39

STANDING COMMITTEE ON FINANCE

(2003)

THIRTEENTH LOK SABHA

MINISTRY OF FINANCE AND COMPANY AFAIRS (DEPARTMENTS OF ECONOMIC AFFAIRS & EXPENDITURE)

DEMANDS FOR GRANTS

(2003-2004)

THIRTY-NINTH REPORT

सत्यमेव जयते

Presented to Lok Sabha on 21 April, 2003
Laid in Rajya Sabha on 21 April, 2003

LOK SABHA SECRETARIAT
NEW DELHI

April, 2003/Chaitra, 1925(Saka)

CONTENTS

COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2003

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Shri Omar Abdullah
3. Shri Raashid Alvi
4. Shri Sudip Bandyopadhyay
5. Shri Surender Singh Barwala
6. Shri Ramesh Chennithala
7. Smt. Renuka Chowdhury
8. Dr. Daggubati Ramanaidu
9. Shri Kamal Nath
10. Shri Trilochan Kanungo
11. Shri Rattan Lal Kataria
12. Dr. C. Krishnan
13. Shri M.V.V.S. Murthi
14. Shri Sudarsana E.M. Natchiappan
15. Capt. Jai Narain Prasad Nishad
16. Shri Rupchand Pal
17. Shri Prabodh Panda
18. Shri Prakash Paranjpe
19. Shri Raj Narain Passi
20. Shri Sharad Pawar
21. Shri Pravin Rashtrapal
22. Shri Ramsinh Rathwa
23. Shri Chada Suresh Reddy
24. Shri S. Jaipal Reddy
25. Shri Jyotiraditya Madhavrao Scindia
26. Shri T.M. Selvaganapathi
27. Shri Lakshman Seth
28. Shri Kirit Somaiya
29. Shri Kharabela Swain
30. Shri P.D. Elangovan **

RAJYA SABHA

31. Dr. Manmohan Singh
32. Dr. T. Subbarami Reddy
33. Shri Murli Deora
34. Shri Prithviraj Chavan
35. Shri S.S. Ahluwalia
36. Shri Swaraj Kaushal *
37. Shri M. Rajasekara Murthy
38. Dr. Biplab Dasgupta
39. Shri P. Prabhakar Reddy
40. Shri Amar Singh
41. Shri Prem Chand Gupta

42. Shri Palden Tsering Gyamtso

43. Shri Raj Kumar Dhoot
44. Shri Praful Patel
45. Shri Dinesh Trivedi

SECRETARIAT

1.	Shri P.D.T. Achary	-	Additional Secretary
2.	Dr. (Smt.) P.K. Sandhu	-	Joint Secretary
3.	Shri R.K. Jain	-	Deputy Secretary
4.	Shri S.B. Arora	-	Under Secretary

---

*Nominated vice Sh. Mukhtar Abbas Naqvi w.e.f. 26.3.2003
** Nominated w.e.f. 7.04.2003

INTRODUCTION

I, the Chairman, Standing Committee on Finance having been authorised by the Committee to submit the Report on their behalf, present this thirty Ninth Report on Demands for Grants (2003-2004) of the Ministry of Finance and Company Affairs (Departments of Economic Affairs & Expenditure).

2. The Demands for Grants of the Ministry of Planning were laid on the Table of the House on 10 March, 2003 Under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha, the Standing Committee on Finance are required to consider the Demands for Grants of the Ministries/Departments under its jurisdiction and make Reports on the same to both the Houses of Parliament.

3. The Committee took oral evidence of the representatives of the Ministry of Finance and Company Affairs (Departments of Economic Affairs & Expenditure) at their sitting held on 24 March, 2003 in connection with examination of the Demands for Grants (2003-2004) of the Ministry of Finance and Company Affairs (Departments of Economic Affairs & Expenditure).

4. The Committee considered and adopted the Report at their sitting held on 9 April, 2003.

5. The Committee wish to express their thanks to the Officers of the Ministry of Finance and Company Affairs (Departments of Economic Affairs & Expenditure) for the co-operation extended by them in furnishing written replies and for placing their considered views and perceptions before the Committee.

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

NEW DELHI;
9 April, 2003
19 Chaitra, 1925(Saka)

N. JANARDHANA REDDY
Chairman,
Standing Committee on Finance

REPORT

INTRODUCTORY

The Ministry of Finance and Company Affairs is responsible for the administration of the finances of the Central Government. It is concerned with all economic and financial matters affecting the country as a whole, including mobilisation of resources for development. It regulates the expenditure of the Central Government, including the transfer of resources of States. The Ministry comprises four Departments namely:-

i. Department of Economic Affairs;
ii. Department of Expenditure;
iii. Department of Revenue; and
iv. Department of Company Affairs.

2. The Department of Economic Affairs is the nodal Department for following divisions:-

i. Economic Division
ii. Banking Division
iii. Insurance Division
iv. Budget Division
v. Capital Market , External Commercial Borrowings and Pension Reforms Division
vi. External Finance Division
vii. PSE, Japan & UN Division
viii. Currency and Coinage Division
ix. Aid Accounts and Audit Division
x. Administration Division

3. The overall Demands for Grants pertaining to the Department of Economic Affairs and its various divisions and Department of Expenditure are as follows:-

		Charged	Voted
Demand No. 31 –	Department of Economic Affairs	…	4638.14
Demand NO. 32 -	Currency, coinage and stamps	2.10	1416.55
Demand NO. 33 -	Payments to Financial Institutions	…	10751.61
Demand No. 34 -	Appropriation – Interest Payments	127755.08	…
Demand NO. 35 -	Transfers to State and Union Territory Governments	40152.03	26184.64

Demand NO. 36	-	Loans to Government Servants etc.	….	675.00
Demand NO. 37	-	Appropriation – Repayment of Debt	367078.53	….
Demand NO. 38	-	Department of Expenditure	….	24.01
Demand NO. 39	-	Pensions	12.74	4487.26
Demand No. 40	-	Indian Audit and Accounts Department	29.91	979.78

4. The detailed Demands for Grants of the Departments of Economic Affairs and Expenditure were laid in Parliament on 10th March,2003.

5. In the present Report, the Committee have examined following issues:-

(i) Accretion of non performing assets in Banks

(ii) Profitability of overseas branches of public sector banks

(iii) Exchange loss on India Millennium Deposits (IMDs)

(iv) Insurance Regulatory Authority – Other charges

(v) Excess SLR Investments

(vi) Shortfall in bank credit to agriculture

(vii) Utilisation of RIDF funds

(viii) Co-operative Banks

(ix) Professional Services

(x) Shortfall in supply of coins

(xi) Non compliance of Rural/Social sector 0bligations by private insurers

(xii) Inflow of Foreign Direct Investment

(xiii) Containment of non-plan and non-developmental expenditure

(xiv) Indian Audit and Accounts Department – Audit

(xv) Indian Audit and Accounts Department – Capital Outlay on Housing.

Demand NO. 31
Department of Economic Affairs

Accretion of Non Performing Assets in Banks

6. The quality and performance of advances have direct bearing on the profitability and viability of banks. Despite the credit appraisal and disbursement mechanism, the problem often tends to manifest itself in an accretion to the stock of non-performing assets (NPAs).

7. In response to a question on reasons for increase in gross NPAs of Public Sector Banks during the year 2001-02 the Ministry submitted following reply:-

> "The gross NPAs of Public Sector Banks (PSBs) as at end March of 2002 stood at Rs.56,507 crore and witnessed an increase of 3.4 per cent over the year 2001 at Rs.54,672 crore. The share of PSBs in total NPAs of scheduled commercial banks declined from 85.8 per cent as at end of March 2001 to 79.7 per cent as at end of March 2002. The ratio of gross NPAs to gross advances of PSBs witnessed a decline from 12.4 per cent as at end of March 2001 to 11.1 per cent as at end of March 2002. During the same period the net NPAs of PSBs declined from Rs.27,977 crore as end of March 2001 to Rs.27,958 crore as at end of March 2002. The decline in the net NPAs of PSBs was on account of improvement in assets in the Standard category from 86.6 per cent at end of March 2001 to 88.9 per cent at end of March 2002. Recoveries of NPAs through various mechanism and appropriate provisioning has reduced the accretion of net NPAs of PSBs."

8. Responding to another question on reasons for high accretion of NPAs in private sector banks during the last three years, the Ministry submitted their reply which is furnished below:-

> "Gross NPAs of the New Private Sector Banks have increased from Rs.946 crores as on 31st March, 2000 to Rs.6822 crores as at the end of 31st March, 2002. Gross NPAs as percentage to Gross Advances have also gone up from 4.1 per cent to 8.9 per cent during the same period. It may be mentioned that the Gross NPAs of New Private Banks during the year 2002 have shown a sharp increase mainly due to inclusion of an amount of Rs.4512 crores on account of merger of ICICI Ltd. with ICICI Bank Ltd. Increase in NPAs is also partly attributable to capital market exposure of a few banks.

The position of Gross NPA of the private sector banks for the last three years is as under:-

(Rupees in crore)

Year	New Private Banks		Old Private Banks	
	Amount	Percent @	Amount	Percent @
2000	946	4.1	3815	10.8
2001	1617	5.1	4346	10.9
2002	6822	8.9	4850	11.0

(@ Denotes percentage to Gross Advances)

The following have been identified as contributing factors for the increase of NPAs:-

Internal factors

- Diversion of funds
- Time/cost overrun during the project implementation stage
- Business (product, marketing etc.) failure.
- Inefficient management
- Strained labour relations
- Inappropriate technology/technical problems
- Product obsolescence etc.

External factors

- Recession
- Non-payment in other countries
- Inputs/power shortage
- Price escalation
- Accidents and natural calamities etc.
- Changes in government policies in excise/import duties, pollution control orders etc.

The net NPAs of the banks are arrived at after deducting the provision made towards the NPAs, DICGC/ECGC claims and balance held in Interest Suspense Account from the gross NPAs. The private sector banks have managed to bring down the NPAs through higher provisions against NPAs in the year 2000-2001 despite increase in the Gross NPAs."

9. Regarding the impact of Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act 2002, the Ministry furnished following information:-

BANK WISE DETAILS OF NOTICES ISSUED AND AMOUNT RECOVERED BY PUBLIC SECTOR BANKS AS ON 31.12.2002

(Rs. in lakhs)

Sr.	Name of the Bank	Notices issued	Amount outstanding	Amount Recovered
1.	Allahabad Bank	680	10024.00	406.00
2.	Andhra Bank	122	5251.95	226
3.	Bank of India	726	18875.23	414.48
4.	Bank of Baroda	105	36784.00	184.00
5.	Bank of Maharashtra	36	1135.16	15.43
6.	Canara Bank	628	20010.00	265.00
7.	Corporation Bank	23	2883.19	0.00
8.	Central Bank of India	1902	90541.00	1092.00
9.	Dena Bank	190	31583.00	198.75
10.	Indian Bank	664	26686.80	559.00
11.	Indian Overseas Bank	1445	31512.03	1321.08
12.	Oriental Bank of Commerce	1097	17306.00	225.00
13.	Punjab National Bank	1467	19050.95	605.70
14.	Punjab and Sind Bank	259	10132.00	197.00
15.	Syndicate Bank	999	12247.00	432.00
16.	United Bank of India	131	1385.00	125.00
17.	Union Bank of India	658	27967.00	423.00
18.	UCO Bank	1034	7464.56	200.54
19.	Vijaya Bank	1903	20698.00	520.00
20.	State Bank of India	284	157532.00	166.00
21.	State Bank of Bikaner & Jaipur	--	--	--
22.	State Bank of Hyderabad	220	3742.00	261.00
23.	State Bank of Indore	--	--	--
24.	State Bank of Mysore	213	5758.00	21.30
25.	State Bank of Patiala	447	8076.00	80.58
26.	State Bank of Saurashtra	67	3576.85	42.85
27.	State Bank of Travancore	16	525.46	3.81
	TOTAL	15316	570747.18	7985.80

10. Despite the enforcement of the new Act it has been noticed that discordant attitude of public and private banks delayed the recovery process of NPAs. When asked on this issue, as reported in a Financial Daily, the Ministry clarified the situation as under:-

> "The report in question has perhaps been written in the context of foreign banks refusing to join the CDR mechanism. Since the CDR mechanism is voluntary, efforts are on to persuade the foreign banks to fall in line or exit from the consortium by selling their portion of the loan to another willing bank."

11. When further asked to confirm as whether the RBI has left out private banks from the purview of compromise settlements, the Ministry stated as under:-

> "All banks are free to formulate their own compromise and settlement policy. For public sector banks, it was felt prudent to formulate a non-discretionary and non-discriminatory settlement scheme, so that settlements made by these banks are not called into question. RBI has circulated this scheme not as regulator, but on behalf of the Government. Hence, it is confined to public sector banks only."

12. The Ministry, in their written reply, on the percentage of NPAs in Regional Rural Banks and Local Area Banks due to willful default, during last three years, furnished following reply:

"Reserve Bank of India/National Bank for Agriculture & Rural Development (NABARD) do not compile and generate data as the percentage of NPAs of RRBs due to willful default separately. However, percentage of NPAs to loans and advances in RRBs during last three years is as under:

Year	Percentage of gross NPAs	% of net NPAs
1999-2000	23.1	14.3
2000-2001	18.8	12.0
2001-2002	16.5	12.9

As regards NPAs of LABs, RBI has reported that 3 out of 4 LABs had reported no NPA as on 31st March, 2002. 1 LAB has reported NPA to be 0.44% of total loans and advances as on 31st March, 2002."

13. On the issue of NPAs in Cooperative banks, the Ministry provided following information"-

"The following table gives comparative position of NPAs in urban cooperative banks and rural cooperative banks (short-term and long term structure separately) for last two years:-

	2000-01					2001-02				
% of Gross NPAs to Gross advance	SCB	DCCB	SCARDB	PCARDB	UCB	SCB	DCCB	SCARDB	PCARDB	UCB
	13.02	17.86	18.84	20.15	16.1	13.61	19.01	20.40	24.00	21.9

SCB:-State Cooperative Bank
DCCB:-District Central Cooperative Bank
SCARDB:-State Cooperative & Agricultural Rural Development Bank
PCARDB:-Primary Cooperative & Agricultural Rural Development Bank
UCB:- Urban Cooperative Bank

14. With regard to setting up of pilot Asset Reconstruction Company (ARC) as proposed in 2002-03 Budget to cleanse the stock of NPAs, the Ministry provided following information:-

"ICICI has got a pilot ARC incorporated under the Companies Act, 1956 as a limited company, namely, `Asset Reconstruction Company (India) Limited' (ARCIL) and got the said company registered with the Registrar of Companies, Maharashtra State on 11th day of February 2002.
The shareholding pattern of ARCIL as reported by ICICI Bank is given below:-

Name of Bank/FI	Shareholding (%)
ICICI Bank	24.5
IDBI	24.5
SBI	24.5
IDBI Bank	5.3
HDFC	5.3
HDFC Bank	5.3
The South Indian Bank	5.3
Federal Bank	5.3

The Company is seeking registration from Reserve Bank of India for commencing Asset Reconstruction business."

15. When asked about the details of legal reforms that are required to be made to facilitate the functioning of ARC, the Ministry replied as under:-

> "The recently enacted 'The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002' provides legal framework for functioning of the Asset Companies. The Act also confers on RBI powers to regulate the functioning of ARCs. RBI has recently constituted a Working Group to recommend (a) prudential norms for functioning of ARCs and (b) other relevant guidelines that may be issued to facilitate working of ARCs including acquisition of assets by them from banks and FIs. It is expected that RBI would shortly issue the necessary regulatory guidelines for ARCs."

16. The Committee are constrained to note the accumulation of high NPAs which is increasing year after year. They observe with great concern the more pronounced position of NPAs in the private sector banks. Though they are satisfied to note the litany of measures (legislative and others) taken by the Government and RBI to reduce the quantum of NPAs, the pace of progress in this regard has been far from satisfactory.

17. They note with utmost concern that even after enactment of the law, The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002, the public sector banks have managed to recover only Rs.79.86 crores from defaulters against the total amount of Rs.5707.47 crores due as on 31st December, 2002. Some banks like State Bank of India, Corporation Bank, Bank of Maharashtra, Bank of India, Bank of Baroda, Allahabad Bank, Dena Bank, Punjab and Sind Bank and Vijaya Bank have registered very little progress in this regard. Further, the Committee find that the compromise guidelines issued by RBI is applicable for Public Sector Banks only. In case of RRBs, the Committee observe that the percentage of Gross NPAs has come down in the last three years. However, there has been 0.9 percent increase in Net NPAs of these banks during the year 2001-2002. The NPAs in Cooperative Banks (both rural and urban) have also gone up during 2001-02 as against previous year.

18. Though the Committee appreciate the measures taken by Government/RBI in order to reduce the stock of NPAs, they find that the process of recovery is lethargic. Hence, they recommend that Banks should hasten the process of recovery of NPAs by strictly implementing the measures initiated by Government/RBI in this regard, so that they (Banks) have their all assets in Standard category. The Committee are of the view that NPA recovery should be made in a time bound manner so that all the banks are in a position to comply with international norms of banking quickly.

19. They note with concern that the pilot Asset Reconstruction Company (India) Ltd. (ARCIL) to take over the NPAs of the Banks has not started functioning as yet. It is seeking registration from RBI for commencing Asset Reconstruction business. Besides the guidelines for proper functioning and prudential norms, for ARCs are still awaited. They feel that the desired impact of Securitisation Act cannot be achieved until the ARCs are put in place. Hence,

they recommend that Government /RBI should endeavour to set up required number of ARCs very quickly. Also, the RBI should expedite the formulation of relevant guidelines for ARCs.

20. Apart from this, utmost care has also to be taken to ensure that assets in doubtful and loss category do not arise again. For this RBI should strictly ensure compliance with its directive on prudential norms by all categories of banks and financial institutions.

Department of Economic Affairs

2. Profitability of overseas branches of public sector banks

21. Nine Indian banks conducted overseas operations as on March 31, 2002 through 94 branches, 14 subsidiaries, 14 representatives offices and five joint ventures spread over 24 countries. Some of these banks have been rendering management services under contracts to bank affiliates and Exchange Houses at overseas centres.

Net profits of overseas bank branches

(Amount in USD million)

	March 31, 2000	March 31, 2001	March 31, 2002
State Bank of India	42.23	57.65	0.95
Bank of India	17.56	37.65	19.35
Bank of Baroda	20.27	32.34	23.40
Indian Bank	0.92	0.53	0.31
Indian overseas Bank	2.36	5.26	2.70
UCO Bank	4.60	1.64	10.00
Syndicate Bank	1.17	2.31	0.77
Canara Bank	1.45	2.95	2.22
Bharat Overseas Bank Ltd.	0.92	0.33	1.61
Total	91.48	140.66	35.91

22. The poor performance of the overseas branches could be attributed mainly to the recession in the global economy. In addition, factors such as introduction of stringent prudential norms by regulatory authorities in Singapore and imposing restrictions in the area of liquidity and funds management of UCO Bank and Indian Bank, levying of penalty on SBI by US regulators etc. affected the business performance and profitability of the overseas branches adversely. While continuing the policy of consolidation and selective expansion, RBI has granted approvals for some of the banks to open more branches abroad.

23. On being asked about the corrective actions taken by RBI to increase profitability of overseas branches of public sector banks, the Ministry replied as under:-

> "RBI conducts regular portfolio inspections, including the assets/liabilities of the overseas branches of India banks. RBI also examines the reports of the local regulators in the host countries relating to the overseas branches of India banks. RBI also allows the overseas branches of Indian banks to retain their profits to strengthen their operations, including their capital adequacy."

24. When asked that which rules were violated by SBI and who was responsible for such violations, the following written reply was received from the Ministry:

> The Regulatory Authorities in USA had conducted inspection of SBI's New York cluster branches as on 31st March, 2001. The regulators had pointed out certain deficiencies in the systems & procedures and tools for monitoring mechanism, "know your Customer and Enhanced Due Diligence" procedures, especially in the areas of remittances, funds transfer and inter-office accounts. The regulators issued a cease and desist order as per US Banking Rules for bringing further improvements in SBI's US operations to meet the industry-wise criteria and standards of US Banking. SBI has consented to the cease and desist order without admitting any citations of the order. The US regulators have also asked SBI to appoint an independent firm to review its US operations and also to appoint a new internal audit firm to conduct an internal audit of its US offices. SBI has also reported that it shall have to conform to certain enhanced due diligence procedures as per the order. SBI has assured the regulators in USA that the desired improvements in systems and technology and procedures at its New York branch will be carried out as per the stipulation given by the regulators. The US authorities had imposed a Civil Monetary Penalty of US$ 7.5 million on SBI in this connection."

25. With regard to a query on any study undertaken to assess the working of the overseas Branches and action taken thereon, the Ministry furnished following reply:-

> "An annual exercise is done by RBI to take a review of the operations of overseas branches of Indian Banks. Such review was taken for operations of overseas branches during 2001-02. The review revealed that performance of the overseas branches declined especially in respect of asset quality and earnings, which could be attributed to the global economic recession, introduction of 90 days overdue norm for NPAs in Singapore and further due to certain other one-time measures such as imposition of penalty of three different banks viz. Bank of India (East Ham, London), Bank of Baroda (Vacoas Mauritius and Durban) and Indian Overseas Bank (FCBU, Colombo) was considered doubtful. However, in the case of Durban, South Africa, the bank (BOB). East Ham branch of Bank of India recorded a net profit of USD 0.76 million during the year and was beginning to improve its position."

26. In response to another query as to how the RBI proposes to ensure viability of the Branches that are to be opened as approved by RBI, the Ministry submitted following reply:

"In the meeting of the Inter-Departmental Committee (IDC) held on 8th October, 2002 following proposals of the banks were approved:

Bank	Country	Location	Type of office allowed to open
1. ICICI Bank Ltd.	China, UAE UK Canada Singapore UAE	Shanghai Dubai London Toronto Singapore Dubai International Finance Centre	Representative Office Representative Office Subsidiary Subsidiary Off-shore Branch Off-shore Branch
2. UTI Bank Ltd	UAE	Dubai	Representative Office
3. IndusInd Bank	UK UAE	London Dubai	Representative Office Representative Office
4. Punjab National Bank	China UAE UK	Shanghai Dubai London	Representative Office Representative Office Representative Office
5. Bank of Baroda	China Tanzania	Guangzhou Tanzania	Representative Office Wholly-owned Subsidiary

Before submitting their proposals for consideration, banks carry out viability/feasibility study of the location/country where they intend to open their branches. The study invariably consists of geographical position of the country, population characteristics, economic conditions such as positions of industry, business and employment and banking activity in the region. Banks also ensure that proposed branches are profit making and viable. After detailed examination at RBI with reference to all information available in this respect, the proposals, which would merit consideration, are forwarded by RBI for approval of the Inter-Departmental Committee established for this purpose at Government of India. Officials of the Ministry of Finance, Ministry of External Affairs, Department of Commerce, Intelligence Bureau, in addition to the Deputy Governor, RBI participate in the IDC. IDC meets generally once in a year and last such meeting took place on 8th October 2002. The proposals, which are approved by IDC, are forwarded to RBI for issue of necessary letters of clearance, no objection, etc. as required under the regulations of host country banking supervisors."

27. The Committee note with serious concern the drastic fall in net profits of overseas branches of Public Sector Banks (except UCO Bank and Bharat Overseas Bank Ltd) during the year 2001-02. The decline is most pronounced in the case of SBI, Bank of India, Indian Overseas Bank and Syndicate Bank.

28. The Committee note that RBI conducts regular portfolio inspections, including the assets/ liabilities of the overseas branches of Indian Banks, in addition to examination of reports of the local regulators in host countries. They, however, find that US authorities had imposed a Civil Monetary Penalty of US $ 7.5 million on account of certain deficiencies in the systems and procedures and tools for monitoring mechanism, "know your Customer and Enhanced Due Diligence" procedures, especially in the areas of remittances, fund transfer and inter-office accounts. They, therefore, recommend that RBI should ensure strict compliance with the rules and regulations of the host countries where the overseas branches operate. They are of the view that, had this been done earlier, the penalty, to the extent of of US $ 7.5 million, imposed on SBI, could have been averted.

29. The Committee further notice the doubtful viability of three branches of three different banks viz. Bank of India (East Ham, London), Bank of Baroda (Vacoas Mauritius) and Indian Overseas Bank (FCBU, Colombo). In this regard the Committee opine that such branches should be given a specific time period for improving profitability. In case of further erosion of profitability continuing even after the end of such period, the RBI may initiate steps to close them without any delay.

Demand No.33

Department of Economic Affairs
Payments to Financial Institutions
Major Head : 3475
Minor Head : 800
Detailed Head : 55.00.44

3. Exchange Loss on India Millennium Deposits (IMDs)

30. The IMDs were mobilized with a view to enhancing the flow of resources at a reasonable cost for accelerated economic growth including development of infrastructure.

31. The budgetary provisions for this head during the years 2001-02 to 2003-04 are as under:-

Year	Budget Estimates	Revised Estimates	Actuals
2001-2002		370,08,00,000	370,20,82,000
2002-2003	446,44,00,000	100,60,00,000	
2003-2004	423,90,00,000		

32. On being asked about the details of utilisation of IMD proceeds the Ministry provided following information:-

"The amount mobilized under IMDs has been deployed as under:-

(a)	Total amount collected	Rs.25716 crore
(b)	Amount invested in Government securities	Rs.10286 crore (40.00%)
(c)	Amount lent to collecting banks	Rs.12023 crore (46.75%)
(d)	Amount used for financing projects	Rs.3407 crore (13.25%)"

33. In response to a query on exchange loss to be borne by institutions/agencies of the Government, the Ministry further supplied following information:-

> "The Government of India have committed to bear foreign exchange variation risk on the total pool of foreign currency resources raised through IMDs beyond 1% (cumulative). The exchange risk upto 1% (cumulative) is to be borne by State Bank of India."

34. While furnishing the reasons for sharp fall in revised allocations during 2002-03 and subsequent increase in budgetary allocations in 2003-04, the Ministry in their written reply submitted as under:-

> "The budget and revised estimates are normally based on the movement of Holding Rate of INR vis-à-vis US Dollar during

the immediately preceding year. The trend in depreciation of INR/USD is given below:-

28.12.1998	Rs.42.54 (base)
28.12.1999	Rs.43.51 Depreciation 2.28% p.a.
28.12.2000	Rs.46.49 Depreciation 7.31% p.a.
28.12.2001	Rs.47.83 Depreciation 2.44% p.a.
28.12.2002	Rs.48.03 Depreciation 0.42% p.a.

The BE 2002-03 for Rs.446.44 crore was made factoring in depreciation @ 2.44% during the previous year, whereas RE 2002-03 for Rs.100,59,36,300 has been made taking the actual depreciation @ 0.42% during December, 2001 and December, 2002. This explains for the fall in RE 2002-03.
As for the BE 2003-04, an amount of Rs.423,90,09,410 has been provided taking into consideration depreciation @ 1.43% instead of 0.42% p.a. on the premise that 0.42% depreciation during the year ended in December, 2002 is exceptional when juxtaposed with the rates of depreciation during the last three preceding years."

35. In response to a query on the data on rate of interest charged on these funds, the Government replied as under:-

Interest paid upto December, 2002 in respect of Non-cumulative portion	Rs.2012.17 crore
Interest accrued till February, 2003 in respect of Cumulative portion	Rs.2802.53 crore

36. On being asked about the total cost of raising these bonds, the Ministry submitted following, in their written reply:-

"The total cost of mobilizing India Millennium Deposits raised by SBI was Rs.464.29 crore. The expenses under various heads are as under:

(i)	Arranger Fee & Collecting Bank's Commission	:	Rs.440.22 crore
(ii)	Lead Arranger's fee	:	Rs. 13.44 crore
(iii)	Advertisement & Public Relations	:	Rs. 7.27 crore
(iv)	Printing & Stationery	:	Rs. 0.43 crore
(v)	Postage & Courier	:	Rs. 1.42 crore
(vi)	Road shows & Travels, etc.	:	Rs. 1.20 crore
(vii)	Legal Fees	:	Rs. 0.31 crore
	Total	**:**	**Rs.464.29 crore**

37. The Committee observe that an amount of Rs. 25716 crore has been mobilised under India Millennium Deposits (IMDs) for accelerating economic growth including development of infrastructure. While 40 percent of this amount i.e Rs. 10286 crore has been invested in Government Securities, 46.75 percent i.e Rs 12023 crore has been lent to collecting banks and 13.25 percent (Rs. 3407 crore) has been used for financing projects. The Committee further note that the total cost of raising these funds was Rs.464.29 crore in addition to interest liability.

38. The Committee are of the view that such high cost loans should be judiciously used and deployed in areas for which they were collected. The Committee further recommend that the Government should weigh the total costs of serving such funds against the benefits that are expected to accrue from these funds, before raising such loans. For this, the Government should invariably estimate the total cost of such loans including the interest payable.

Demand No. 31
Department of Economic Affairs
Major Head: 2070
Minor Head : 00.800
Detailed Head : 24.00.50

4. Insurance Regulatory Authority – Other Charges

39. According to Section 15 of Insurance Regulatory and Development Authority Act, 1999 the Central Government may, after due appropriation made by Parliament by law, make to the Authority grants of such sums of money as the Government may think fit. Accordingly, a minor head of account was created for the purpose of giving grant to the IRDA.

40. The budgetary provisions, revised estimates and actual expenditure under this head since the year 2000-2001 are as follows:-

Non-Plan

Year	BE	RE	Actuals
2000-2001	3,00,00,000	2,70,00,000	1,56,09,000
2001-2002	2,84,00,000	2,84,00,000	Nil
2002-2003	2,84,00,000	1,00,000	
2003-2004	1,00,000		

41. When the Government was asked to explain around 80% increase in budgetary provisions during 2001-02 vis-à-vis actual expenditure in the year 2000-01 and nil expenditure during 2001-02, they furnished the reasons as below:-

> "The Insurance Regulatory and Development Authority (IRDA) started functioning from April, 2000. During the year 2000-01, the Authority started recruiting personnel by the year-end and therefore, the anticipated expenditure provided in the budget was not required. Therefore, against the BE of Rs. 3,00,00,000 and RE of Rs. 2,70,00,000, the actual expenditure was only Rs. 1,56,09,000.
>
> For the years 2001-02 and 2002-03, budget provision was made for providing grant to IRDA. However, the IRDA did not draw any amount from the Government as grant as the Authority retained the money received from the insurers, agents, intermediaries etc. According to the advice given by the Ministry of Law, the IRDA Fund is to be housed in the Public Account of

India. IRDA would be provided with adequate funds for discharging its functions under the IRDA Act, 1999. This was conveyed to the IRDA for follow up action. However, the IRDA maintained that it should retain the funds collected by them. In support of this they obtained legal opinion and forwarded it to the Government. This is being examined in consultation with the Ministry of Law.

Since the IRDA has retained the funds collected by it during the years 2001-02 and 2002-03 no grant was drawn by the Authority during this period."

42. On being asked about the logic of keeping the funds of IRDA in public account, the Finance Secretary in his oral evidence stated as below:-

> "The Insurance Act says that there will be a Fund called the Insurance Regulatory Development Fund. Whether it is placed in a bank account or whether it is placed in Public Account the drawl is still with IRDA. Instead of depositing in the bank, it will be put in the Public Account. This is the only difference. The fund will remain the same."

43. On the issue of management and utilization of own funds of IRDA and other similar regulators, the Finance Secretary, during the oral evidence stated as under:-

> "It is the clear intention of the Government to ensure that these funds are placed with the Public Account Fund. Similar decision we had already taken in regard to SEBI and they have followed this. Now, we are bringing uniformity amongst the regulators and this happened during the course of the year."

44. The Committee observe that against the budgetary provision of Rs. 3 crore, subsequently reduced to Rs. 2.7 crore at RE stage, the actual amount drawn by IRDA to meet its expenditure was only Rs. 1.5609 crore during the year 2000-01. In the following years i.e. 2001-02 and 2002-03, even after huge amount of budgetary provisions, the authority did not draw any amount actually. They further note that the authority did not require any amount of grant, for they had retained and utilized the money received from insurers, agents, intermediaries etc.

45. The Committee are informed that as per the advice given by the Ministry of Law, the Government had initially maintained that the funds received by the IRDA would be kept in the Public Account of India and IRDA would draw amounts under the IRDA Act, 1999 to discharge its functions. But the Authority, backed by legal opinion, desired to retain the money collected by it and therefore the Government has referred back this issue to the Law Ministry for reconsideration.

46. The Committee are given to understand that a similar decision has already been taken in the case of SEBI. They, therefore, desire that in order to maintain uniformity with respect of all the regulators it is necessary that the funds are deposited in the Public Account. At the same time it is also essential that the regulatory bodies are made accountable and are allowed to function in an unbridled manner. In order to ensure this, financial accounts needs to be audited at frequent intervals.

Department of Economic Affairs

5. Excess SLR investments

47. The Economic Survey 2002-03 states that the holding of Government securities by commercial banks at the end of 2001-02 amounted to 36.5 percent of their net demand and time liabilities (NDTL), which was far in excess of the SLR of 25 percent. During the current financial year (up to January 10, 2003), there was a further pick up in the investments of commercial banks in Government and other approved securities.

48. In this connection, the Committee, in their 27th Report on Demands for Grants (2002-03) of the Ministry of Finance (Deptt. of Economic Affairs and Expenditure) had recommended as below:-

> "The Committee are concerned to note that the public sector banks are not only investing amounts in excess of stipulated percentage in SLR securities but also such excess investments have been witnessing continuous increase since 1999. Further, the extent of excess investments in Gilt edged securities by the commercial banks in public sector is higher than those of their counterparts in the private sector indicating higher degree of risk aversion among the public sector banks.
>
> The Committee are of the view that the propensity of the public sector banks to invest huge amount of excess money in Gilts is due to the fear of incurring NPAs. However, they are of the opinion that risk bearing is inherent to the banking business and with the right kind of policies and attitude of the bankers such risk may be minimized if not eliminated/avoided altogether. Further the Committee believe that there is an enormous untapped entrepreneurial talent in the country wanting bank finance for their ventures. Hence, the Committee recommend that RBI should ensure that the public sector banks which occupy predominant place in financial intermediation should take pro-active approach in lending to commerce and industry shedding their risk aversion and minimizing risk with right kind of policies and attitude."

49. Regarding a query on reasons for piling up of banks' funds in Government and other approved securities, taking the percentage of SLR well above prescribed 25 percent, the Ministry in their written reply, stated as below:-

> "SLR Investments are made by Banks as sound business strategies keeping in view their excess liquidity position and attractive risk free rate of return on Government securities. SLR investment provides banks with steady risk free income in an environment when there are not enough lending opportunities available."

50. In their written reply during Demands for Grants (2002-03), the Ministry had provided following information regarding the data on the amount of SLR required to be maintained and actually maintained by public and private sector commercial banks for the last four years:

> "Scheduled commercial banks are required to maintain SLR at a minimum of 25 per cent of bank's net demand and time liabilities (NDTL). Reserve Bank of India has reported that the SLR requirement is monitored with reference to the net demand and time liabilities of the banks on the reporting Fridays. Details of the SLR actually maintained by banks, group-wise in the last four years are given below:-

SLR REQUIRED TO BE MAINTAINED AND ACTUALLY MAINTAINED

Position as on 27th March, 1998

(Rs. In crores)

Bank Group	As on 27th March, 1998				
Bank Group	NDTL as on 27.2.98	SLR required to be maintained	Percent of NDTL	SLR (investment) actually maintained	Percent of NDTL
		Amount		Amount	
SBI Group	177608	44402	25	62969	35.5
Nationalised Banks	325500	81375	25	119031	36.6
Public sector banks (excluding RRBs)	503108	125777	25	182000	36.2
Private scheduled Commercial banks	61301	15325	25	18802	30.7
Old	43567	10892	25	13723	31.5
New	17734	4434	25	5080	28.6
Foreign Banks	51397	12849	25	14375	28.0
All scheduled commercial banks	615807	153952	25	215177	34.9

Position as on 26th March, 1999

(Rs. In crores)

Bank Group	As on 26th March, 1999				
Bank Group	NDTL as on 26.2.99	SLR required to be maintained	Percent of NDTL	SLR (investment) actually maintained	Percent of NDTL
		Amount		Amount	
SBI Group	222033	55508	25	78262	35.2
Nationalised Banks	384045	96011	25	131079	34.1
Public sector banks (excluding RRBs)	603244	150811	25	209341	34.7
Private scheduled Commercial banks	79569	19892	25	23348	29.3
Old	52835	13209	25	16561	31.3
New	26734	6683	25	6787	25.4
Foreign Banks	61888	15472	25	16899	27.3
All scheduled commercial banks	744701	186175	25	249588	33.5

Position as on 24th March, 2000

(Rs. In crores)

Bank Group	As on 24th March, 2000				
Bank Group	NDTL as on 26.2.2000	SLR required to be maintained	Percent of NDTL	SLR (investment) actually maintained	Percent of NDTL
		Amount		Amount	
SBI Group	260178	65044	25	97603	37.5
Nationalised Banks	449147	112287	25	154039	34.3
Public sector banks (excluding RRBs)	708484	177121	25	251642	35.5
Private scheduled Commercial banks	103909	25977	25	32722	31.5
Old	62246	15561	25	19952	32.1
New	41663	10416	25	12770	30.6
Foreign Banks	65707	16427	25	18571	28.3
All scheduled commercial banks	878101	219525	25	302935	34.5

Position as on 23th March, 2001

(Rs. In crores)

Bank Group	As on 23rd March, 2001				
Bank Group	NDTL as on 22.2.2001	SLR required to be maintained	Percent of NDTL	SLR (investment) actually maintained	Percent of NDTL
		Amount		Amount	
SBI Group	321105	80276	25	128194	39.9
Nationalised Banks	513154	128289	25	173636	33.8
Public sector banks (excluding RRBs)	826445	206611	25	301829	36.5
Private scheduled Commercial banks	130530	32632	25	38498	29.5
Old	70503	17626	25	21010	29.8
New	60027	15007	25	17488	29.1
Foreign Banks	81596	20399	25	22343	27.4
All scheduled commercial banks	1035072	258768	25	362670	35.0

Position as on 22nd February, 2002

(Rs. In crores)

Bank Group	As on 22nd February, 2002				
Bank Group	NDTL as on 25.1.02	SLR required to be maintained	Percent of NDTL	SLR (investment) actually maintained	Percent of NDTL
		Amount		Amount	
SBI Group	368008	92002	25	149095	40.5
Nationalised Banks	579087	144772	25	196335	33.9
Public sector banks (excluding RRBs)	940591	235148	25	345430	36.7
Private scheduled Commercial banks	150704	37676	25	58594	38.9
Old	74842	18711	25	26068	34.8
New	75862	18966	25	32526	42.9
Foreign Banks	80818	20205	25	24505	30.3

All scheduled commercial banks	1169850	292463	25	428529	36.6

NDTL data calculated based on second preceding fortnight for SLR purpose.

51. The Committee are distressed to note the prevailing tendency of public sector banks of investing more and more funds in Government and other related securities which has established that they are more interested in parking their money in risk free investments rather than advancing to corporate and other sectors. The Committee observe that SLR percentage for Scheduled Commercial Banks, as a whole has increased from 34.9% to 35.0 % during the period 1998-2001. It stood at 36.6 % as on 22nd February, 2002. Except Nationalised Banks and Public Sector Banks (Excluding RRBs), all Bank groups registered sharp increase in their percentage of SLR balances from 23rd March, 2001 to 22nd February, 2002. The most sharp increase is noticed in case of private scheduled commercial banks (both old and new) during the period 23rd March, 2001 to 22nd Febraury, 2002. This, the Committee feel, actually defeats the purpose of reduction in statutory liquidity ratio (SLR) upto 25%.

52. Though banks have adequate liquidity, they are not coming forward to finance the industry and other sectors to the extent of their capability. This indeed, does not augur well for industry and commerce. Hence, the Committee desire that there should be a cap on maximum SLR investment to be made by Banks. They hope that stipulation of such a maximum limit would release excess funds lying in statutory reserves for credit. Therefore, the Committee strongly recommend that RBI should initiate appropriate steps in this direction immediately and issue guidelines to this effect accordingly. The Committee would also like to know the bankwise details of actual SLR balances as at present.

6. Shortfall in bank credit to agriculture

53. All domestic scheduled commercial banks are required to lend 40 per cent of the Net Bank Credit (NBC) to priority sector with sub-target of 18 per cent for lending to agriculture. Banks having shortfall in lending to priority sector/agriculture are required to contribute to Rural Infrastructural Development Fund (RIDF) established with NABARD. The following are the data on direct and indirect lending by public and private banks during last five years

(As % of NBC)

Year	Public Sector Banks			Private Sector Banks		
	Direct	Indirect	Total	Direct	Indirect	Total
March, 1998	12.97	2.75	15.72	5.77	3.90	9.67
March, 1999	12.87	3.41	16.28	5.41	4.11	9.50
March, 2000	11.75	4.01	15.76	4.97	4.14	9.11
March, 2001	11.15	4.60	15.75	4.02	5.53	9.55
March, 2002	11.31	4.58	15.81	4.03	8.74	8.53

54. The data on NPAs in agricultural sector vis-à-vis other sectors is as below:

Sr. No.	Name of the Bank	Agriculture		Small Scale		Others		Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	
1	2	3	4	5	6	7	8	9 (3+5+7)	10	11	12	13	14	15 (9+11+13)
	Nationalised Banks	**4,659.29**	**12.67**	**6,913.86**	**18.81**	**4,547.45**	**12.37**	**16,120.60**	**43.85**	**496.44**	**1.35**	**20,145.74**	**54.80**	**36,762.78**
1	Allahabad Bank	221.92	11.09	285.94	14.28	265.94	13.28	773.80	38.65	53.82	2.69	1,174.23	58.66	2,001.85
2	Andhra Bank	87.57	16.71	127.56	24.34	89.29	17.04	304.42	58.08	2.03	0.39	217.69	41.53	524.14
3	Bank of Baroda	646.13	14.39	786.34	17.52	397.17	8.85	1,829.64	40.76	37.86	0.84	2,621.79	58.40	4,489.29
4	Bank of India	435.01	11.69	572.76	15.39	373.74	10.04	1,381.51	37.11	23.90	0.64	2,317.00	62.24	3,722.41
5	Bank of Maharashtra	211.68	23.36	197.94	21.85	142.60	15.74	552.22	60.95	0.36	0.04	353.48	39.01	906.06
6	Canara Bank	426.03	20.17	475.22	22.50	160.01	7.57	1,061.26	50.24	44.70	2.12	1,006.48	47.65	2,112.44
7	Central Bank of India	396.34	11.74	789.37	23.38	523.28	15.50	1,708.99	50.63	25.01	0.74	1,641.69	48.63	3,375.69
8	Corporation Bank	85.94	14.64	65.79	11.21	87.61	14.92	239.34	40.77	—	—	347.71	59.23	587.05
9	Dena Bank	161.44	8.09	356.15	17.84	247.73	12.41	765.32	38.34	8.62	0.43	1,222.09	61.23	1,996.03
10	Indian Bank	202.76	9.32	395.27	18.17	193.95	8.92	791.98	36.41	11.15	0.51	1,372.22	63.08	2,175.35
11	Indian Overseas Bank	175.68	9.66	379.55	20.87	140.81	7.74	696.04	38.27	102.07	5.61	1,020.43	56.11	1,818.54
12	Oriental Bank of Commerce	99.74	10.48	252.77	26.56	86.82	9.12	439.33	46.16	2.36	0.25	510.09	53.59	951.78
13	Punjab & Sind Bank	75.95	6.96	211.60	19.38	89.86	8.23	377.41	34.57	—	—	714.43	65.43	1,091.84
14	Punjab National Bank	443.90	10.72	687.09	16.60	597.32	14.43	1,728.31	41.75	59.43	1.44	2,352.12	56.82	4,139.86
15	Syndicate Bank	195.31	15.03	292.82	22.54	192.96	14.85	681.09	52.43	61.87	4.76	556.17	42.81	1,299.13
16	UCO Bank	202.20	15.17	190.17	14.27	238.20	17.87	630.57	47.32	13.27	1.00	688.81	51.69	1,332.65
17	Union Bank of India	306.12	12.65	555.10	22.93	334.85	13.83	1,196.07	49.41	1.42	0.06	1,222.99	50.53	2,420.48
18	United Bank of India	183.33	15.08	197.32	16.23	270.02	22.21	650.67	53.53	48.19	3.96	516.64	42.50	1,215.50
19	Vijaya Bank	102.24	16.96	95.10	15.78	115.30	19.13	312.63	51.87	0.38	0.06	289.68	48.06	602.69
	State Bank Group	**3,162.26**	**16.02**	**3,670.09**	**18.59**	**2,186.40**	**11.07**	**9,018.75**	**45.68**	**619.41**	**3.14**	**10,105.41**	**51.18**	**19,743.57**
20	State Bank of India	2,520.49	16.28	2,794.22	18.04	1,627.71	10.51	6,942.42	44.83	506.40	3.27	8,037.05	51.90	15,485.87
21	State Bank of Bikaner & Jaipur	96.63	15.70	133.85	21.74	14.91	2.42	245.39	39.86	—	—	370.19	60.14	615.58
22	State Bank of Hyderabad	143.31	15.95	150.54	16.75	146.91	16.35	440.76	49.05	55.66	6.19	402.10	44.75	898.52
23	State Bank of Indore	62.80	19.62	55.88	17.46	58.43	18.25	177.10	55.33	1.78	0.56	141.22	44.12	320.11
24	State Bank of Mysore	91.94	14.72	109.40	17.51	89.62	14.35	290.96	46.58	10.23	1.64	323.42	51.78	624.61
25	State Bank of Patiala	79.42	12.65	143.57	22.86	54.81	8.73	277.80	44.23	30.70	4.89	319.52	50.88	628.02
26	State Bank of Saurashtra	68.39	15.43	154.59	34.88	33.07	7.46	256.05	57.77	8.22	1.85	178.98	40.38	443.25
27	State Bank of Travancore	99.88	13.64	128.04	17.60	160.94	22.12	388.26	53.36	6.42	0.88	332.93	45.76	727.61
.	**Public Sector Banks**	**7,821.57**	**13.84**	**10,583.95**	**18.73**	**6,733.85**	**11.92**	**25,139.34**	**44.49**	**1,115.85**	**1.97**	**30,251.15**	**53.54**	**56,506.34**

Note: Data is based on domestic operations of respective banks.

Source: Based on off-site returns.

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Agriculture		Small Scale		Others		Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	
1	2	3	4	5	6	7	8	9 (3+5+7)	10	11	12	13	14	15 (9+11+13)
	Old Private Sector Banks	**294.12**	**6.06**	**1,025.98**	**21.15**	**588.96**	**12.14**	**1,909.06**	**39.35**	**8.82**	**0.18**	**2,933.01**	**60.46**	**4,850.89**
1	The Bank of Rajasthan Ltd.	19.52	5.86	55.29	16.61	38.54	11.58	113.35	34.06	—	—	219.49	65.94	332.84
2	Bharat Overseas Bank Ltd.	5.72	6.94	16.88	20.48	3.30	4.00	25.90	31.42	—	—	56.54	68.58	82.44
3	The Catholic Syrian Bank Ltd.	5.68	2.98	44.98	23.62	46.29	24.31	96.95	50.90	—	—	93.50	49.10	190.45
4	City Union Bank Ltd.	5.10	3.63	42.26	30.05	10.38	7.38	57.74	41.06	—	—	82.89	58.94	140.63
5	Development Credit Bank Ltd	6.72	3.12	70.11	32.54	24.55	11.40	101.38	47.05	—	—	114.07	52.95	215.45
6	Dhanalakshmi Bank Ltd.	0.82	0.56	14.23	9.76	19.63	13.46	34.68	23.78	—	—	111.18	76.22	145.86
7	The Federal Bank Ltd.	61.52	9.64	85.46	13.39	98.03	15.36	245.01	38.38	8.29	1.30	385.06	60.32	638.36
8	The Ganesh Bank of Kurundwad Ltd.	1.22	7.27	1.63	9.64	1.92	11.40	4.77	28.32	—	—	12.08	71.68	16.85
9	The Jammu & Kashmir Bank Ltd.	13.05	5.50	76.60	32.30	48.08	20.28	137.73	58.08	—	—	99.40	41.92	237.13
10	The Karnataka Bank Ltd.	26.05	6.97	72.23	19.34	24.26	6.49	122.54	32.81	—	—	250.98	67.19	373.52
11	The Karur Vysya Bank Ltd.	4.49	1.99	62.30	27.57	8.87	3.93	75.66	33.48	—	—	150.32	66.52	225.98
12	The Lakshmi Vilas Bank Ltd.	8.88	4.04	49.05	22.32	16.14	7.35	74.07	33.71	—	—	145.67	66.29	219.74
13	Lord Krishna Bank Ltd.	2.13	2.03	9.92	9.47	1.94	1.85	13.99	13.36	—	—	90.71	86.64	104.70
14	The Nainital Bank Ltd.	1.79	14.89	4.57	38.11	1.90	15.83	8.26	68.82	—	—	3.74	31.18	12.00
15	The Nedungadi Bank Ltd.	27.91	6.05	82.91	17.96	64.41	13.95	175.23	37.96	—	—	286.39	62.04	461.62
16	The Ratnakar Bank Ltd.	1.74	4.77	6.13	16.77	4.49	12.28	12.36	33.81	—	—	24.19	66.19	36.55
17	SBI Commercial & International Bank Ltd	—	—	6.57	7.21	—	—	6.57	7.21	—	—	84.65	92.79	91.23
18	The Sangli Bank	15.70	22.25	14.22	20.15	6.89	9.76	36.80	52.16	0.09	0.13	33.67	47.72	70.55
19	The South Indian Bank Ltd.	20.27	6.03	93.58	27.86	37.76	11.24	151.61	45.13	—	—	184.33	54.87	335.94
20	Tamilnad Mercantile Bank Ltd.	15.50	4.77	92.02	28.34	45.76	14.09	153.28	47.20	—	—	171.45	52.80	324.73
21	The United Western Bank Ltd.	20.48	5.26	90.89	23.36	33.07	8.50	144.43	37.12	—	—	244.65	62.88	389.08
22	The Vysya Bank Ltd.	29.83	14.54	34.16	16.64	52.75	25.70	116.74	56.88	0.44	0.22	88.04	42.90	205.23
	New Private Sector Banks	**145.04**	**2.13**	**459.28**	**6.74**	**32.97**	**0.48**	**637.29**	**9.35**	**22.36**	**0.33**	**6,156.76**	**90.32**	6,816.41
23	Bank of Punjab Ltd.	1.41	1.38	12.38	12.17	1.55	1.53	15.34	15.08	—	—	86.38	84.92	101.72
24	Centurion Bank Ltd.	—	—	10.20	4.40	—	—	10.20	4.40	—	—	221.61	95.60	231.81
25	Global Trust Bank	7.22	1.68	185.17	43.03	1.24	0.29	193.63	44.99	—	—	236.71	55.01	430.34
26	HDFC Bank	1.52	0.70	26.17	12.02	—	—	27.69	12.72	—	—	190.05	87.28	217.74
27	ICICI Bank	129.42	2.58	152.30	3.04	9.86	0.20	291.59	5.82	22.36	0.45	4,699.08	93.74	5,013.02
28	IDBI Bank	—	—	12.52	10.21	—	—	12.52	10.21	—	—	110.10	89.79	122.62
29	IndusInd Bank Ltd.	1.13	0.27	44.58	10.69	19.69	4.72	65.40	15.68	—	—	351.60	84.32	417.00
30	UTI Bank Ltd.	4.34	1.54	15.96	5.66	0.62	0.22	20.92	7.41	—	—	261.24	92.59	282.16
	Private Sector Banks	**439.16**	**3.76**	**1,485.26**	**12.73**	**621.93**	**5.33**	**2,546.35**	**21.82**	**31.18**	**0.27**	**9,089.77**	**77.91**	**11,667.30**

Note: Data is based on domestic operations of respective banks.

Source: Based on off-site returns.

55. Responding to a query as to why inspite of various proactive measures taken by RBI such as simplification of procedural norms, formulation of special agricultural credit plan (SACP), introduction of KCC scheme, creation of RIDF, there has been no significant improvement in substantially increasing direct agricultural lending, the Ministry, in their written reply, stated as under:-

> "Among the reasons cited by banks for not being able to achieve the agricultural lending target as percentage to NBC while showing improvement in absolute terms was that bank credit to other sectors was growing at a faster rate. Some of the banks have pointed out that drought situation in many states and crash in prices of various agricultural commodities has adversely affected credit off-take in agriculture during the current year. Low capital formation in agriculture was also in part responsible for lack of credit absorption capacity in many areas. Banks having large number of branches in the North East Region had an added disadvantage as no recovery rates and lack of infrastructure adversely impacted credit delivery. Write-off of non-performing loans and improved recovery also resulted in lowering of the outstanding advances in the case of some banks."

56. When asked about the fixation of a specific time schedule for fulfilling target of agricultural lending and action to be taken against a bank which fails to achieve the target within the fixed time frame, the Ministry informed the Committee as stated under:-

> "In April/May 2001, it was decided to set a time frame of two years within which private/public sector banks should achieve the target of 18 per cent of net bank credit for lending to agriculture as also the target stipulated for lending to priority sector and weaker sections. Accordingly, banks have been advised to step up lending to priority sector (including agriculture) so as to reach the stipulated targets by March 2003. The position will be reviewed after data on banks' advances for March 2003 are available."

57. On the issue of shortfall in bank credit to agriculture the Secretary, Banking and Insurance, inter-alia, stated before the Committee, during oral evidence as below:-

> "It is indeed a fact that 18 per cent which is reserved in the banking sector under the priority sector has not been met by the banks. There has been a marginal increase but that is not enough. I would just like to submit for you not as a defence or excuse on behalf of the banks, actually the ground level credit flow, that is the actual disbursement has increased from about 52,000 crore in 2000-2001 it went up to 64,000 crore. So there is a growth of about 20 per cent. In every district also there is a credit plan prepared. …… The shortfall in achieving the target of 18 per cent as I mentioned one is of course the other sectors are also going faster. There are some inherent problems in lending to this sector which banks keep telling us. These are realities. It is not a defence for not better performance. **The risk that is there in this sector, the NPAs are comparatively high.** Apart from that the risks of natural calamities

etc. institutional problems are also there. We have had several interactions with the CMDs of the banks and we feel that there is an attitudinal problem which inhibits credit flow to this sector and which should be addressed in terms of more training. RRBs and the cooperative sector which have an exposure to this also need institutional strengthening. These are some of the reasons. We are trying to address them."

58. Regarding performance of private sector banks and foreign banks in connection with agricultural lending the representative of the Ministry further stated inter-alia as under:-

> "So far as private banks are concerned, they have exactly the same conditions as the public sector banks and we will sit with RBI……..So far as foreign banks are concerned at the moment, they only have branches. So there are no targets given to them. The main reasons for the lack of adequate flow to this sector essentially as I mentioned was the perceived risks to this sector, higher transactional cost, and there are attitudinal problems."

59. When the Committee pointed out that industrial sector has the largest NPA rather than agriculture the representative of the Ministry stated as under:-

> "We are interacting, the Reserve Bank itself is interacting with IBA. To some extent it is attitudinal problem. You are dealing with sectors where often procedures are inhibiting**. NPAs are high. Very often a small farmer cannot pay back the loan.** These sort of conditions are there."

60. The Committee are concerned to note the persistent shortfall in agricultural lending by scheduled commercial banks despite their repeated recommendations to strictly enforce the prescribed minimum 18 percent target of agricultural lending by banks. The shortfall in case of public sector banks is by 2.19 percent while in case of private sector banks it is by 9.47 percent from the prescribed target of 18 percent. This has occurred despite clear cut instructions from RBI that scheduled commercial banks must fulfil atleast the minimum target of agricultural lending. They are not inclined to accept the plea put forward by the Secretary Banking , stating that one of the reasons that the Banks do not lend to agricultural sector is large NPAs from this sector. They on the contrary note that NPAs in agricultural sector is quite low when compared to those in other sectors for it is stated that the NPAs in agriculture for public sector banks, as on 31 March, 2002 is only 13.84 percent as against 44.49 percent in total priority sector and 53.54 percent in non priority sector. For private banks the NPA percentage in agriculture, as on 31 March, 2002 is 3.76 percent, compared to 21.82 percent in priority sector and 77.96 percent in non priority sector. Thus the Banks are constantly under lending to agriculture despite the low NPAs in this sector. Despite the fact that in April/March 2001, it was decided to meet the target within a period of two years, nothing much has been achieved. They, therefore, desire that every effort should be made to meet the stipulated target as early as possible.

61. The Committee apprehend that the requirement of depositing the shortfall in agricultural lending in Rural Infrastructure Development Fund (RIDF) has provided a cushion to banks for inadequate lending to agriculture. In other words, banks have got an easy, lucrative and risk free channel to keep their money. The Committee feel that Banks, in such way, are being rewarded for failing to meet their obligation towards agriculture. Hence, they are of the opinion that there should be disincentive for banks for failing to reach the targeted level of agricultural lending. They, therefore, recommend that the provision of interest on RIDF funds should be abolished forthwith so that banks are penalized for not lending to agricultural sector to the desired level.

62. The Committee would like to be apprised of the position with regard to direct agricultural lending by banks after the specified period i.e. up to March 2003. They further desire to know the penal action that has been proposed to be taken against those banks which fail to reach the stipulated target of agricultural lending after the expiry of the specified period.

Department of Economic Affairs

7. Utilization of RIDF funds

63. The RIDF was established in the year 1995-96 to assist State Governments State owned corporations in quick completion of on-going projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructure. Since its inception, 8 trenches of RIDF have been established so far.

64. The Economic Survey 2002-03 states that cumulative sanctions and disbursements (upto January 3, 2003) under RIDF amounted to Rs.25,976 crore and Rs.15,128 crore respectively.

65. In written reply to a question as to why the total disbursement under various trenches of RIDF falls short of total sanctioned amount, the Ministry stated as follows:-

> "Rural Infrastructure Development Fund (RIDF) tranches are announced on a yearly basis by the Government of India. The projects sanctioned under RIDF have a phasing of three years. As per the norms fixed for RIDF loan assistance the States are required to approach NABARD for release of funds on phase-wise completion of projects. Thus, the total amount sanctioned will not be disbursed in one lumpsum/year, as the disbursement is on the basis of expenditure incurred by State Government in completion of the project. The State Governments are experiencing delay in implementation of the projects due to a variety of reasons some of which are as under:-
>
> - The RIDF projects have a phasing of three years. Therefore, the amounts sanctioned under different trenches of RIDF are required to be drawn by the State Governments over a period of three years. Therefore, there will always be a gap between the amounts sanctioned and disbursed.
> - Procedural formalities relating to budgetary provisions towards their share, administrative and technical approvals and finalisation of tender documents and their approvals within the State Governments concerned for utilization of funds after communication of sanction. Delay in land acquisition and payment of compensation. Obtaining forest and Environmental clearances.
> - Changes made by the implementing agency in project design after sanction of project, etc. are some of the reasons for delay in availment of loans by the State Governments."

66. Further stating the reasons for inadequate demand from State Governments for loans from NABARD to the extent of short fall, deposited in RIDF, the Ministry submitted as under:-

> "The State Governments are formally informed about the launch of RIDF at the start of the year and it contains information relating to eligible activities, period of completion, quantum of loans, type of projects, cut-off date, rate of interest, etc. State Governments are expected to prioritise their projects and forward the same to NABARD for sanction. NABARD sanctions the eligible projects expeditiously. There is substantive demand for sanctions of loans from the State Government as may be evidenced from the fact that during the current financial year i.e. 2002-03 (RIDF-VIII) NABARD has received project proposals for more than Rs.6,300 crore against the corpus of Rs.5,500 crore."

67. The data on funds drawn by State Governments from various RIDF trenches upto 31st December 2002, as furnished by the Ministry is as below:-

STATEWISE SANCTIONS AND DISBURSEMENTS - RIDF - (AS ON 14/02/2003)

Rs.Crores

NAME OF STATE	RIDF I		RIDF II		RIDF III		RIDF IV		RIDF V		RIDF VI		RIDF VII		RIDF VIII		STATE TOTAL	
	SANC	DISB	SANC	DISB	SANC	DISB	SANC	DISB	SANC	DISB	SANC	DISB	SANC	DISB	SANC	DISB	SANC	DISB
ANDHRA PRADESH	227.09	215.13	339.43	307.71	290.88	240.44	304.59	230.68	383.09	268.65	573.52	362.29	627.28	320.09	508.72	102.55	3254.6	2047.54
BIHAR	22.17	12.63			57.96	26.93							129.69	15.96	140.08		349.9	55.52
CHATTISGARH	79.12	77.91	8.98	4.33	57.07	51.79	65.32	45.41	34.09	19.44	50.86	24.69	84.42	28.71	129.3		509.16	252.28
GOA	6.85	6.85					8.93	8.7			19.09	7.57	15.79	5.93			50.66	29.05
GUJARAT	150.9	145.47	133.79	114.34	163	134.84	136.36	76.25	254.06	152.39	554.75	290.83	40.9	12.27	158.69	79.77	1592.45	1006.16
HARYANA	26.7	19.33	61.06	56.46	74.98	60.42	56.25	44.48	99.07	61.59	67.43	37.58	227.95	58.37	90.04	12.28	703.48	350.51
HIMACHAL PRADESH	14.23	14.23	52.96	52.83	51.12	48.37	88.58	74.33	112.8	92.44	135.03	82.95	174.51	69.26	136.54	23.72	765.77	458.13
JAMMU & KASHMIR	6.14	6.04	8.06	0.57	35.95	18.49	105.87	80.15	110.88	79.24	161.52	89.26	216.8	64.36	150.04	26.08	795.26	364.19
JHARKHAND					4.35	2.48	118.5		91.42								214.27	2.48
KARNATAKA	172.63	158.79	195.21	178.69	170.84	159.01	172.57	153.43	173.18	144.44	302.95	174.83	342.34	26.2	200.05	4.41	1729.77	999.8
KERALA	95.93	86.26	87.6	72.09	89.88	66.16	64.55	43.87	127.06	94.04	186.33	88.23	191.76	46.53	83.77		926.88	497.18
MADHYA PRADESH	161.32	137.12	210.3	196.66	192.28	161.39	177	109.81	228.87	118.15	292.79	124.17	311.89	116	494.91	17.45	2069.36	980.75
MAHARASHTRA	186.81	169.87	231.66	204.27	254.31	239.46	301.98	238.84	350.28	300.23	439.17	239.65	529.73	134.97	174.83		2468.77	1527.29
ORISSA	169.5	161.89	130.06	116.8	180.36	133.83	162.56	89.38	134.62	55.2	107.43	36.47	153.25	52.34	204.17	13.76	1241.95	659.67
PUNJAB	60.5	60.5	62.5	62.05	88.85	84.48	110.69	71.88	102.79	87.91	236.65	152.58	240.26	151.49	171.01	17.93	1073.25	688.82
RAJASTHAN	123.51	116.86	151.5	128.95	158.48	135.55	67.34	36.86	132	102.61	253.75	239.09	435.12	226.12	183.23	83.42	1504.93	1069.46
TAMILNADU			245.79	219.25	209.4	178.09	176.56	140.99	253.04	197.36	257.67	196.01	359.95	173.92	335.59	57.02	1838	1162.64
UTTAR PRADESH	295.72	281.89	491.65	405.95	411.3	368.64	474.97	323.12	348.94	213.67	247.72	86.65	338.5	75.78	119.88		2728.68	1755.7
UTTRANCHAL					21.68	2.43	50.8	6.47	4.98				53.96		61.64		193.06	8.9
WEST BENGAL	102.52	81.84	155.82	144.82	171.97	160.18	213.74	183.8	222.29	150.76	413.23	167.23	474.41	114.91	237.89	40.13	1991.87	1043.67
TOTAL	**1901.64**	**1752.61**	**2566.37**	**2265.77**	**2684.66**	**2272.98**	**2857.16**	**1958.45**	**3163.46**	**2138.12**	**4299.89**	**2400.08**	**4948.51**	**1693.21**	**3580.38**	**478.52**	**26002.1**	**14959.74**
NER STATES & SIKKIM																		
ARUNACHAL PRADESH									25.1	18.7	88.5	48.45	69.41	20.26			183.01	87.41
ASSAM			63.29	60.84	16.07	15.2	64.72	35.52	185.77	101.28	49.57	28.7					379.42	241.54
MANIPUR	1.75	0.96									8.33						10.08	0.96
MEGHALAYA	3.39	3.39			7.06	6.51	9.33	8.09	35.1	22.02	30.49	12.26	18.3	5.41	3.84	0.77	107.51	56.45
MIZORAM	2.38	2.37							54.17	28.54	3.76	3.76	7.33	7.33			67.64	42
NAGALAND	1.38	1.38					0.72		16.52	13.84	61.49	12.79	0.95	0.45	4.73	0.95	85.79	29.41
TRIPURA							21.7	13.93	44.47	13.78	35.4	7.08	6.79		41.46	8.29	149.82	43.08
SIKKIM							21.29	18.44	8.72	8.73	4.55	3.63	5.48	3.73	3.51		43.55	34.53
TAL	**8.90**	**8.10**	**63.29**	**60.84**	**23.13**	**21.71**	**117.76**	**75.98**	**369.85**	**206.89**	**282.09**	**116.67**	**108.26**	**37.18**	**53.54**	**10.01**	**1026.82**	**537.38**
ND TOTAL	**1910.54**	**1760.71**	**2629.66**	**2326.61**	**2707.79**	**2294.69**	**2974.92**	**2034.43**	**3533.31**	**2345.01**	**4581.98**	**2516.75**	**5056.77**	**1730.39**	**3633.92**	**488.53**	**27028.89**	**15497.12**

68. When enquired about the measures, the Government has taken to ensure full utilization of RIDF funds by State Governments, the Ministry stated in their written reply as under:-

> "NABARD has been impressing the states on a continuing basis of the need for timely completion of the projects and the need for regular monitoring and review at various levels. Some of the states have made good progress in implementing the projects as well as drawal of funds."

69. During oral evidence, a representative from the Ministry further explained the issue of unspent RIDF funds to the Committee as under:-

> "So far as RIDF is concerned, we agree that this was actually initially started so that the money, that was not spent by the banks both public and private under priority lending could be utilized for at least rural infrastructure. We have now gone through eight trenches. Again it is a very mixed picture. Some of the States have been utilizing the funds at well over 60 per cent. One cause of concern, of course, as you said, is that it is not direct agricultural lending. It is to infrastructure. There also we found that the States when they come up with schemes, there are fewer schemes for things like minor irrigation. In fact, out of the total amount of funds sanctioned, it has been 34 per cent for minor irrigation and there has been skewed emphasis on projects pertaining to roads by the State Governments."

70. The Committee find that the overall picture in respect of drawal of funds to the extent of amount deposited in various tranches of RIDF is not satisfactory. Though the cumulative sanctions as on 14.2.03 were Rs.27028.89 crore, the total disbursement was only Rs.15497.12 crore. Thus much of the amount is still lying unused under RIDF. In the opinion of the Committee, this situation is in no terms contributing to the cause of agricultural development.

71. The Committee hold that the Government/NABARD have not made adequate efforts to ensure full utilization of RIDF corpus under various tranches by State Governments. Even at present some of the States like Bihar, Kerala, Madhya Pradesh, Rajasthan and West Bengal have not drawn total funds, as sanctioned, under RIDF tranches I & II established way back in 1995-96 and 1996-97 respectively. The States in the North-Eastern Region and Sikkim have been so far disbursed only 50 per cent of the sanctioned amount.

72. The Committee, therefore, recommend that RIDF funds should be utilized without any further delay. They are of the considered view that a more pro-active role is required to be played by NABARD in this regard, which should monitor the progress more frequently and impress upon states to expeditiously execute projects by minimising cost and time overruns.

Department of Economic Affairs

8. Co-operative Banks

73. A number of irregularities have been observed in the working of cooperative banks since last few years. The most recent of such cases is the inaction of cooperative banks in Gujarat regarding recovery of huge defaults of Rs 3000 crore by their own Directors and CMDs.

74. An important issue that has engaged much attention in the recent past is the dual/triple regulatory and supervisory control over co-operative banks. In view of the local interest involved in the co-operatives, there seems to be limited consensus in favour of removing supervisory and regulatory responsibilities at various levels and to entrust it exclusively to one body.

75. With regard to setting up of an apex supervisory body for Urban Co-operative Banks (UCBs), the Ministry have replied in their written submission as under:-

> "RBI have submitted a proposal to Central Government in April 2001 for setting up an apex body for the supervision of urban co-operative banks with representation from State Governments, Central Government and RBI. This proposal was submitted in the backdrop of serious irregularities reported in Madhavpura Mercantile Cooperative Bank Ltd. RBI is of opinion that in view of large number of urban cooperative banks in the country as well as duality of control prevailing in cooperative banking sector, it is not possible for RBI to effectively supervise urban cooperative banking sector. Hence, the proposal for establishment of an apex body for supervision of UCBs.
>
> Duality of control over cooperative banks emanates from constitutional provisions. Cooperatives are a state subject under the constitution. Their formation, registration, operation and winding up are all governed by State laws and regulations. Their share capital includes sizeable contributions from State Governments as well. Registrars of Cooperative Societies in most matters can amend the by-laws, nominate or remove representatives such as Directors, Managing Directors or Chairmen, override board or general body decisions, suspend or supercede Committee of Management, forcibly amalgamate or divide cooperatives and so on. Even after bringing their banking functions under the Banking Regulation Act, 1949 in the year 1966, RBI does not have same powers over cooperative banks which it has over commercial banks. The Reserve Bank does not control their management, order their winding up nor can it impose penalty on them. Measures which enable RBI to safeguard interests of depositors and general public do not apply to cooperatives. The resulting dual and, at times, contradictory, control leads to a great deal of confusion which is one of the main reasons for inadequacies of the cooperative credit system today. Doing away of dual control entails amendment to the constitution, which can be a long drawn legislative process.

In view of the above and much before the stock market scam, Central Government had set up a Task Force in April, 1999 under Shri Jagdish Capoor, the then Deputy Governor, RBI to study and suggest measures to strengthen the cooperative credit system in the country. This was followed by setting up of a High Power Committee in May, 1999 by RBI under Shri K. Madhva Rao, former Chief Secretary, Andhra Pradesh to study and suggest ways to strengthen the urban cooperative banks in the country. **Both these Committees recommended removal of duality of control over cooperative banks by way of either replacing the existing Cooperative Societies Act with the Model Cooperative Societies Act recommended by Choudhary Brahm Perkash Committee or by way of incorporating essential features of the Model Act in their respect Cooperative Societies Act by the State Governments. The proposal of RBI for setting up an apex supervisory body for Urban Cooperative Banks was examined in the above context and it was felt that without legislative changes in the State Co-operative Societies Acts of various states apex supervisory body as suggested would suffer from similar handicap which RBI suffers today.**

In view of above, the efforts of the Central Government are directed towards convincing State Governments **to amend their State Cooperative Societies Act**. Towards this, after receiving reports of the Task Force in July 2000, Ministry of Finance organized a Conference of State Cooperation Ministers, Cooperative Federations and prominent Coopertors on 15th –16th December 2000 to evolve consensus on **revitalizing the cooperative banking sector including removal of duality of control**. As differences continued over certain measures, a Conference of Chief Ministers was organized on 25th August 2001, which was presided by Hon'ble Prime Minister to evolve a consensus on a common approach. To further thrash out the issues and evolve a scheme, a Committee under Union Minister of State for Finance with State Cooperation Ministers of select states as Members was set up. The Committee submitted its report to the Government in December 2001. The Committee recommended that revitalization assistance should be provided to bring the cooperative credit institution to "take-of" stage and enable them to stand on their own. The Committee further laid down reform pre-conditions to be fulfilled by states and institutions for becoming eligible to receive the revitalization assistance. These pre-conditions include **adoption of essential features of Model Cooperative Act especially removal of duality of control**. With this background, Central Government announced in the Union Budget for 2002-2003 to usher reform in Cooperative banking sector and has made a provision of Rs.100 crore to start with to incentivise these reforms and revitalize the cooperative banking sector.

Simultaneously, legal provisions necessary to extend the jurisdiction of RBI over cooperative banks as they apply to

> **commercial banks are being considered for incorporating in the Banking Regulation Act, 1949**."

76. When the Government's attention was drawn towards the case of UCBs in Gujarat wherein defaulters owed a huge amount of Rs.3,000 crore to cooperative banks (their own Directors and CMDs) and were keeping silence on this issue despite being empowered with Securitisation Act 2002, the Government submitted as under:-

> "As on 19 February 2003, 28 urban cooperative banks in the state of Gujarat were functioning under specific directions issued by the RBI. It may be added that these banks have not been taken under liquidation, but their operations have been restrained by the Reserve Bank. The ambit of the new Securitisation Act has been extended to co-operative banks in Jan. 2003 and UCBs are yet to make much progress in proceeding against defaulters on the basis of this Act."

77. Regarding existence of any penal provisions against the erring Directors of Cooperative Banks, the Ministry stated as follows:-

> "The by-laws of urban cooperative banks licensed by RBI are required to have a clause that if the director becomes a defaulter either as a borrower or surety, he shall be deemed to have vacated his office before the expiry of his term. In addition to this, Gujarat Government has passed an amendment to the Gujarat Cooperative Societies Act 1961, vide Act No. 13 of 2002 dated 6 April 2002, whereby, among other things, a person who has defaulted in a repayment of any loan taken from any bank or other society shall be disqualified from being chosen as or to be a member of the managing committee of an urban cooperative bank. However, necessary action for removal of the directors who are defaulters in such cases has to be taken by the Registrar of Co-operative Societies of the concerned states/Central Registrar. Keeping in view of the above, Reserve Bank of India has advised the Registrars of Co-operative Societies of all the States/Union Territories on 14 January 2003 to review the position of defaults by the directors of UCBs periodically and to take immediate action for removal of the concerned directors."

78. Further on the issue of measures/strategies to deal with such cases, the Ministry provided following information:-

> "The provisions of the Gujarat Co-operative Societies Act empower the State Government to institute recovery proceedings against loan defaulters, including directors. The RBI does not have powers to remove or cause removal of individual directors from the Board of cooperative bank. Instances of defaults in repayment of loans by directors, if observed by the Reserve Bank during statutory inspection of UCBs, are indicated in the relative inspection report, a copy of which is forwarded to the State Registrar of Co-operative Societies for necessary action."

79. The Committee note with concern that a large number of irregularities are being reported in the cooperative banking sector. They also take note of the fact that RBI does not have the same regulatory powers for Co-operative Banks as those for commercial banks. The Committee find that RBI have submitted a proposal to Central Government in April 2001 for setting up an apex body for the supervision of urban co-operative banks with representation from State Governments, Central Government and RBI. RBI has also submitted certain amendments to the Banking Regulation Act.

80. In this connection, the Committee observe that a Conference of State Cooperation Ministers, Cooperative Federations and prominent cooperators was convened in December, 2000 to evolve consensus on revitalisation of cooperative banks and removal of duality of control. Again a Committee under Union Minister of State for Finance with State Cooperation Ministers of select states as members was set up to further resolve differences on the said issues. This Committee recommended revitalisation assistance on the condition of adoption of pre conditions. These preconditions included adoption of essential features of Model Cooperative Act especially removal of duality of control by States. Subsequently in Union Budget (2002-03) the Government of India made a provision of Rs. 100 crore to incentivise reforms and revitalise the cooperative sector.

81. The Committee observe that on account of existing duality of control on Co-operative Banks as also it being a state subject, RBI has no say regarding any adverse action to be taken against an erring bank or its officials. It is only the State Government/Central Government which is empowered to take action. Therefore, such a system has led to regulatory lapses, as revealed in some recent cases.

82. In view of the above, the Committee recommend that necessary amendments in the Banking Regulation Act, 1949 which have been proposed by RBI to bring about similar supervisory powers over cooperative banks, as they have in the case of commercial banks should be made expeditiously.

Demand No. 31
Department of Economic Affairs
Major Head: 2052
Minor Head: 00.090
Detailed Head: 09.00.28

9. Professional Services

Year	Budget Estimates	Revised Estimates	Actuals
2000-2001	1,26,80,000	94,64,000	60,17,000
2001-2002	85,80,000	85,80,000	58,31,000
2002-2003	1,55,00,000	1,33,00,000	
2003-2004	74,30,000		

83. Allocation under this head is used for meeting expenditure over the following items:

- legal services rendered by Standing Govt. Counsels, including Solicitor General, for pleading cases on behalf of Department of Economic Affairs in various courts,
- payments to eminent specialists from reputed Research Institutions and to consultants engaged for taking up studies, preparing reports etc.
- payment of Management fees to ICICI for acting as agent of the Government under the Shipping Development Fund Committee (Abolition) Act, 1986. The ICICI Ltd. is the designated body under the provisions of said Act for defending such cases and expenditure incurred in this regard by ICICI Ltd. is reimbursed to it by the Government.

84. While specifying the reasons for constant short fall in actual expenditure against provisions since the year 2000-01, the Ministry in their written reply stated as follows:-

> "Under the head `Professional Services', Annual Budget Provision is made keeping in view the likely requirement of funds during the year for this purpose. The main reasons for under utilization of budgetary provisions under this sub-head are as under:-
>
> (a) The nature of expenditure is such that, it is difficult to quantify the exact requirement of funds at the beginning of the financial year and the budgetary provisions are accordingly made in anticipation of such expenditure.
>
> (b) Identification of Experts and Institutions to whom the studies are to be entrusted is a time consuming process. The detailed terms are negotiated with the concerned institutions/experts and necessary administrative and financial sanctions are obtained before commencing the studies. Funds are released in instalments only on the basis of evaluation of progress reports furnished by the concerned experts/institutions from time to time.

(c) On several occasions, lower number of bills than anticipated initially are actually received for reimbursement from Governments Counsels and accordingly lesser expenditure is incurred on legal matters.

During 2000-01, the actuals fell short because in the case of Banking division(which is a part of this department) some of the claims of ICICI towards management fees were not accepted by the Government and also due to non receipt of claims from the Central Government Standing Counsels. In the year 2001-02, the Banking division of this department had kept provision for payment of pending legal fees for the years 1994-95 to 2000-01 to ICICI but the actual expenditure fell short on account of non acceptance of some claims of ICICI towards management fees, etc."

85. The reasons for nearly three fold increase in allocations in 2002-03 as against actual in previous year and subsequent sharp downward reduction in budgetary allocations in 2003-04 were explained by the Ministry in their written submission as below:-

"Nearly three fold increase in the allocation in 2002-03 from that of actual expenditure incurred in previous year was on account of the fact that during the year 2001-02, as against the request of Rs.108.00 lakh proposed at RE stage by the Banking Division to clear the pending bills of previous years in respect of management/legal fees to ICICI Ltd., only Rs.44.60 lakh was provided in RE (2001-02) to them leading to pendency of outstanding claims. This necessitated an enhanced provision of Rs.94.50 lakh for Banking Division in BE for 2002-03.

The reasons for drastic cut in budgetary allocations in 2003-04 compared to those (BE or RE) in 2002-03 is on account of the fact that the Banking Division has already settled the pending bills for payment of legal fees to ICICI Bank during 2002-03 and hence, there is no need for additional funds on this account."

86. The Committee note with concern the continuing under utilization of funds under this head since the year 2000-01 . They also take note of the reasons furnished by the Ministry for not spending the funds as per budgetary estimates. In this regard the Committee are of the view that the selection of specialists, consultants and research institutions for conducting studies etc. should be done well in advance and necessary administrative and financial sanctions should be obtained well in time. This will help in realistic projections of budgetary outlays. Moreover the Government must streamline the procedures. They (Government) should also impress upon the Government counsels to submit their claims in time failing which penalty may be imposed.

Department of Economic Affairs

10. Shortfall in supply of coins

87. The data on demand and supply of coins during last five years is as below:-

(Million Pieces)

Year	RBI Indent	Production By Mints	Imports	Total supply	Shortfall	% shortfall
1	2	3	4	5	6	7
1997-98	6,639	1,678	1,000	2,678	3,961	60
1998-99	8,850	2,318	1,000	3,318	5,532	63
1999-00	8,610	2,812	1,000	3,812	4,798	56
2000-01	8,000	3,053	1,500	4,553	3,447	43
2001-02	6,500	3,246	1,000	4,246	2,254	35

88. When asked to furnish the details of action taken as per the scheme envisaged by the Government to increase domestic supply of coins, the Ministry stated as under:

> "To bridge the gap between the demand and supply of coins and for attaining self-sufficiency in coin production, a blueprint has been drafted and this has been accorded 'in principle' approval by the Finance Minister. This inter-alia includes building additional capacity in the existing mints, replacements of old and worn out equipment and revamping of commemorative coin facilities. The proposal was submitted to Planning Commission for approval for meeting the expenditure out of Plan funds since the last modernisation was undertaken under Plan head. However, the Planning Commission has advised that the expenditure should be met from Non-Plan."

89. On the issue of progress regarding modernisation of Mints and additional capacity generated thereby, the Ministry furnished following reply:-

> "The three mints at Kolkata, Mumbai and Hyderabad have been modernised. All machinery and equipments envisaged in modernisation except 2 blanking lines (one each at Mumbai and Kolkata mints) have been installed and are in use. The installed capacity of these three mints is as under:

	Pre-modernisation		Post-modernisation			
			Planned		Actual	
	Blanks	Coins	Blanks	Coins	Blanks	Coins
Kolkata	550	750	1,900*	1,000	1,300	1,000
Hyderabad	350	400	950*	700	1,200	700
Mumbai	550	750	1,850*	1,000	1,250	1,000
	1,450	1,900	4,700	2,700	3,750	2,700

*with 3 blanking lines. Presently installed only two blanking lines.

90. With regard to a query as how much cost is being incurred on import of coins from abroad, the Government stated:-

> " A proposal for import of 2.5 Billion pieces of Rs. 5 and 2 denomination is currently under consideration in this Department. The estimated cost of these coins is Rs. 570 crores."

91. In response to another query that in what time period the indigenous production has been projected to meet the demand after modernisation, the Ministry stated as below:-

> "The Scheme for further modernisation of Mints has been prepared. It is estimated that after issue of expenditure sanction, the scheme would require 45 months to be completed."

92. On the issue of modernisation of mints the Committee had earlier in their Thirteenth Report on Demand for Grants (2001-2002) of the Ministry of Finance (Department of Economic Affairs and Expenditure) had recommended inter-alia, as under:

> "The Committee are of the view that a long term plan to bridge the gap between demand and supply of coins which is now under preparation should have been conceived and implemented long back. However, as the matter does not brooke further delay, the Committee recommend that the perspective plan may be devised/chalked out expeditiously to obviate the necessity of importing coins and the Committee be apprised of the same."

93. The Committee find that there has all along been a wide gap between supply and demand of coins which necessitated import of coins. A proposal to

import 2.5 billion pieces of Rs. 5 and Rs. 2 denomination at the cost of Rs. 570 crore is a testimony to this.

94. The Committee are distressed to note that though the three mints at Kolkata, Mumbai and Hyderabad have been modernised recently, the indigenous production together with import of coins has not been able to meet the demand as indented by RBI. They are unable to understand as to why the modernisation scheme, proposed to be undertaken recently, (after the expenditure sanction) was not arrived at with a view to attain self sufficiency in coin production at the first place. The Committee are astonished to find that this has occurred despite their earlier recommendation, made, while considering the Demands for Grants 2001-02 to prepare a perspective plan to increase domestic supply of coins, way back in the year 2001. The Committee are at a loss to find out reasons for such a long delay. They are of the view that had the Government acted upon their advice and and planned accordingly, the need for fresh proposals submitted to the Planning Commission for further modernisation, would not have arisen.

95. The Committee therefore, recommend that whenever any proposal for the modernisation or installation of additional capacity is put forward, it should aim at self sufficiency keeping in view the future demands. The Committee hope that at least now the scheme for further modernisation of mints as and when operationalised would bring about self sufficiency and the huge expenditure incurred on import of coins would be saved. Hence they desire that all formalities in respect of obtaining financial sanctions be completed without any further delay. The Committee would like to be apprised of the progress made in this regard and the expected cost of the Scheme.

Department of Economic Affairs

11. Non compliance of Rural/Social sector obligations by private Insurers.

96. It is seen that some of the Private Insurance Companies have failed to comply with rural/social sector targets as stipulated by IRDA vide the IRDA (obligations of Rural and Social Sector) Regulations, 2000 and 2002. The following are details of the IRDA Regulations.

a) Rural Sector:

(i) 2% in the first financial year;
(ii) 3% in the second financial year;
(iii) 5% thereafter.

b) Social Sector:

(i) 5000 lives in the first financial year;
(ii) 7500 lives in the second financial year;
(iii) 10000 lives in the third financial year;
(iv) 15000 lives in the fourth financial year;
(v) 20000 lives in the fifth year.

97. The data on insurance being done in rural and social sector as furnished by the Ministry , reveals the nominal presence of private insurers in rural areas:

Rural/social sector statistics from 1st April, 2001 to 31st March, 2002 (Non-life insurers):

S. NO.	Company	Rural Sector (%)	Social Sector (No. of lives)	Year of operation
1.	Royal Sundaram Alliance Insurance Ltd.	2.12 % of premium (3%)	6,064 lives (7,000)	II year of operation (23,03,2001)
2.	Reliance General Insurance Co. Ltd	2.0 % of premium (3%)	NIL (7,000)	II year of operation (23,03,2001)
3.	Bajaj Alliance General Insurance Co. Ltd	2.14% of business (as against proportionate 1.77%)	5,000 lives (4,466 proportionate)	I year of operation (10.05.2001)
4.	IFFCO-TOKIO General Insurance Co. Ltd	6.82 % of premium (3%)	5,879 lives (7,000)	II year of operation (04.12.2000)
5.	Tata- AIG General Insurance Co. Ltd	3,98 % of premium (3%)	NIL (7,000)	II year of operation (22.02.2001)
6.	ICICI Lombard General Insurance Co. Ltd	0.83% of premium (1.16% on proportionate basis)	2,902 lives (proportionate 2,917)	I year of operation (31.08.2001)

Life Insurance New Business Figure For the Period From 1st April, 2002 to 31st January, 2003.

(Premium Rs. In Lakh)

S. No.	Name of Life Insurer	No. of Policies issued	Total Premium Underwritten (Rs.)	No. of Policies Issued in Rural Areas	Amt. Of Premium Underwritten in Rural Areas (Rs.)	No. of Lives Covered in Social Sector	Amt. Of Premium under-Written in Social

							Sector (Rs.)
1.	TATA AIG	72,107	4,566.82	5,597	1.75	2,480	1.04
2.	OM KOTAK	20,074	2,375.51	186	1.87	10,000	1.50
3.	BIRLA SUNLIFE	36,876	7,713.87	5,335	3.44	1,775	0.90
4.	MAX NEW YORK	54,192	5,861.36	1,448	21.20	*	1.55
5.	ING VYSYA	14,158	1,102.16	82	4.68	*	*
6.	HDFC STANDARD	82,886	7,741.45	16,874	193.53	1,745	1.66
7.	MET LIFE	7,597	330.26	1,304	95.20	*	*
8.	ALIANZ BAJAJ	60,586	3,171.50	3,949	60.52	*	*
9.	ICICI PRUDENTIAL	1,51,515	24,199.43	14,508	90.35	12,146	5.15
10.	SBI	8,678	5,815.44	333	364.40	*	0.61
11.	AVIVA	8,514	763.88	47	1.64	672	0.03
12.	AMP SANMAR	11,588	297.49	443	5.75	*	*
	TOTAL (PVT. INSURERS)	5,28,771	63,939.17	50,106	844.33	28,818	12.44

* indicates that figures are not available.

Non Life Insurance New Business Figure For the Period From 1st April, 2002 to 31st January, 2003.

(Premium Rs. In Lakh)

S. No.	Name of Non-Life Insurer	No. of Policies issued	Total Premium Underwritten (Rs.)	No. of Policies Issued in Rural Areas	Amt. Of Premium Underwritten in Rural Areas (Rs.)	No. of Lives Covered in Social Sector	Amt. Of Premium under-Written in Social Sector (Rs.)
1.	ROYAL SUN	2,28,425	15,173.88	32,774	485.68	10,620	4.80
2.	TATA AIG	1,51,376	18,481.09	25	280.20	8,617	9.36
3.	RELIANCE	22,206	16,419.53	*	*	*	*
4.	IFFCO-TOKIO	1,17,865	17,331.75	87	668,955	6,68,946	310.51
5.	ICICI-LOMBARD	65,033	17,427.64	37	375.63	15,736	5.26
6.	BAJAJ ALLIANZ	6,63,360	23,498.84	8,765	696.44	5,000	2.00
7.	CHOLAMAND ALAM	7,102	636.45	56,677	1.00	*	*
8.	HDFC CHUBB	6,351	394.03	0	0.00	0	0.00
9.	NEW INDIA**	*	3,22,602.00	7,50,000	14,684.00	90,01,265	1976.00
10.	ORIENTAL	64,08,151	2,37,305.61	3,18,018	5,557.62	18,69,959	817.39
11.	NATIONAL @	*	2,37,219.00	10,57,097	15,282.67	7,67,149	27694.23
12.	UNITED INDIA	*	2,49,386.00	*	*	*	*
	TOTAL (PRIVATE INSURERS)	12,61,718	1,09,363.21	98,365	2,507.90	7,08,919	331.93

* indicates that figures are not available.
** indicates that figures for rural and social sectors are upto September, 2002
@ indicates that the figures for the rural and social sectors are upto November, 2002

98. When asked during Demand for Grants (2002-03) that whether there is any punishment –monetary or non monetary – for not adhering to /fulfilling the above said criteria/targets by the private insurance players the Ministry furnished following reply:

> "The IRDA (Obligations of insurers to rural and social sectors) Regulations, 2000 prescribes the details of insurance business to be conducted by all insurers in the social and rural sector. The IRDA started issuing the registrations to new companies by end of 2000. Many of the new companies started their business in the current financial year.

Section 32 B and 32 C of Insurance Act empowers the IRDA to specify the percentage of insurance business to be transacted by all insurers in the rural or social sectors, coverage of workers in the unorganised or informal sector or economically vulnerable or backward classes of the society etc. and includes insurance for crops.

Section 105B and 105C prescribe the penalty for failure to comply with the provisions of Sections 32B and 32C. Under Section 105B, the insurer who fails to comply with the provisions of Section 32 B, would be liable to a penalty not exceeding Rs. 5 lakhs for each such failure and shall be punishable with imprisonment which may extend to three years or with fine for each such failure.

Under Section 105C, the insurer who fails to comply with the provisions of Section 32 C, would be liable to a penalty not exceeding Rs. 25 lakhs for each such failure and in the case of subsequent and continuing failure, the registration granted to such insurer under Section 3 can be cancelled by the Authority.

Therefore, there are sufficient safeguards to warrant invoking of penalty provisions for failure to meet obligations to rural and social sectors."

99. The Committee observe that coverage of insurance in rural areas is nominal. Many of the private insurance companies like Royal Sundaram Alliance Insurance Ltd., Reliance General Insurance Company Ltd, ICICI Lombard General Insurance Co. Ltd, etc have failed in meeting both rural and social sector obligations. While some others like IFFCO – TOKIO General Insurance Co. Ltd & Tata AIG General Insurance Co. Ltd have not fulfilled social sector targets. Though the Committee are satisfied with the provision of measures contemplated for action against violating companies, they would like to see their speedy implementation by IRDA. There should be no laxity in this regard in order to ensure better compliance by private entrants in this sector.

12. Inflow of Foreign Direct Investment

100. Global foreign direct investment (FDI) almost quadrupled between 1995 and 2000. However, FDI flows to developing countries grew at a much slower rate over this period, doubling to $ 240.2 billion. FDI inflows into developing countries virtually halted in 1998 as a result of the Asian crisis. The share of developing countries in global flows reached a peak of 39.6 percent in 1996, declining rapidly thereafter to reach 18.9 percent of total flows in 2000.

101. The data on FDI inflows in select developing countries as furnished by the Ministry is as below:

(share of developing country total, percent)

Host region/ Economy	1989-94 (ann.avg)	1995	1996	1997	1998	1999	2000	2001
Developing Countries (in billion $)	59.6	113.3	152.5	187.4	188.4	222.0	240.2	225.0
Argentina	4.5	4.9	4.5	4.9	3.9	10.9	4.7	
Brazil	2.5	4.9	6,9	10.0	15.1	14.1	13.9	8.9
China	23.5	31.6	26.4	23.6	23.2	18.2	17.0	20.8
Indonesia	2.5	3.8	4.1	2.5	-0.2	-1.2	-1.9	
India	**0.7**	**1.9**	**1.7**	**1.9**	**1.4**	**1.0**	**1.0**	**1.7**
Malayasia	6.2	5.1	4.8	3.5	1.4	1.6	2.3	
South Korea	1.5	1.6	1.5	1.5	2.9	4.8	4.2	
Singapore	8.1	7.8	6.8	6.9	3.3	3.2	2.7	
Thailand	3.2	1.8	1.5	1.9	2.7	1.6	1.0	
Taiwan	2.0	1.4	1.2	1.2	0.1	1.3	2.0	
Vietnam	1.0	2.0	1.6	1.5	1.2	0.9	0.9	

102. The Ministry further provided data on FDI inflow in India (both calendar and financial year-wise) as under:-

"FDI inflows : Calendar Year wise

(Amount in US $ million)

Year (January-December)	Amount of FDI inflows
1991	143.62
1992	258.00
1993	582.94
1994	1,048.54
1995	2,171.98

1996	3,020.99
1997	4,579.13
1998	3,377.17
1999	4,016.10
2000	4,498.07
2001	4,281.10
2002	4,434.50
Total (1991-2002)	32,412.14

FDI inflows: (Financial year-wise)

(Amount in US $ million)

Year (April-March)	Amount of FDI inflows
1997-1998	4,405.0
1998-1999	3,544.9
1999-2000	3,604.7
2000-2001	4,744.6
2001-2002	4,687.2
2002-2003	3,083.4

103. When asked to explain the lower FDI inflow in India vis-à-vis other countries like China, the Ministry in their written reply submitted as below:

> "India's FDI inflow estimates do not include reinvested earnings (by foreign companies), inter company debt transactions (subordinated debt) and overseas commercial borrowings by foreign direct investors in foreign invested firms- as per the standard IMF definitions. The other capital, in turn, covers the borrowings & lending of funds including debt securities and suppliers credit between direct investors and direct investment enterprises.
>
> The data on inward FDI for India at present do not include reinvested earnings and 'direct investment other capital.'
>
> This issue has come into sharp focus because the Chief Economist of International Finance Corporation (W) estimated that India's actual FDI inflow might be between US$ 5 billion and US$ 8 billion during 2001. There is an additional problem of non-comparability when comparing India's FDI flows with China.

According to Global Development Finance, 2002, round tripping amounts to nearly 50 percent of total FDI inflows into China in 1999 and 2000. This would reduce China's real FDI share to 9 percent of developing country inflows and the adjusted FDI-GDP ratio for China would be only double the adjusted FDI-GDP ratio for India. (using IFC (W) Chief Economist's methodology)."

104. Further in response to another query on reasons for excluding certain parameters in FDI estimates in India as included in IMF definitions, the Ministry stated as under:

> "The Reserve Bank of India (RBI) reports FDI inflows on the basis of equity and preference share investments. As per the international reporting based on the International Monetary Fund (IMF) definition in the Balance of Payments, Manual (Fifth Edition), FDI has three components viz. Equity capital, reinvested earnings and other direct capital. The FDI data released by RBI does not capture reinvested earnings and other direct capital due to non availability of contemporaneous data"

105. Regarding any proposal to revise the FDI definition, the Ministry further submitted as follows:

> "With a view to bringing the present FDI reporting system of RBI in alignment with the international reporting system, Government in consultation with RBI had constituted a Committee in May 2002 to study the conceptual and methodological issues including data gaps involved and make recommendations to strengthen the collection, compilation and reporting of FDI data. A Technical Monitoring Group (TMG), chaired by Secretary, Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry, has been set up for monitoring compilation of FDI statistics as per the International Standards. In terms of decisions made at the meeting of the TMG on 10 December, 2002.
>
> a) RBI will include inter-alia in its report on FDI inflows from January, 2003, available data on reinvested earnings, equity swap, related short term and long term borrowings, trade credit etc.
> b) RBI will adopt the survey method for collecting data regarding equity in unincorporated entities, non-cash acquisitions, grants, loans guarantees and land and buildings.
>
> RBI already has a list of erstwhile FERA companies and the list of major companies (top 500 companies) which have received FDI. The process of collection of information from such companies would be initiated straight away and information on these FDI components will be included by RBI in its inflow statements.
>
> The above are on-going processes and in particular a system for regular compilation and reporting of FDI on the basis of international definition has to be put in place. RBI in consultation with Government of India (Department of Industrial Policy &

Promotion, Department of Economic Affairs and Department of Company Affairs) are endeavoring to put in place a suitable system."

106. The Ministry of Planning while furnishing their reply on measures taken to increase savings in the country stated following policy measures to attract FDI:

"Specific policy measures to attract FDI are as follows:

- In pursuance of Government's commitment to further facilitate Indian industry, Government has permitted, except for a small negative list, access to the automatic route for FDI.
- Non-Banking Financial Companies (NBFCs) may hold foreign equity up to 100 percent if these are holding companies.
- Foreign investors can set up 100 percent operating subsidiaries without the condition to disinvest a minimum of 25 percent of its equity to Indian entities, but subject to the subsidiaries complying with the applicable minimum capital inflow.
- FDI up to 49 percent from all sources is permitted in the private banking sector on the automatic route subject to conformity with RBI guidelines. This is proposed to be raised to 74% in the Budget 2003-04.
- Automatic Route of FDI up to 100 percent is allowed in all manufacturing activities in Special Economic Zones (SEZs), except for the following activities:
- Arms and ammunition, explosives and allied items of defence equipment, defence aircraft and warships; (ii) Atomic substances; (iii) Narcotics and psychotropic substances and hazardous chemicals; (iv) distillation and brewing of alcoholic drinks; and (v) Cigarettes/cigars and manufactured tobacco substitutes.
- FDI up to 100 percent is allowed with some conditions for the following activities in Telecom sector: (i) ISPs not providing gateways (both for satellite and submarine cables); (ii) Infrastructure providers providing dark fibre (IP Category I); (iii) Electronic Mail; and (iv) Voice Mail.
- FDI up to 74 percent is permitted for the following telecom services subject to licensing and security requirement (proposals with FDI beyond 49 percent shall require Government approval): (i) Internet services providers with gateways; (ii) Radio paging; and (iii) End-to-end bandwidth.
- Payment of royalty up to 2 percent on exports and 1 percent on domestic sales is allowed under automatic route on use of trademarks and brand name of the foreign collaborator without technology transfer. Payment of royalty up to 8 percent on exports and 5 percent on domestic sales by wholly owned subsidiaries to offshore parent companies is allowed under the automatic route without any restriction on the duration of royalty payments.
- Offshore Venture Capital Funds/Companies are allowed to invest in domestic venture capital undertakings as well as other companies through the automatic route, subject only to SEBI regulations and sector specific caps on FDI.

- FDI up to 26 percent is eligible under Automatic Route in the Insurance sector, as prescribed in the Insurance Act, 1999, subject to their obtaining license from Insurance Regulatory & Development Authority.
- FDI up to 100 percent is permitted in airports, with FDI above 74 percent requiring prior approval of the Government.
- FDI up to 100 percent is permitted with prior approval of the Government in courier services subject to existing laws and exclusion of activities relating to distribution of letters. FDI up to 100 percent is permitted with prior approval of the Government for development of integrated township, including housing, commercial premises, hotels, resorts, city and regional level urban infrastructure facilities. Development of land and providing allied infrastructure will form an integral part of township's development.
- FDI up to 100 percent is permitted on the automatic route in hotel and tourism sector and for Mass Rapid Transport Systems in all metropolitan cities, including associated commercial development of real estate.
- FDI up to 100 percent in drugs and pharmaceuticals (excluding those which attract compulsory licensing or produced by recombinant DNA technology and specific cell/tissue targeted formulations) placed on the automatic route.
- The defence industry sector is opened up to 100 percent for Indian private sector participation with FDI permitted up to 26 percent, both subject to licensing.
- International Financial Institutions like Asian Development Bank, International Financial Corporation, Commonwealth Development Corporation, German Investment and Development Company (DEG) etc., are allowed to invest in domestic companies through the automatic route, subject to Securities and Exchange Board of India/Reserve Bank of India guidelines and sector specific caps on FDI.

  In the Budget 2003-04, an amount of Rs.200 crores has been earmarked under 'India Development Initiative' to promote strategic economic interests abroad."

107. On the issue of action plan of the Government to accelerate the pace of FDI inflow in India, the Ministry stated inter-alia as below:

> "The Steering Group on Foreign Direct Investment which was set up in the context of formulation of the 10th Five Year Plan has made a number of recommendations. These are under examination by a Group of Ministers."

108. Further, in their written reply, the Ministry of Planning furnished the major recommendations of the Steering Committee to attract more FDIs into the country, which are as follows:

- Urge States to enact a special investment law relating to Infrastructure to expedite all investment in infrastructure sectors and remove hurdles to production in this critical sector.
- Empower the Foreign Investment Promotion Board to give initial Central level registrations and approvals where possible, with a view to speeding up the process of project implementation.
- Empower Foreign Investment Implementation Authority (FIIA) to expedite the processing of administrative and policy approvals.
- Dis-aggregation of FDI targets in terms of sectors and relevant administrative ministries/department, to increase accountability.
- Reduction of sectoral FDI caps to the minimum and elimination of entry barriers. With the exception of 'Defence Industry', FDI caps can be removed for all manufacturing and mining activities. Caps can also be eliminated in Advertising, Private Banks and Real Estate and raised in Telecom, Civil Aviation, DTH/KU broadcasting, Insurance and Plantations (other than tea).
- Overhauling the existing strategy for attracting FDI by shifting from a broader approach to one of targeting specific companies in specific sectors.
- Refinement of the informational aspects of the strategy in the light of the perceived advantages and dis-advantages of India as an investment destination and should use information technology and modern marketing techniques.
- Development of Special Economic Zones as the most competitive destination for export related FDI in the world, by simplifying applicable laws, rules, and administrative procedures and reducing red tape to the levels found in China.
- Expediting Domestic Policy Reforms in the Power Sector, Urban Infrastructure and Real Estate and de-control/de-licensing to promote private domestic and foreign investment.

The Report is under the active consideration of the Group of Ministers (GoM) serviced by the Department of Industrial Policy and Promotion, Ministry of Industry & Commerce. The GoM at its meeting held on 27-2-2003 considered only the recommendations pertaining to raising/removal of sectoral caps in Petroleum & Natural Gas, Telecommunications, Civil Aviation and Printing of Technical & Scientific Magazines, Periodicals & Journals. The recommendations of the GoM are to be placed before the Cabinet.

109. It could be seen that India's share in total Foreign Direct Investment inflows out of the total inflow into the developing countries is very low. Besides, the inflows of FDI during last two financial years viz 2001-02 and 2002-03 have declined. The Committee note that calculation of FDI in India differs from those of IMF because of exclusion of data on certain parameters like reinvested earnings (by foreign companies), inter company debt transactions (subordinated debt), overseas commercial borrowings by foreign direct investors in foreign invested firms and 'direct investment other capital'. However, the RBI has initiated the process of compilation of such data to include them in future FDI calculation in accordance with the IMF definitions.

110. The Committee also take note of the measures taken by the Government to increase foreign direct investment in India. The Committee feel that the recommendations of the Steering Group on FDI, when acted upon will certainly accelerate the inflows. Therefore, this should be brought into force as early as possible. Besides, the Government should take such measures as simplification of procedures, transparent guidelines regarding investment limits etc. which would help make India the most favourable destination for Foreign Direct Investment in near future.

Demand No. 38

Department of Expenditure

13. Containment of non-plan and non-developmental expenditure

111. According to figures furnished by the Government major components of Non-Plan Expenditure and Expenditure on Salaries of Civilian Employees Including Union Territory Employees are as under :-

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	% increase in 2002-03 over 1997-98
Total Exp. Of Pay & Allow. (including UTs	25930.03	28904.22	31500.15	28901.83	29925.25	31619.13	21.94
Interest Payment & Debt serving	65637	77882	90249	99314	107460	115994	76.72
Subsidies	18540	23593	24487	26838	31207	44618	140.66
Defence Exp.	35278	39897	47071	49622	54266	56000	58.74
Total Non Plan Expendt	1729976.00	212522.00	221871.00	242923.00	261259.00	289924.00	67.61
Exp. On Pay & All as a % of Non Plan Expenditure.	14.99	13.60	14.20	11.90	11.45	10.91	

Central Plan Expenditure

(Rs. in crores)

R.E 2002-2003	B.E 2003-2004
68218	72151

112. During the examination of Demands for Grants (2003-2004), the Department of Expenditure in a written reply to a query on the measures taken to bring down the Government expenditure had stated that "it is Government's constant endeavour to contain non-plan, non-developmental expenditure. It is in this context that, along with other measures, instructions to avoid wasteful expenditure are issued from time to time to all the Ministries/Departments. These measures include ban on the creation of posts, reduction in the number of sanctioned posts, restrictions on the filling up of vacant posts, reduction in office expenses, restrictions on purchase of vehicles, restriction on foreign travel and on entertainment/hospitality expenses, restriction on STD/ISD facility, restriction on number of free calls on official residential telephones, etc.

Guidelines have been issued to bring down Government expenditure on 5.8.1999, 24.9.2000 and 10.10.2001."

113. In regard to increase in non-plan expenditure, the Department of expenditure has stated that it is accounted for mainly by the increase in interest payments, subsidies and defence and not by the pay and allowances. The following are stated to be the indicators for decrease in pay and allowances :-

- As a percentage of overall non-plan expenditure pay and allowances has come down from 14.99% in 1997-98 to 10.91% in 2002-03. This reflects the efficacy of measures to rein in non-developmental expenditure.
- The expenditure on overtime allowance has come down from Rs. 944.70 crore in 1998-99 to Rs. 760.42 crore in 2000-2001 (a decrease by over 19%).
- An overall annual saving of around Rs. 120 crore pay and allowances is likely to result on account of abolition of 13000 posts based on the recommendations of the ERC.
- Savings of Rs. 284 crores is envisaged on account of identification of 30,822 posts for abolition based on the guidelines to restrict direct recruitment to 1/3rd of annual direct recruitment vacancies.
- In the context of 10% cut exercise with reference to the sanctioned strength as on 1.1.1992 around 1,73,000 posts have been abolished.

Expenditure Reforms Commission (ERC)

114. For review of the whole gamut of expenditure of Government, an Expenditure Reforms Commission was set up to suggest a road map for reducing the functions, activities and administrative structure of the Government, review the adequacy of staff strength under Central Ministries/Departments etc. and suggest measures for rationalising the staff and cadres of different services, review the procedure of setting up of autonomous bodies and pattern of funding and suggest measures for effecting improvement and reducing budgetary support.

115. The ERC had presented 10 reports in all. These reports covered 36 Ministries/Departments/Organisations wherein the issues relating to downsizing/ reducing the functions and the administrative structure of the Central Government besides four specific issues, viz. food subsidy, Fertilizer subsidy, autonomous institutions and optimizing staff strength were recommended. The recommendations contained in these reports were forwarded to the concerned Ministries/Departments for implementation. Position in regard to implementation of the recommendations of ERC are as follows :-

(i) <u>Reorganisation of the functions of the Ministries/Departments</u>

116. The Committee has been informed that ERC had identified around 42,000 posts and after further study, around 23,900 posts have been identified by various Ministries/Departments for abolition and so far out of this, around 13,000 post have been actually abolished.

117. When the Department of Expenditure was asked about the factors taken into account while identifying the posts for abolition, the Department in a written reply has stated that "in making recommendations for reduction of posts in the Ministries/Departments as reviewed by the Expenditure Reforms Commission, the Commission examined functions, activities and structure of these organisations in the light of the evolving ethos and for this purpose the following methodology was adopted:

(i) Does this activity need to be done at all ?

(ii) Does this need to be done by the government ?

(iii) Does this need to be done by the Central Government? And

(iv) If so, which organisation is best suited for doing it?"

118. The following has been stated as the reasons for the abolition of less number of posts by the Ministries :-

> "while it has been possible for the concerned Ministries/ Departments to abolish 13000 posts so far out of 42,000 posts identified for abolition, the abolition of remaining posts has to be staggered over a period of time, as this requires re-orientation of the functions of the organisations/divisions concerned. There are also certain administrative difficulties and these are being sorted out."

(ii) <u>Voluntary Retirement Scheme (VRS)</u>

119. The ERC had suggested a liberal Voluntary Retirement Scheme (VRS) for the employees declared surplus. The recommendation was accepted and a special VRS for surplus Central Government employees was introduced on 28th February, 2002. In this regard, Department of Expenditure informed the Committee in a written communication that as per available information, out of 168 employees declared surplus, only 23 have opted for special VRS.

(iii) <u>Autonomous Institutions</u> :

120. This Department of Expenditure has clarified to all the Ministries/Departments that no new autonomous institutions shall be created without the approval of the Cabinet. In respect of existing autonomous institutions, a review on the lines detailed in the ERC Report may be carried out in consultation with the IFD and the results of the review advised to Ministry of Finance. This exercise is underway in various Ministries/Departments.

121. To a query of the Committee whether the above mentioned review of autonomous institutions is in regard to make them totally independent economically, the Department of

Expenditure clarified in a written reply that "all the Ministries/Department have been requested to undertake a review of the existing autonomous bodies not only with a view to scrutinising the need for their continuance but also to making them, as far as possible financially viable. In order to make such bodies financially self-sufficient, funding is being resorted to in case of some autonomous bodies under the scheme of Block Grants which, apart from facilitating necessary administrative flexibility to such a body, provides for a system of incentive by way of matching contribution by the Government in case these Bodies are able to effect savings out of the present level of non-plan grants or earn revenue by way of consultancy and training programmes with such saving being transferred to an Endowment Fund. Levy of appropriate user charges is also being stressed."

122. The Committee are concerned to note that non-plan expenditure of the Central Government was more than 4 times the plan expenditure as per the Revised Estimates of 2002-2003. Interest Payment and Debt servicing, subsidies and Pay & allowances are the major components of non-plan expenditure. It is a matter of deep concern that interest payment and debt servicing had increased by about 77% in 2002-2003 over 1997-1998. Similarly expenditure on subsidies rose by a staggering 140% in 2002-2003 over 1997-1998. The Committee note with satisfaction that the Government would be able to retire external borrowings to the tune of $ 3 billion but consider it only tip of the iceberg and a lot has to be done in this regard. They expect that the Government should come out with concrete plans to reduce the burden of interest payment and debt servicing and also recommend that a comprehensive study should be conducted on subsidies.

123. The Committee note that while expenditure on pay and allowances has come down as percentage of total non-plan expenditure, it is increasing every year in real terms. While Expenditure Reforms Commission (ERC) had identified around 42,000 posts for abolition in various Ministries/Departments, the Government have identified only 23,900 posts for abolition and out of these only 13,000 posts have been abolished so far. In this regard, the Department should furnish the rationale to the Committee for identifying only 23,900 posts out of 42,000 posts identified by ERC for abolition.

124. The Committee note that the Department of Expenditure issues guidelines/instructions and announces ban on various wasteful expenditure to various Ministries of the Central Government. In this regard, the Committee recommend that the Department of Expenditure should, every year, monitor actual implementation of these guidelines by various Ministries and their offices and suitable action should be taken against those offices which do not comply with the orders.

125. The Committee note that review of the existing autonomous bodies under the Union government is presently being undertaken. They recommend that the review should be completed within one year. All the autonomous institutions which have the self-earning capacity should be made economically self supporting within a certain period so as to make them truly independent in their functioning.

Demand No. 40
Department of Expenditure

14. Indian Audit and Accounts Department

Major Head : 2016 – Audit
Minor Head : 00.102 – Civil Audit & Accounts Officers
01- Civil Audit Offices
Detailed Head : 01.00.13

126. The above head is meant for “Office Expenses” relating to Civil Audit Offices.

Year	Budget Estimates	Revised Estimates	Actuals
1998-1999	13,91,42,000	14,29,96,000	34,92,10,000
1999-2000	16,50,18,000	16,50,00,000	29,45,18,000
2000-2001	19,49,65,000	19,49,65,000	23,72,85,000
2001-2002	20,49,75,000	20,79,75,000	23,46,47,000
2002-2003	20,76,75,000	28,76,75,000	
2003-2004	29,55,75,000		

127. Perusal of the above data shows that actuals were continuously very high when compared to both the BE and RE. The Department of Expenditure was asked for the reasons for the same. The Department in its written reply stated that the actuals incurred are not in excess of the allocations. The figures relate to “Office Expenses” of Civil Audit Offices only. The Department further explained the difference in RE and actual expenditure as follows :-

> “Voucher Level Computerisation in the Indian Audit & Accounts Department was introduced in 1998-99 with the objective of improving the quality of accounts, timely rendition of accounts and to generate reports relevant for financial management. Provision for Voucher Level Computerisation was sought for Rs. 28.00 crores during the year 1998-99 at Revised Estimates Stage.
>
> The provision was shown against the Civil Accounts Offices, as the Voucher Level Computerisation project was primarily meant for Civil Accounts Offices. However, in order to maintain uniformity among the field offices, standardisation of hardware and software and use of accounts for central audit it was decided to purchase Computer hardware and software for Audit offices also. Therefore, though the provision for Voucher Level Computerisation was kept under (02) Civil Accounts Offices, expenditure was booked both against Civil Audit and Civil Accounts Offices. However, this anomaly has since been corrected in REs 2002-2003 and BEs 2003-2004.”

128. As stated above, the actuals for the head Civil Audit and Accounts Offices as a whole does not exceed the provision made in REs of the following years :-

(In thousand of Rupees)

Year	Revised Estimates	Actuals
1998-1999		
00.102 – Civil Audit & Accounts Offices		
01.00.13 – Office Expenses (Civil Audit Offices)	142996	349210
02.00.13 - Office Expenses (Civil Accounts Offices)	392500	185921
TOTAL	535496	535131
1999-2000		
00.102 – Civil Audit & Accounts Offices		
01.00.13 – Office Expenses (Civil Audit Offices)	165018	294518
02.00.13 - Office Expenses (Civil Accounts Offices)	362500	211542
TOTAL	527518	506060
2000-2001		
00.102 – Civil Audit & Accounts Offices		
01.00.13 – Office Expenses (Civil Audit Offices)	194965	237285
02.00.13 - Office Expenses (Civil Accounts Offices)	309710	238855
TOTAL	504675	476140
2001-2002		
00.102 – Civil Audit & Accounts Offices		
01.00.13 – Office Expenses (Civil Audit Offices)	207975	2434647
02.00.13 - Office Expenses (Civil Accounts Offices)	328490	288443
TOTAL	536465	523090

129. The Committee are deeply concerned to note that allocation shown against a detailed Head of "Civil Accounts Offices" was used for Civil Audit Offices" inspite of separate heads being available for these offices. This anomaly should have been noticed at much earlier stages but it went unnoticed and continued for four years from 1998-99 to 2001-2002 which has been rectified only at the RE stage of 2002-2003. This anomaly made the whole budgetary process a mockery and calls for further explanation.

130. The Committee expect the Government to take urgent steps to ensure that such anomalies do not recur.

15. Demand No. 40 – Indian Audit and Accounts Department
Major Head : 4216 – Capital Outlay on Housing
01- Acquisition of ready built flats
Detailed Head : 01.00.54 – Investment

131. This head is meant for procurement of residential accommodation for the employees of Indian Audit and Accounts Department.

(Non plan)

Year	Budget Estimates	Revised Estimates	Actuals
1998-99	7,17,00,000	7,36,00,000	6,50,90,000
1999-2000	8,88,00,000	8,88,00,000	6,04,75,000
2000-2001	8,00,00,000	8,20,00,000	Nil
2001-2002	9,00,00,000	9,00,00,000	8,27,28,000
2002-2003	8,00,00,000	6,00,00,000	
2003-2004	8,00,00,000		

132. Department of Expenditure was asked to specify the reasons for the underutilisation of allocated funds and the rationale for fixing high BEs again and again, the Department in a written reply stated as under :-

<u>1998-1999</u>

1998-1999 there was a savings of Rs. 66.10 lakh out of the total revised allotment of Rs. 7.36 crore. The provision was sought for procurement of ready built flats for IA &AS officers at Shimla from HP Housing Board on the basis of the schedule for payment as per the agreement. However, the HP Housing Board did not raise the demand. Therefore there was a saving of Rs. 66.10 lakh.

<u>1999-2000</u>

Rs. 2.91 crore were surrendered under this head. Out of the total revised allocations Rs. 8.88 crore, provision of Rs. 3.00 crore was made for the Housing project for IA &AS officers at Ahmedabad. These flats were to be purchased from the Gujarat Housing Board, however, due to various reasons, Gujarat Housing Board was not in a position to hand over the flats, even upto the end of the year, as was originally anticipated. Gujarat Housing Board could not hand over the flats, the proposal of buying ready built flats from housing board was shelved.

<u>2000-2001</u>

A sum of Rs. 8,20,22,000 was actually spent under this head during the year 2000-2001. But it was indicated NIL earlier inadvertently.

2002-2003

Due to earthquake and communal riots in Ahmedabad labour was not available consequently construction activities were affected and we were forced to down revise BE at RE stage during 2002-2003. Further, expenditure incurred under this head for the year 2002-2003 is yet to be received from the field offices.

133. The Committee note with concern that large sums were surrendered in 1998-99 and 1999-2000 due to savings. They are dismayed at the negligence on the part of the Government by furnishing 'Nil' expenditure in 2000-2001 in the Demands for Grants of 2002-2003 and this was also not included in the errata. Hence, they recommend that Government should ensure that figures supplied in Budget papers do not contain such mistakes in future.

NEW DELHI;	**N. JANARDHANA REDDY**
9 April, 2003	CHAIRMAN
19 Chaitra, 1925(Saka)	STANDING COMMITTEE ON FINANCE

MINUTES OF THE SEVENTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Monday, 24 March, 2003 from 1100 to 1330 hours and thereafter from 1500 to 1700 hours.

PRESENT

Shri N. Janardhana Reddy – Chairman

LOK SABHA

2. Shri Omar Abdullah
3. Shri Raashid Alvi
4. Shri Ramesh Chennithala
5. Shri Trilochan Kanungo
6. Shri Rattan Lal Kataria
7. Dr. C. Krishnan
8. Shri M.V.V.S. Murthy
9. Shri Sudarsana E.M. Natchiappan
10. Capt.Jai Narain Prasad Nishad
11. Shri Rupchand Pal
12. Shri Prabodh Panda
13. Shri Prakash Paranjpe
14. Shri Raj Narain Passi
15. Shri Pravin Rashtrapal
16. Shri Ram Singh Rathwa
17. Shri S.Jaipal Reddy
18. Shri T.M.Selvaganpathi
19. Shri Lakshman Seth
20. Shri Kirit Somaiya
21. Shri Kharabela Swain

RAJYA SABHA

22. Dr. Manmohan Singh
23. Shri Prithviraj Chavan
24. Shri S.S. Ahluwalia
25. Shri M. Rajsekara Murthy
26. Dr. Biplab Dasgupta
27. Shri Amar Singh
28. Shri Prem Chand Gupta
29. Shri Palden Tsering Gyamtso
30. Shri Dinesh Trivedi

SECRETARIAT

1. Shri P.D.T. Achary - Additional Secretary
2. Dr. (Smt.) P.K. Sandhu - Joint Secretary
3. Shri R.K. Jain - Deputy Secretary
4. Shri S.B. Arora - Under Secretary

WITNESSES

DEPARTMENT OF ECONOMIC AFFAIRS

1. Dr. S. Narayanan, Finance Secretary
2. Dr. Ashok K. Lahiri, Chief Economic Adviser
3. Dr. Adarsh Kishore, Additional Secretary (FB,ADB & EF)
4. Shri D. Swarup, Additional Secretary (Budget)
5. Shri Navin Kumar, Joint Secretary (EEC, CC & A)
6. Shri G.S. Dutt, Joint Secretary (FT & Infta. & EC)
7. Shri U.K. Sinha, Joint Secretary (ECB, CM, PR and A&C)
8. Shri Sanjiv Mishra, Joint Secretary (ADB, Coord, FIPB & Power)
9. Shri Pradeep K. Deb, Joint Secretary (Japan, UN & PSE) & CVO
10. Shri P.J. Vincent, Financial Adviser (Finance)
11. Shri Ajit M. Sharan, Joint Secretary (B&I) Insurance
12. Dr. G.R. Reddy, Adviser (Economic Division)
13. Shri G.P. Gupta, Controller of Aid, Accounts and Audit
14. Shri R.P. Singh, deputy Secretary (Finance)

(Banking Division)

1. Mrs. Vineeta Rai, Secretary (B&I)
2. Shri Shekhar Agarwal, Joint Secretary, BOA
3. Shri Vinod Rai, Joint Secretary (IF)
4. Shri Ajit M. Sharan, Joint Secretary (B&I)
5. Shri P.M. Sirajuddin, joint Secretary (DRT/AC)
6. Shri Alok Kumar Dir(AC)

(Insurance Division)

1. Shri R. Ranganathan, Director
2. Shri G. Bhujbal, Director

DEPARTMENT OF EXPENDITURE

1. Shri D.C. Gupta, Secretary (Expenditure)
2. Shri B.P. Misra, Additional Secretary (Exp.)
3. Smt. Usha Mathur, Joint Secretary (Pers.)
4. Shri R. Bannerji, Joint Secretary (PF-I)
5. Shri R.N. Choubey, Joint Secretary (PF II)
6. Shri Vivek Rae, Joint Secretary (PF.II)
7. Mrs. Anuradha Makhan, C.G.A

8. Sh. M.S. Virdi, Additional Economic Advisor
9. Dr. Nirmal Ganguly, Additional Economic Advisor
10. Shri Ganga Prakash, Gen. Manager, India Security Press
11. Shri M.D. Singh, General Manager, Bank Note Press

Reserve Bank of India

1. Shri G.P. Muniappan, Deputy Governor, RBI, Mumbai
2. Shri Vepa Kamesam, Deputy Governor, RBI, Mumbai
3. Shri D. Anjaneyulu, Advisor
4. Shri A.R. Sardesai, CGM
5. Shri M.R. Srinivasan, CGM
6. Shri Aviral Jain, Executive Asstt. To Dy. Governor
7. Shri G.N. Rath, Executive Asstt. To Dy. Governor

NABARD

Shri Y.C. Nanda, Chairman

2. At the outset, the Chairman welcomed the representatives of the Ministry of Finance (Departments of Economic Affairs & Expenditure), Reserve Bank of India and NABARD to the sitting of the Committee and invited their attention to the provisions contained in direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of representatives of the Ministry of Finance (Departments of Economic Affairs & Expenditure) on Demands for Grants (2003-04) of the Ministry of Finance (Departments of Economic Affairs & Expenditure) and other related matters.

4. Thereafter, the Chairman requested the representatives of Ministry of Finance (Departments of Economic Affairs & Expenditure) to furnish notes on certain points raised by the Members to which replies were not readily available with them during the discussion.

5. The evidence was concluded

6. A verbatim record of proceedings has been kept.

The witness then withdrew
(The Committee then adjourned to meet again on 25 March, 2003 at 1100 hours)

MINUTES OF THE TENTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Wednesday, 09 April, 2003 from 1500 to 1550 hours.

PRESENT

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Shri Ramesh Chennithala
3. Shri Trilochan Kanungo
4. Shri Rattan Lal Kataria
5. Shri Sudarsana E.M. Natchiappan
6. Shri Rupchand Pal
7. Shri Prabodh Panda
8. Shri Ramsinh Rathwa
9. Shri T.M. Selvaganapathi
10. Shri Lakshman Seth
11. Shri Kirit Somaiya
12. Shri Kharbela Swain

RAJYA SABHA

13. Dr. Manmohan Singh
14. Shri Prithviraj Chavan
15. Shri Swaraj Kaushal
16. Shri Praful Patel
17. Shri Dinesh Trivedi

SECRETARIAT

1.	Shri P.D.T. Achary	-	Additional Secretary
2.	Dr. (Smt.) P.K. Sandhu	-	Joint Secretary
3.	Shri R.K. Jain	-	Deputy Secretary
4.	Shri S.B. Arora	-	Under Secretary

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee. The Chairman also welcomed Shri Swaraj Kaushal on his nomination as a member of the Committee.

3. XX XX XX XX
XX XX XX XX

4. The Committee then took up for consideration the draft report on the Demands for Grants (2003-2004) of the Ministry of Finance & Company Affairs

(Departments of Economic Affairs & Expenditure) and adopted the same without any amendment.

5.	XX XX	XX XX	XX XX	XX XX
6.	XX XX	XX XX	XX XX	XX XX
7.	XX XX	XX XX	XX XX	XX XX
8.	XX XX	XX XX	XX XX	XX XX

9. The Committee authorised the Chairman to finalise the Reports in the light of modifications as also to make verbal and other consequential changes arising out of the factual verification and present the same to both the Houses of Parliament.

The Committee then adjourned.