42	13.78	8.51	26.42	6.88	26.12	..	377.71
..	..	9.12	..	..	..	..	1.09	..	10.21
3.06	..	1.35	..	..	2.07	0.44	0.07	..	9.10
1391.49	346.55	533.32	3092.74	1175.94	175.29	297.21	326.81	254.26	11151.08

APPENDIX X*
(Vide para 17 of Report)
MINISTRY OF HEALTH

[Audit Report (Civil) 1964]

Further information desired to be furnished to the Public Accounts Committee *vide* Lok Sabha O.M. No. 6/1/64-PAC, dated 12th February, 1965 to the Ministry of Finance (Department of Economic Affairs), Ministry of Home Affairs and Ministry of Rehabilitation.

Para 20	Subject
(i)	A statement giving reasons why the terms and conditions of the loans advanced to State Governments were not settled for long period (in some cases even for 10 years) may be furnished.
(ii)	Why were the rules framed in this connection found unworkable?
(iii)	A note stating whether all the projects mentioned in Appendix-III are remunerative may be furnished.

BRIEF

Para 20:

Para 20 of the Audit Report (Civil) 1964, deals with non-settlement of terms and conditions in respect of some loans advanced to State Governments.

Item (i):

The observation made by the Public Accounts Committee at item (i) above relates to those loans advanced to State Governments, the terms and conditions of which (the repayment of the principal and interest thereon) are stated to have not yet been settled. The details of such loans were furnished by the Accountant General Central Revenues, New Delhi, direct to the Ministry of Finance (Department of Economic Affairs) who have forwarded the same to the Ministries/Departments concerned. It is observed from the statement received from that Ministry that the Ministry of Health is concerned with two items of loans only, the details

*Not Vetted by Audit.

of which are given below. This has also been confirmed by the Accountant-General Central Revenues, New Delhi.

Name of the State Government	No. and date of the sanction letter	Amount
1. Uttar Pradesh	F.1(3) PC/62, dt., 8-3-1963	Rs. 9,12,000
2. Assam	F. 1(3)/PC/62, dt., 10-12-1962	Rs. 1,09,000
TOTAL		Rs. 10,21,000

The records of the Ministry of Health reveal that the above loans were paid to the Governments of Uttar Pradesh, and Assam towards the payment of arrears pertaining to 1961-62 as Central assistance to the State Governments in respect of Centrally aided Health Schemes and the terms and conditions of the repayment of these loans stand settled as early as 26th July, 1963.

Therefore there is no delay in the settlement of terms and conditions of the loans advanced to these two State Governments.

Item (ii):

This Ministry is not facing any difficulty in the application of the Rules framed for the purpose.

Item (iii):

The Ministry of Health is not concerned with any of the items mentioned in Appendix III of the Audit Report (Civil), 1964.

APPENDIX XI*

(Vide para 17 of Report)

MINISTRY OF FOOD & AGRICULTURE

(Department of Agriculture)

While examining para 20 of Chapter 1 of the Audit Report (Civil), 1964, pertaining to the Department of Agriculture on the 14th January, 1965, the Public Accounts Committee was satisfied with the explanations furnished by the Representatives of this Department. However, at their sitting held on the 30th January, 1965, for examining the portions relating to the Ministry of Finance, they have desired to be furnished with five copies of notes/Memo duly vetted by Audit, giving additional information on the following three points:—

- (i) A statement giving reasons why the terms and conditions of the loans advanced to State Governments were not settled for long periods (in some cases even for 10 years) may be furnished.
- (ii) Why were the rules framed in this connection found unworkable.
- (iii) A note stating whether all the projects mentioned in Appendix III are remunerative may be furnished.

2. With regard to point (i) above, it may be pointed out that in para 20 of Chapter 1 of the Audit Report (Civil), 1964, cases cited relate to all the Ministries of the Government of India. In the following cases, as intimated to this Department by the Accountant General, Central Revenue, New Delhi, in his letter No. FA. 25-10/Part. III/63-64/162, dated the 18th August, 1964, and the Ministry of Finance (Deptt. of Economic Affairs) letter No. F. 7(7)-B/64, dated the 28th October, 1964, to the Accountant General, Central Revenue, New Delhi, and copy endorsed to this Department, it has been stated that the terms and conditions of repayment of loans sanctioned to the States have not been settled.

S. No.	Name of the State Government	Loan sanctioned	No. and date of the sanction letter	Date on which terms were settled
1	Rajasthan	95,57,000	Department of Agriculture letter No. 2-4 '63-Exp. Coord. dated 18-3-1963.	30-4-1963

*Not Vetted by Audit.

S. No.	Name of the State Government	Loan sanctioned	No. and date of the sanction letter	Date on which terms were settled
2	Assam	68,000 27,000	Department of Economic Affairs No. 1(3)-PC/62 dated 10-12-1962.	19-12-1962
3	Orissa	16,06,000	Department of Economic Affairs No. 1(3)-PC/62 dated 31-12-1962.	31-1-1963
4	Madhya Pradesh	3,21,000 3,00,000 1,07,697	Department of Agriculture letters No. 15-10-55-FS dated 31-3-1955. 7-20-55-FS, dated 31-3-1955. 7-14-55-FS, dated 31-3-1955.	24-2-1958

3. It will be seen from the above, that in the case of Rajasthan the terms and conditions applicable to the loans sanctioned to the State Government in our sanction letter dated 18th March, 1963, were communicated on 30th April, 1963, i.e. about one and half months after the issue of the sanction letter. This delay was due to the time taken in obtaining the necessary approval of the Ministry of Finance on the finalisation of such terms and conditions. This was taken up immediately after ensuring that the sanction letter dated 18th March, 1963, was duly received by the Accountant General concerned and necessary adjustment had been made.

4. The loans of Rs. 68,000 and Rs. 27,000 shown against Assam, relate to arrear claims, arising out of final adjustment of accounts for 1961-62. The sanction letter for this was issued by the Ministry of Finance on 10th December, 1962. The terms and conditions applicable to these loans were communicated by this Department vide our letter No. F. 2-17/62-Exp.Coord. dated 19th December, 1962, i.e. within 9 days of the issue of the sanction letter by the Ministry of Finance.

5. In the case of Orissa, also the amount was sanctioned by the Ministry of Finance on 31st December, 1962, as an arrear payment arising out of final adjustment of accounts for 1961-62. The terms and conditions applicable to this loan were communicated by this Department vide our letter No. F. 2-17/62-Exp.Coord. dated 31st January, 1963. The period of delay in this case was indeed small and was due to the usual time taken in obtaining the approval of the Ministry of Finance.

6. In the case of Madhya Pradesh however, there were special circumstances which caused a delay of about three years in communicating the terms and conditions applicable to the loans sanctioned to the erstwhile Government of Vindhya Pradesh. The sanction letters were issued on 31st March, 1955, i.e., on the last day of the financial year 1954-55. According to the procedure prevalent at that time, the Vindhya Pradesh Government was asked in those sanction letters to intimate the period of repayment of those loans to enable this Department to intimate the rates of interest. Subsequently however, due to the reorganisation of States, Vindhya Pradesh formed part of the Madhya Pradesh State. Thereafter, the question of settlement of terms and conditions applicable to loans sanctioned to Part 'C' States with Legislature, was considered in the Ministry of Finance, after taking into account the recommendations of the Finance Commission 1957. The general orders in this respect were issued by the Ministry of Finance (Department of Economic Affairs) in their letter No. F.15(11)-B/57, dated 24th February, 1958. The Accountant-General, Madhya Pradesh was also requested in this Department letter No. 9-10/60-U.T. dated the 22nd April, 1960 to settle the matter with the Government of Madhya Pradesh. The Accountant-General Madhya Pradesh in his letter No. BK/11/Review/2587, dated 12th October, 1964, has informed this Department that the repayment of these loans has been commenced with effect from 1963-64.

7. With regard to point (ii) mentioned in para 1 above, it may be pointed out that ordinarily the terms and conditions applicable to the loans sanctioned to the States are incorporated in the sanction letter conveying the sanction to the payment of such loans. But after the introduction of the revised procedure for the release of central financial assistance to the States, for their state Plan Schemes, from 1958-59, it has been experienced that the statements of expenditure (on the basis of which sanction letters are issued) are received very late, sometime in the second week of March. Since sanction letters are required to be issued well before the expiry of the financial year, first attention is given to the issue of the sanction letters, and the action to communicate the terms and conditions is taken up immediately thereafter. During the current financial year, however, we have already obtained the approval of the Ministry of Finance to the terms and conditions to be applied to the loans to be sanctioned to the State Governments during March, 1965, and these will be incorporated in the sanction letters conveying sanction to the payment of such loans.

8. The Department of Agriculture is not concerned with any of the Projects mentioned in Appendix III of the Audit Report (Civil), 1964, and as such have no comments to offer. •

APPENDIX XII*

(Vide para 17 of Report)

GOVERNMENT OF INDIA

MINISTRY OF WORKS & HOUSING

'Brief' on para 20 of Audit Report (Civil), 1964 relating to non-settlement of terms and conditions of loans sanctioned to State Governments during 1962-63.

It has been reported that the terms and conditions of repayment in respect of some of the Central loans advanced to State Governments have not yet been settled and that no amounts have been received from State Governments in respect of these loans either towards principal or interest. This Ministry advance loans to State Governments under the various Centrally-aided housing Schemes.

2. In this connection it may be stated that, according to para 155 (1) of the General Financial Rules (1963 edition) all sanctions to loans should specify the terms and conditions relating to them, including the terms and conditions of their repayment. This practice was being followed by this Ministry at the time of sanctioning loans to State Governments etc. under different housing schemes. The general terms and conditions regarding the periods of repayment and the rates of interest applicable to loans remained unaltered upto 19th December, 1962. Thereafter, the Ministry of Finance (Department of Economic Affairs), in their O.M. No. F.7(8)-W&M '62, dated the 20th December, 1962, issued general instructions curtailing the maximum period of repayment of loans to 15 years. These instructions also stipulated that proposals for the grant of loans for periods longer than 15 years might, where justified, be referred to them for consideration on an *ad hoc* basis. The period of repayment of loans then prevalent under our Housing Schemes was not less than 30 years. It was felt that the curtailment of period of repayment of loans under these schemes would adversely affect these schemes. We, therefore, requested the Ministry of Finance in January 1963, to agree, as a special case, to the continuance of the then existing arrangements in respect of housing schemes of our Ministry. It was in October 1963, that the Ministry of Finance gave their decision in the matter. The terms and conditions of loans sanctioned during 1962-63

*Not Vetted by Audit.

(after 19-12-62) could not, therefore, be settled pending a decision by the Ministry of Finance. After the receipt of the decision, the terms and conditions of all loans were settled.

3. With reference to para 20 of the Audit Report referred to above, the A.G.C.R. had brought to our notice the cases where there had been delay in the settlement of final terms and conditions for repayment of loans during 1962-63. The position stated in para 2 above was explained to him. A statement (Annexure) showing the number and date of our sanctions under which the terms and conditions were settled was also forwarded to him.

ANNEXURE
MINISTRY OF WORKS & HOUSING

Statement giving details about the settlements of terms and conditions of Central loans advanced to State Governments during 1962-63 under the Centrally aided and Centrally sponsored housing Schemes.

Sl. No.	Name of the State	No. and date of Ministry's sanction letter		Amount of loan sanctioned Ra.	No. and date of letter(s) specifying the terms and conditions of loan				Remarks
		No.	Date		No.	Original Date	Modificatory (if any) No.	Date	
1	Andhra Pradesh	15/10/63—HI	15-3-63	38,16,000	4/12/62—HI	3-1-64	4/12/62—HI	11-5-64	
		29/9/63—HI	[16-3-63	3,75,000	29/11/63—HI	9-1-64	29/11/63—HI	7-5-64	
2	Assam	15/10/63—HI	[15-3-63	6,52,000	15/24/62—HI	30-4-64			
3	Bihar	15/10/63—HI	[15-3-63	53,55,000*	15/4/63—HI	1-1-64	15/4/63—HI	6-5-64	* Actual amount sanctioned.
		15/15/63—HI	[21-3-63	[31,09,312	15/15/62—HI	17-1-64			
4	Gujarat	15/10/63—HI	[15-3-63	[75,42,000	15/1/63—HI	1-1-64	15/1/63—HI	6-5-64	
		29/9/63—HI	[22-3-63	[9,99,000	29/3/63—HI	2-1-64	29/3/63—HI	6-5-64	
5	Jammu & Kashmir	15/10/63—HI	[15-3-63	[21,22,000	21/5/62—HI	19-12-63	21/5/62—HI	11-5-64	
6	Kerala	Do.	Do.	[30,64,000	15/5/63—HI	13-1-64	15/5/63—HI	6-5-64	
		29/9/63—HI	[16-3-63	[1,75,000	29/1/63—HI	2-1-64	29/1/63—HI	6-5-64	
7	Madras	15/10/63—HI	[15-3-63	[83,86,000	4/13/62—HI	3-1-64	4/13/62—HI	11-5-64	
		29/9/63—HI	[16-3-63	[18,85,000	29/12/63—HI	9-1-64	29/12/63—HI	7-5-64	
8	Maharashtra	Do.	[26-3-63	[39,38,000	29/4/63—HI	2-1-64	29/4/63—HI	2-5-64	

Sl. No.	Name of the State	No. and date of Ministry's sanction letter		Amount of loan sanctioned Rs.	No. and date of letter(s) specifying the terms and condition of loan			Remarks	
		No.	Date		No.	Original			
						Date	Modificatory (if any) No.		Date
		15/10/63—HI	15-3-63	77,00,000	15/7/63—HI	3-1-64	15/7/63—HI	5-5-64	
		15/8/62—HI	16-3-63	7,83,000	15/8/62—HI	28-1-64			
		Do.	Do.	13,92,000	Do.	Do.			
		III-2(14)/62—HI	19-2-63	61,000	29/4/63—HI	2-1-64	29/3/63—HI	2-5-64	
9	Mysore	15/10/63—HI	15-3-63	15,85,000	15/9/63—HI	13-1-64	15-9-63—HI	6-5-64	
		29/9/63—HI	16-3-63	4,50,000	29/7/63—HI	2-1-64	29/7/63—HI	2-5-64	
10	Orissa	15/10/63—HI	15-3-63	11,23,000*	15/2/63—HI	4-1-64	15/2/63—HI	11-5-64	*Actual amount sanctioned.
		29/9/63—HI	16-3-63	2,50,00	29/10/63—HI	6-1-64	29/10/63—HI	15-5-64	
11	Punjab	15/10/63—HI	15-3-63	25,90,000	15/3/63—HI	3-1-64	15/3/63—HI	11-5-64	
		†15/1/62—HI	17-3-62	15,73,000*	15/1/62—HI	21-11-62			*Do. †This relates to 1961-62 but has been shown in the statement of A.G.C.R.
		15/19/62—HI	22-3-63	4,89,682	15/19/62—HI	29-1-64			
		29/9/63—HI	16-3-63	1,76,000	29/14/63—HI	6-1-64	29/14/63—HI	15-5-64	
12	Rajasthan	15/10/63—HI	15-3-63	43,53,000	4/14/62—HI	3-1-64	4/14/62—HI	3-7-64	
		29/9/63—HI	16-3-63	1,33,000	29/13/63—HI	9-1-64	29/13/63—HI	7-5-64	
13	Uttar Pradesh	15/10/63—HI	15-3-63	47,34,000*	15/6/63—HI	4-1-64	15/6/63—HI	11-5-64	*Actual amount sanctioned.
14	West Bengal	Do.	22-3-63	67,83,000	15/22/62—HI	13-1-64	15/22/62—HI	11-5-64	
		29/9/63—HI	16-3-63	24,23,000	29/8/63—HI	3-1-64	29/8/62—HI	5-5-64	

APPENDIX XIII*

(Vide para 17 of Report)

Statement showing further information required by the P.A.C. in respect of the loan of Rs. 35 lakhs sanctioned to the Government of Punjab

Reasons for not settling the terms and conditions of the loan for a long period	Why were the rules framed in this connection found unworkable?	Note stating whether all the projects mentioned in Appendix III are remunerative.
The terms and conditions for repayment of this loan were settled simultaneously together with the sanction accorded <i>vide</i> this Department letter No. 4(131) FI 53 dated the 10th November, 1953	According to the terms and conditions prescribed in the letter referred to in col. 1, the loan was to be repaid in a period of 3 years, but the State Government could not comply with it due to the continuance of the unsatisfactory financial conditions of the co-operative societies in Punjab on account of non-receipt of the balance share of their assets in the form of securities from the West Pakistan Government. The State Govt however repaid a sum of Rs. 2,01,285 during 1960-61, and requested for extension of the period for repaying the balance. After careful consideration, the Government of India <i>revised</i> the terms and conditions for repayment of the balance of the loan, <i>vide</i> this Department letter No. F. 1(19)-BC 61 dated the 23rd September 1964.	No project was to be financed out of this loan and the object in view was to assist the Cooperative Central banks whose assets were locked up in West Pakistan. Hence no note is necessary.

*Not Vetted by Audit.

APPENDIX XIV*

(Vide para 17 of Report)

PLANNING COMMISSION

Information on the list of points raised by the Public Accounts Committee while considering para 20 of the Audit Report (Civil) 1964, during their sitting on 30-1-1965.

In the Planning Commission loans are advanced to State Governments by the Public Cooperation Division and the Rural Industries Planning Committee. The loans advanced by the former are for (a) Labour Construction Cooperatives and (b) the Construction Services of Voluntary Organisations and those by the latter are for the programme of intensive development of small industries in selected rural areas. The position in respect of each of the above two types of loans is explained in the following paragraphs.

1. (a) The terms and conditions of the loans advanced to State Governments for Labour Construction Cooperatives and Construction Services of Voluntary Organisations have been settled with the State Governments and there has been no delay in this case.
(b) The Rural Industries Project Programme was started towards the close of 1962-63 during which year only grants were advanced to State Governments for completion of preliminary surveys of the Project areas selected in various States. Loans were advanced to State Governments only during 1963-64 and the terms and conditions of the loans advanced were settled in consultation with the Ministry of Finance and communicated to the State Governments in the Planning Commission letter No. RIPC/2(2)/63-Vol. II dated the 16th November, 1963. As such there was no delay in settling the terms and conditions of loans and repayment thereof.
2. (a) The rules framed in this connection for loans for Labour Construction Cooperatives and Construction Services of Voluntary Organisations have been found workable.
(b) Regarding the loans for intensive development of small industries in rural areas the repayment of loans advanced in the first year of the working of the Programme would

*Not vetted by Audit.

start some time in 1968-69 as per the terms and conditions of the loans. During this short period of the working of the programme, however, the Planning Commission have not received any complaint about the unworkability of the rules.

3. (a) Loans are being given for the purchase of machinery and equipment and for working capital for undertaking construction works by voluntary organisations and construction cooperatives. The activity is being undertaken on a commercial basis and is remunerative. The working margins in the construction trade are considered reasonable to ensure timely repayment of the loans.
- (b) The projects mentioned in Appendix III do not concern the programme relating to intensive development of small industries in rural areas sponsored by the Rural Industries Planning Committee and therefore no information is being furnished.

(M. BUTT),

Joint Secretary.

2-4-1965

APPENDIX XV

(Vide para 21 of Report)

[Para 22, Page 23 of the Audit Report (Civil) 1964]

Details of Loans and Advances granted by the various Ministries to Private Institutions etc., in which the amounts of Principal and Interest remained in arrears on 31-3-1963.

(In Lakhs of Rupees)

Name of the Loanee	Amount outstanding on 31-3-1963	
	Principal	Interest
<i>Ministry of Finance</i>		
Canteen	0·06	0·02
Loans by Rehabilitation Finance Administration Unit	373·00	130·00
Sholapur Spinning and Weaving Mills	37·00	..
	410·06	130·02
<i>Ministry of Education.</i>		
Various Educational Institutions including Engineering Colleges	0·97	0·30
Various Educational Institutions including Engineering Colleges (sanctioned by the erstwhile Ministry of Scientific Research and Cultural Affairs)	0·35	0·35
Co-operative Crafts Schools	3·40	1·14
Sangeet Bharati (sanctioned by the erstwhile Ministry of S.R. & C.A.)	0·10	0·03
TOTAL	4·82	1·82
<i>Ministry of Commerce.</i>		
Co-operative Societies	0·17	0·09
All India Handloom Fabrics Co-operative Marketing Society, Bombay . . . . .	..	3·87
	0·17	3·96

Name of the Loanee	Amount outstanding on 31-3-1963	
	Principal	Interest
<i>Ministry of Industry & Supply.</i>		
Family Welfare Co-operative Industrial Society Ltd.	2.63	0.68
Delhi Garment Co-operative Industrial Society.	1.62	0.24
Handicrafts Emporium, Madras	0.18	0.09
Dogra Steel Industries, Ltd., Faridabad	0.77	..
Faridabad Industrial and Quarrying Company, Faridabad	0.31	0.03
Indian Hardware Industries	1.45	0.46
	<u>6.96</u>	<u>1.50</u>
<i>Department of Social Security.</i>		
Khadi and Village Industries Commission	<u>1952.60</u>	..
<i>Ministry of Works & Housing</i>		
Co-operative Societies	<u>0.13</u>	<u>0.07</u>
<i>Ministry of Defence.</i>		
Cantonment Board	0.14	..
<i>Ministry of Community Development & Co-operation.</i>		
Co-operative Societies	0.02	(a) The actual amount is Rs. 209.92
Various educational institutions including Engineering Colleges	0.30	..
	<u>0.32</u>	..
<i>Ministry of Transport.</i>		
Postal Co-operative Housing Society Ltd., Bombay.	..	0.30
Co-operative Societies	0.51	0.15
Chandabali Steamer Service Company Ltd., Calcutta.	5.51	..
M/s. Bharat Lines Ltd., Bombay	6.96	..
Indian General Navigation and Railway Company Ltd.	12.00	..
	<u>24.98</u>	<u>0.45</u>

Name of the Loanee	Amount outstanding on 31-3-1963	
	Principal	Interest
<i>Ministry of Health</i>		
Loans to Agartala Municipality	1·32	1·69
Loans to Imphal Municipality	0·14	0·41
	<u>1·46</u>	<u>2·10</u>
<i>Ministry of Rehabilitation</i>		
Faridabad Development Board, Faridabad	13·93	..
Loans to Settlers in Andamans	0·13	0·04
Harijan Sewak Sangh Ahmedabad	0·37	0·32
Salwan Educational Trust, New Delhi	0·30	0·03
United Council for Rehabilitation and Welfare Delhi .	0·10	..
Loans to individual for educational purposes	1·45	0·10
TOTAL	<u>16·28</u>	<u>0·49</u>
<i>Ministry of Home Affairs</i>		
Canteen . . . . .	..	(a) The actual amount is Rs. 386.52
<i>Delhi Administration</i>		
Municipal Corporation of Delhi	0·12	0·05
Various Educational Institutions including Engineering Colleges	2·00	..
	<u>2·12</u>	<u>0·05</u>
<i>Government of Pondicherry</i>		
Co-operative Societies	0·15	0·03
<i>Ministry of External Affairs</i>		
Kamran Quarantine Station Fund (sanctioned by the former Department of Commonwealth Relations)	1·97	..

APPENDIX XVI*

(Vide para 26 of Report)

MINISTRY OF REHABILITATION

Statement showing the action taken or proposed to be taken on this list of points on which further information was required by the Public Accounts Committee at their sitting held on the 30th January, 1965.

- (I) A note showing details of repayment of instalments of loan due from Shri.....may please be furnished.
- (II) Are the concerns which he took over making any profits and is he in a position to repay?
- (III) Are there any other cases where any evacuee properties were sold to private individuals on the same basis? The details of such cases may be furnished.

*Finance Accounts, 1962-63 Page 46—Item (v) of statement No. 5
Action taken by Government*

The reply to the points raised is given item-wise below:—

- (i)Mills (Evacuee Property) were sold to Shri.... for Rs. 50,11,000. To this were added Rs. 18 lacs on account of price of stocks, stores, the arrears of lease money etc., as per award given by Shri Morarji R. Desai. The total amount recoverable from Shri..... was Rs. 68,11,000. Out of this, Shri.....paid Rs. 20 lacs in the first instance and the balance of Rs. 48,11,000, plus interest thereon at 4½ per cent per annum, was to be paid in seven yearly instalments. As a safeguard for the recovery of the Government dues, the mills were mortgaged with the Government of India for which a mortgage-deed was executed on 21-4-1960.
- (ii) After completing payment of initial instalment of Rs. 20 lacs upto 20-4-1960, Shri..... experienced some financial difficulties and he approached the Ministry for making some relaxation in realisation of the balance amount due from him. Shri.....being a displaced person, who lost practically everything in Pakistan where he was one of the richest persons, had no assets and for

*Not vetted by Audit.

meeting out the expenditure he was to raise loans. He strove hard and was able to make the Silk and Woollen units a running concern, the other units remained idle. He had to meet recurring expenditure like wages of workers, purchase of raw materials, payment of taxes, insurance premium, provident fund etc. Considering all his difficulties, which were genuine, it was decided by the Central Government that Shri..... would pay the balance in 10 yearly instalments.

According to the revised orders Shri..... was to complete the payment of four instalments, alongwith interest at $4\frac{1}{2}$ per cent. per annum, upto 20th October, 1964, i.e. he was to pay Rs. 28,20,111.19 (Rs. 19,24,400 as principal and Rs. 8,95,711.19 as interest) but he has actually paid Rs. 22,62,825.07 (Rs. 14,43,300.00 as principal and Rs. 8,19,525.07 as interest).

The details are given below:—

	Amount due		Amount paid up-to-date		Balance
	Principal	Interest	Principal	Interest	
	Rs.	Rs.	Rs.	Rs.	
1st instalment—					
due on 20-10-61	4,81,100·00	3,24,742·50	4,81,100·00	3,24,742·50	Nil
2nd on 20-10-62	4,81,100·00	2,08,335·07	4,81,100·00	2,08,335·07	Nil
3rd on 20-10-63	4,81,100·00	1,86,447·49	4,81,100·00	1,86,447·49	Nil
4th on 20-10-64	4,81,100·00	1,76,186·13		1,00,000·01	5,57,286·12
	19,24,400·00	8,95,711·19	14,43,300·00	8,19,525·07	5,57,286·12

Total balance still to be recovered from Shri..... on account of principal is Rs. 34,43,886.12.

Being Displaced Person, Shri....., had no surplus money for meeting the running expenses of the mills. He, therefore, approached the Bombay State Financial Corporation to raise a loan of Rs. 7 lacs for meeting the running expenses. They demanded security before sanctioning the loan asked for. Shri..... had no assets other than the Mills, but these stood already mortgaged with the Government of India so these could not be mortgaged a second time without the consent of the Government of India. Bombay State Financial Corporation, therefore, asked the firm to arrange for security from the Government of India before the loan was granted to him. It was felt that unless Shri..... was able to run the mills, it would be difficult to recover the Government dues of Rs. 4,11,000. Further the Government of India was anxious to see that the mills went into production because of their employment potential, particularly for the Displaced Persons in Kalyan region where the mills were situated. Central Government, therefore, stood as a guarantor for the loan of Rs. 7 lacs to be advanced by the Bombay State Financial Corporation to Shri..... with the concurrence of the Ministry of Finance. However, the actual amount of loan paid was Rs. 5 lacs. There was no risk involved as Shri..... was made to execute a Supplemental Mortgage Deed covering the amount of Rs. 7 lacs guaranteed and the total assets of the mills were sufficient to cover the balance recoverable price of the mills and the amount guaranteed. Out of Rs. 5 lacs Shri..... has paid back Rs. 3,34,900.00. There are no arrears of instalments due against him.

The mills are at present running on profit. The balance sheets could not be made available by Shri..... as he stated that all the records were with the Income-Tax authorities. He, has, however, given the following figures informally:—

1960-61—Rs. 4,75,000.00 (Loss).

1961-62—Rs. 12,50,000.00 (Profit).

1962-63—Rs. 3,00,000.00 (Profit).

1963-64—Amounts not finalised.

He has now submitted an application requesting for further relaxation in the terms of payment which is under consideration. The

proposal of Shri regarding payment of instalments is as under:—

- (i) That he may be allowed to pay the balance amount plus interest in 10 yearly instalments. The first instalment thereof to be treated as due on 1st July, 1965.

OR

- (ii) That he may be allowed to pay the balance amount in monthly instalments of Rs. 25,000 each.

OR

- (iii) That he may be allowed to pay the balance amount in yearly instalments of Rs. 4,00,000 each which will also include interest.

The grounds on which Shriwants the period to be extended are that "due to Emergency declared after the Chinese attack, import licences had been steadily reduced and the licenses for the current year were about 1/3rd of those which were issued to this industry in 1961. This drastic cut had resulted in acute shortage of raw materials and as a consequence of which not more than 40 per cent of the installed capacity was being employed. To strengthen the foreign exchange reserves of the country, the Government of India were laying stress on maximum of exports of woollens. Exports markets required rigid quality control which was difficult to maintain with old machinery. He had obtained licences for the import of the machinery to the value of Rs. 30,000,00 for the modernisation and rehabilitation. All that required further expenditure which he was unable to meet."

(iii) There are no other evacuee concerns which were sold by negotiations to individuals. However, there were seven composite concerns which were sold by negotiations. It was only in the case of one concern that the payment was to be made in instalments and in the other cases the purchasers were required to make payment in lump-sum.

APPENDIX XVII

Summary of main Conclusions|Recommendations

Serial No.	Para No.	Ministry/Deptt. concerned	Conclusions/Recommendations
1	2	3	4
1	1	Finance	<p>The Committee have already discussed at some length the reasons for variation in the budget estimates and actuals of revenue receipts under Customs, Union Excise Duties and Income Tax and Corporation Tax which mainly account for the increase in actuals. (cf. paras 2 to 6, 10, 11 and 36 of 27th Report and para 2 of 28th Report—Third Lok Sabha). They would only like to re-iterate here the imperative need for framing realistic estimates of receipts from the various taxes and arresting the increasing trend of underestimating revenue. The Committee hope that Government would keep under constant review the two main factors which tend to widen the gap between estimates and actuals viz., deficiency in collection of reliable statistics of economic growth and conservatism in estimating and apply necessary correctives.</p>
2	2	Do.	<p>The Committee are concerned to find that about 48 per cent. of the supplementary provision under Revenue Account and the entire</p>

amount of supplementary provision under the Capital Account obtained after the declaration of the Emergency remained unutilised. While the Committee are glad to note that the percentage of variation between estimates and actuals both under Revenue Account and Capital Account showed a downward trend they take note of the fact that unutilised amounts out of the provision have been quite high during the year 1962-63, being Rs. 78 crores and Rs. 100 crores, respectively.

3

3

Do.

During the course of examination of the individual Administrative Ministries, the Committee gathered the impression that the position in regard to savings might be considerably improved by a closer scrutiny by the Ministry of Finance, of the basis on which the administrative Ministries propose their estimates. The Committee suggest that the Finance Ministry should consider the matter further and indicate what steps they propose to take to improve the position.

4

4

Finance

Home

The Committee appreciate the paramount need of safeguarding the border and strengthening the police force for this purpose, as necessary. The expenditure on Police has increased from Rs. 11.74 crores in 1960-61 to Rs. 18.76 crores in 1961-62, Rs. 23.44 crores in 1962-63 and Rs. 25.07 crores in 1963-64. They note that the expenditure increased in 1963-64 by Rs. 1.63 crores even though the Centre ceased to be responsible from 1st July, 1963 for Police in Union Territories of Manipur, Tripura and Himachal Pradesh. The Committee would like to be informed what tangible results have

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been achieved as a result of the findings of the Committee of Officers set up to examine the question of streamlining the police force with a view to reducing the expenditure and avoiding duplication. The Committee hope that this question would be kept under constant watch and necessary correctives applied from time to time.

5

5

Finance

The Committee can well appreciate the hesitency and reluctance on the part of the Finance Ministry in regard to fixing a limit by Parliament on public borrowing by Government; but the Committee would like to emphasize the healthy principle enunciated in Article 292 of the Constitution. The Committee feel that atleast a practical trial should be given to this principle. This is a very important right of Parliament and is being so exercised in other democratic countries like U.K., U.S.A., Canada and Ceylon. The present procedure under which Parliamentary approval is taken for borrowing programmes as indicated in the Five Year Plans and the annual Budgets and for the expenditure from the Consolidated Fund to which the loans are credited, does not satisfy the constitutional requirements. The Committee are reassured to know the opinion of the Secretary, Department of Economic Affairs that a proper system of fixing a limit on Government borrowing could be evolved but it would have to take into account certain variations. The Committee feel that the law fixing such limits may have some scope for certain built-in flexibilities subject to *ex-post facto* approval of Parliament. Further these limits might be fixed for each Plan period so that they

can be reviewed once in five years. The Committee desire that this matter should be carefully examined.

6

6

Do.

The Committee learn with some satisfaction that from 1962-63, the practice of advancing loans for the repayment of interest charges is being followed only in the case of River Valley Projects during the first period of 5 years. The normal procedure relating to Irrigation Projects allows for the interest charges to be capitalised during the period of construction. The write-back of such capitalised interest is treated as the first charge on capital receipts or on the surplus revenues of the project after it commences working. The Committee appreciate that in view of the special circumstances obtaining in the case of the river valley projects there is a justification for advancing further loans for repayment of earlier loans during the period of first five years. They hope that this will not be extended to those irrigation projects which have completed 5 years. The Committee desire that the Ministry of Finance shall ensure that fresh loans are not given to the States for repayment of the loans advanced for other schemes and unproductive projects. 9

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Do.

The Committee are glad to learn that all the instalments of principal and interest which fell due during and upto 1962-63 were paid on due dates.

8

8

Do.

The Committee would like to emphasise that the foreign loans tied to various industrial projects should be remunerative from the financial point of view. The Committee suggest that the Ministry

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should undertake a periodical review in order to determine how far the projects referred to:—

- (a) are already remunerative;
- (b) are likely to become remunerative after some years;
- (c) are likely to continue unproductive so far as can be foreseen?

9

10

Finance
Commerce

The Committee desire that the matter should be pursued vigorously with the State Governments concerned. They are surprised that even terms and conditions for repayment have not been settled.

10

11

Home
Finance

The Committee hope that such occasions of giving fresh loans for the repayment of earlier loans will be fewer in future. They would also like to be informed of the decision taken in regard to the payment of overdue interest.

11

12

Health
Finance

The Committee desire that the Ministry of Health should pursue the recovery of the outstanding loan and interest vigorously.

12

13

Food &
Agriculture
Finance

The Committee note that there has been delay in recovery of loan from the Government of Madhya Pradesh, which partly related to the land reclamation charges by the Central Tractor Organisation. If the repayment is dependent on the recoveries from the cultivators, the Committee doubt whether the State Government would be able to collect the charges at such a distant date.

13

14

Industry

Finance

The Committee are surprised why the Ministry should wait for the Accountant General to remind them about the default in any payments due from State Government. They suggest that a system should be evolved whereby the Ministries should get periodical statements from the Accounts Officers showing the position of outstanding loans and interest charges.

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15

Industry

From the replies given to them during evidence, the Committee got an impression that the matter was being dealt with in a routine way and not much attention was being bestowed on it.

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Finance

The Committee are unhappy to note that in some of the cases, State Governments continue to be in arrears in respect of payment of interest and principal relating to loans for the periods as early as 1954-55, 1955-56 and 1956-57. While there may be genuine difficulties in a few individual cases, they ought to be ironed out expeditiously. The Committee are unable to appreciate such indifferent attitude in respect of the Government plans. The Committee are also unhappy to note that because of non-finalisation of terms and conditions of repayment of loans, there have been delays in the repayment by the State Governments. This aspect has been dealt with in the next para. The Committee would like the Ministries concerned to pursue the cases with the State Governments vigorously. The Committee are of the view that the Ministry of Finance should also keep the position of timely repayment of loans and interest by State Governments under constant review. They should endeavour to see that the good example set up by the Central Gov-

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ernment in ensuring timely payment of foreign loans and interest is emulated by the State Governments.

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Finance

The Committee are concerned over non-settlement of terms and conditions of the loans before their issue. They regret to point out that although the loans were granted to the States 6 to 10 years ago, the terms and conditions of some of them have not yet been settled and no repayment has been made either towards principal or interest. If the rules were unworkable the matter should have been reviewed earlier. They desire that the Ministry of Finance should ensure that the administrative Ministries should settle the terms and conditions of loans before advancing them, except where loans are made to meet certain emergencies, in which case the settlement of terms and conditions may be finalised within a period of three months at the most.

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The Committee would like to be informed of the latest position in regard to the enquiry by the Reserve Bank into the affairs of the Banks in Goa and whether the terms of repayment had since been settled.

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Steel & Mines

Finance

The Committee had suggested in para 27 of their 25th Report (Third Lok Sabha) that the final settlement of the advances should be expedited. The Committee regret this delay in spite of their earlier recommendation.

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Finance

The Committee are concerned over the delay in settlement of terms and conditions of repayment in respect of the loans advanced to Government owned Corporations, Private Bodies etc. They hope that every effort will be made to settle the terms and conditions in the cases where these have not already been settled. They also desire the Ministry of Finance to ensure that in future the terms and conditions for repayment of such loans are fixed before granting them.

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Industry

The Committee feel that it is not a healthy practice to grant fresh loans in cases where there is default in the repayment of previous loans. The Committee would like to be informed of the progress of recovery of these loans.

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The Committee are concerned to note that although the Managing Committee of the Society was appointed by Government before 1961, and after 1961 five members of the Managing Committee were nominees of Government, the Society has gone into liquidation. The Government nominees should have taken steps to safeguard the interests of Government and informed the Government about its affairs. The Committee desire that a proper enquiry should be held into the matter. The Committee would like to know the final outcome of the liquidation proceedings and the recovery of Government dues.

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22	24	Industry	<p>The Committee are unhappy at the halting manner in which the recovery of the principal and interest has been processed by the Ministry. They desire that necessary action should be taken in the matter to recover the outstanding amount.</p>	
23	25	Finance	<p>The Committee feel concerned over the slow progress of recoveries of the loans advanced by the Rehabilitation Finance Administration. Out of the total amount of Rs. 730 lakhs. (Rs. 434 lakhs in the Eastern Region and Rs. 296 lakhs in the Western Region) as on 1st January, 1961, the amount outstanding as on 30th November, 1964 was Rs. 460 lakhs (Rs. 382 lakhs in the Eastern Region and Rs. 98 lakhs in the Western Region). The Committee desire that vigorous efforts should be made to expedite the recoveries.</p> <p>The Committee observe that in respect of 2364 accounts in the Eastern and Western Regions loans totalling Rs. 71 lakhs were written off upto 30th November, 1964. The Committee would like to know in how many of these cases the loans had to be written off due to the irregularities committed in the grant of loans at the initial stage viz.,</p> <p>(a) disregard of the advice given by the local authorities/field staff, etc.,</p>	

(b) failure on the part of the officials to obtain proper security, and

(c) bad financial position of the borrowers.

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Rehabilitation

Finance

The Committee regret to observe that the Ministry of Rehabilitation followed an unusual procedure in selling the Mill to the individual by negotiations and also agreeing to receive the payment in instalments. According to the Ministry's note there are no other evacuee concerns which were sold by negotiations to individuals. Further, it was only in the case of one concern that the payment was to be made by instalments and in the other cases the purchasers were required to make payment in lump-sum.

The Committee note with surprise the following further concessions given to this individual without much merit: 2

- (a) The individual was originally allowed to pay the amount in 7 instalments instead of lump-sum as usual.
 - (b) the rate of interest for repayment of the loan is considerably low i.e. 4½% (while the market rate is more than 10%).
 - (c) The individual has been allowed to repay the loan in 10 instalments instead of 7 fixed originally.
 - (d) Government has guaranteed a loan of Rs. 5 lakhs taken by the individual from the Bombay State Financial Corporation.
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The Committee feel that when the extension was given, the rate of interest should have been revised and the prevailing market rate of interest should have been charged. The Committee have a feeling that such a low rate of interest—4½%—is an inducement to delay the repayment of the loan. The Committee recommend that the Government dues should be recovered forthwith. If, however, any extension of time has to be given, at least the rate of interest should be raised to bring it in conformity with the present market rate and in the event of default in repayment of instalments, a penal rate of interest should be prescribed. The Committee desire that while considering the application of the individual, the Ministry should also carefully take into consideration the concessions already enjoyed by the individual and the fact that his mill was making profit.

